

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

JUNE 30, 2004

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Monticello Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Clyde E. Meyer	President	2004
David Ball	Vice President	2003
Johnny Cook	Board Member	2005
Lee Hein	Board Member	2003
Jeff Monck	Board Member	2005
Board of Education (After September 2003 Election)		
Clyde E. Meyer	President	2004
Jeff Monck	Vice President	2005
David Ball	Board Member (Resigned)	2004
Lisa Lubben	Board Member (Appointed)	2004
Lee Hein	Board Member	2006
Johnny Cook	Board Member	2005
School Officials		
Randy Achenbach	Superintendent	2004
Nancy Strang	District Secretary	2004
Connie Reyner	Comptroller	2004
Strittmatter	Attorney	2004

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

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

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

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

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

In accordance with Government Auditing Standards, we have also issued our reports dated October 28, 2004 on our consideration of the Monticello Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of

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

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 37 through 40 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Monticello Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 8, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson PC
NOLTE, CORNMAN & JOHNSON, P.C.

October 28, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Monticello 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 \$7,480,101 in fiscal 2003 to \$7,533,861 in fiscal 2004, while General Fund expenditures decreased from \$7,156,365 in fiscal 2003 to \$7,112,031 in fiscal 2004. This resulted in an increase in the District's General Fund balance from \$181,903 in fiscal 2003 to a balance of \$608,037 in fiscal 2004.
- The increase in General Fund revenues was attributable to an increase in federal grant revenue in fiscal 2004. The decrease in expenditures was due primarily to a decrease in regular instruction expenditures. The General Fund balance increased because the expenditures decreased and the revenues increased.
- A decline in interest rates during the past fiscal year, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone to decrease from \$43,428 in fiscal year 2003 to \$14,335 in fiscal year 2004.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Monticello 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 Monticello 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 Monticello Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

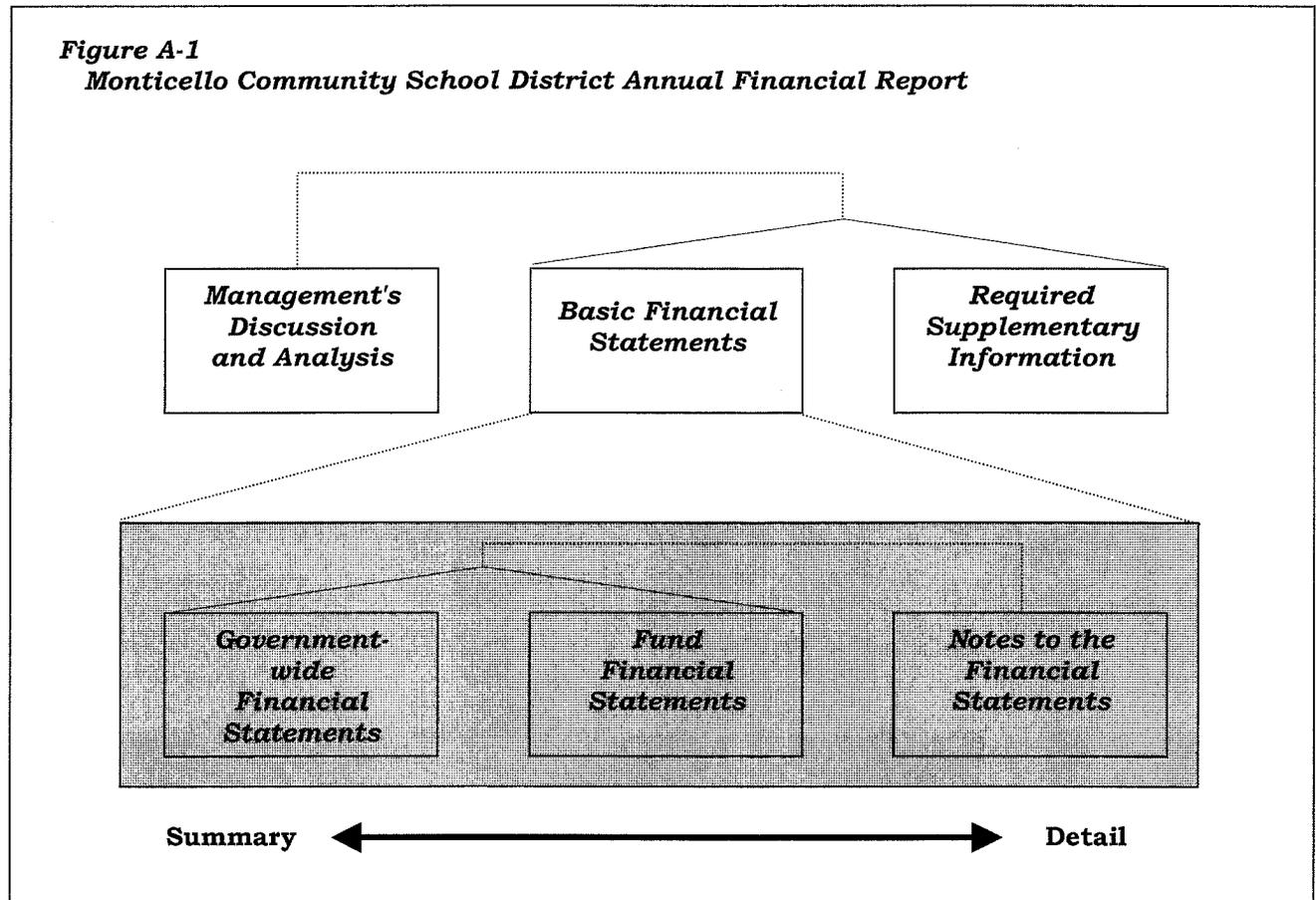


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Current and other assets	\$ 6,851,074	91,885	6,942,959
Capital assets	8,296,979	93,870	8,390,849
Total assets	<u>15,148,053</u>	<u>185,755</u>	<u>15,333,808</u>
Long-term obligations	6,749,248	0	6,749,248
Other liabilities	5,165,229	11,016	5,176,245
Total liabilities	<u>11,914,477</u>	<u>11,016</u>	<u>11,925,493</u>
Net assets:			
Invested in capital assets, net of related debt	1,850,350	93,870	1,944,220
Restricted	662,502	0	662,502
Unrestricted	720,724	80,869	801,593
Total net assets	<u>\$ 3,233,576</u>	<u>174,739</u>	<u>3,408,315</u>

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

Figure A-4
Changes of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Revenues:			
Program revenues:			
Charges for services	\$ 863,278	246,525	1,109,803
Operating grants and contributions and restricted interest	915,706	136,972	1,052,678
Capital grants and contributions and restricted interest	140,937	0	140,937
General revenues:			
Property tax	3,734,935	0	3,734,935
Local option sales and service tax	426,900	0	426,900
Unrestricted state grants	3,281,378	0	3,281,378
Other	27,510	534	28,044
Total revenues	9,390,644	384,031	9,774,675
Program expenses:			
Governmental activities:			
Instructional	4,839,374	0	4,839,374
Support services	2,562,215	0	2,562,215
Non-instructional programs	0	382,530	382,530
Other expenses	1,107,087	0	1,107,087
Total expenses	8,508,676	382,530	8,891,206
Changes in net assets	881,968	1,501	883,469
Net assets beginning of year	2,351,608	173,238	2,524,846
Net assets end of year	\$ 3,233,576	174,739	3,408,315

Property tax and unrestricted state grants account for 72% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 83% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$9,390,644 and expenses were \$8,508,676.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 4,839,374	3,397,359
Support services	2,562,215	2,524,593
Other expenses	1,107,087	666,803
Totals	\$ 8,508,676	6,588,755

- The cost financed by users of the District's programs was \$863,278.

-
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,056,643.
 - The net cost of governmental activities was financed with \$4,161,835 in local tax, \$3,281,378 in unrestricted state grants, and \$23,206 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$384,031 and expenses were \$382,530. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Monticello Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,615,866, above last year's ending fund balances of a \$1,095,806.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. Increase in federal grants resulted in an increase in revenues. The increase in revenues along with the decrease in General Fund expenditures ensured the increase in the financial position of the District.
- The Student Activity and Expendable Trust fund combined balance decreased from \$101,710 in 2003, to \$100,753 in 2004, due to the increase in expenditures in the Student Activity Fund and the decrease in revenues in the Expendable Trust Fund.
- The Management fund balance increased from \$99,271 to \$229,960, due to an increase in revenues during the year.
- The Physical Plant and Equipment Levy (PPEL) fund balance decreased from \$482,876 to \$396,233, due to an increase in total expenditures for the year.
- The Capital Projects fund balance increased during the current year, from \$155,182 to \$202,584. This was a result of an increase in revenues.
- The Debt Service fund balance increased from \$74,864 to \$78,299.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$169,167 at June 30, 2003 to \$170,020 at June 30, 2004. The School Accounts Fund increased from \$4,071 to \$4,719.

BUDGETARY HIGHLIGHTS

The District's revenues were \$110,875 more than budgeted revenues, a variance of 1%. The most significant variance resulted from the District receiving less in state revenues than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures functional program area due to the timing of disbursements paid at year-end.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$8,390,849 net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$419,343.

The original cost of the District's capital assets was \$15,194,369. Governmental funds account for \$15,015,865 with the remainder of \$178,504 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the land improvement category. The District's land improvements totaled \$2,019,711 at June 30, 2004, compared to \$1,678,647 reported at June 30, 2003. This increase resulted from the purchases made during the current year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Land	\$ 23,390	0	23,390
Buildings	7,081,531	0	7,081,531
Improvements other than buildings	934,987	0	934,987
Machinery and equipment	257,071	93,870	350,941
Total	\$ 8,296,979	93,870	8,390,849

Long-Term Debt

At June 30, 2004, the District had long-term debt outstanding of \$6,749,248 in general obligation bonds and early retirement. This represents a decrease of approximately 4.6% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding general obligation bonds payable of \$6,670,000 at June 30, 2004.

The District also had total outstanding early retirement payable of \$79,248 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
General obligation bonds	\$ 6,670,000	7,060,000	-5.5%
Early retirement	79,248	15,417	414.0%
Total	\$ 6,749,248	7,075,417	-4.6%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Although the District has experienced declining enrollment for a few years, the District expects a slight increase in enrollment.
- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten-year period beginning in fiscal year 2005.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Randy Achenbach, Superintendent, Monticello Community School District, 711 South Maple Street, Monticello, Iowa, 52310.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments			
ISCAP(Note 4)	\$ 834,064	0	834,064
Other	1,825,476	89,240	1,914,716
Receivables:			
Property tax:			
Delinquent	108,382	0	108,382
Succeeding year	3,769,730	0	3,769,730
Income surtax	127,491	0	127,491
Accounts	12,638	0	12,638
Accrued interest			
ISCAP(Note 4)	2,251	0	2,251
Due from other governments	170,694	0	170,694
Prepaid expenses	348	0	348
Inventories	0	2,645	2,645
Capital assets, net of accumulated depreciation(Note 5)	8,296,979	93,870	8,390,849
TOTAL ASSETS	15,148,053	185,755	15,333,808
LIABILITIES			
Accounts payable	24,210	680	24,890
Interest payable	57,512	0	57,512
Salaries and benefits payable	473,585	5,237	478,822
ISCAP warrants payable(Note 4)	829,000	0	829,000
ISCAP accrued interest payable(Note 4)	3,413	0	3,413
ISCAP premiums payable	7,779	0	7,779
Deferred revenue:			
Succeeding year property tax	3,769,730	0	3,769,730
Other	0	5,099	5,099
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds	410,000	0	410,000
Early retirement	26,153	0	26,153
Portion due after one year:			
General obligation bonds	6,260,000	0	6,260,000
Early retirement	53,095	0	53,095
TOTAL LIABILITIES	11,914,477	11,016	11,925,493
NET ASSETS			
Investment in capital assets, net of related debt	1,850,350	93,870	1,663,337
Restricted for:			
Phase III	5,939	0	5,939
Teacher quality	252	0	252
Medicaid	8,613	0	8,613
Physical plant & equipment levy	396,233	0	396,233
Management levy	150,712	0	150,712
Other special revenue purposes	100,753	0	100,753
Unrestricted	720,724	80,869	1,082,476
TOTAL NET ASSETS	\$ 3,233,576	174,739	3,408,315

SEE NOTES TO FINANCIAL STATEMENTS.

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	\$ 3,037,013	272,638	585,818	0
Special instruction	1,022,367	149,233	0	0
Other instruction	779,994	434,326	0	0
	4,839,374	856,197	585,818	0
Support services:				
Student services	462,624	0	0	0
Instructional staff services	255,855	0	0	0
Administration services	904,822	0	0	0
Operation and maintenance of plant services	586,215	0	0	0
Transportation services	352,699	7,081	30,541	0
	2,562,215	7,081	30,541	0
Other expenditures:				
Facilities acquisitions	171,055	0	0	140,937
Long-term debt interest	363,983	0	0	0
AEA flowthrough	299,347	0	299,347	0
Depreciation (unallocated) *	272,702	0	0	0
	1,107,087	0	299,347	140,937
Total governmental activities	8,508,676	863,278	915,706	140,937
Business-Type activities:				
Non-instructional programs:				
Nutrition services	382,168	245,515	136,972	0
School accounts	362	1,010	0	0
Total business-type activities	382,530	246,525	136,972	0
Total	\$ 8,891,206	1,109,803	1,052,678	140,937

General Revenues:

Property tax levied for:
 General purposes
 Debt services
 Capital outlay
 Local option sales and service tax
 Unrestricted state grants
 Unrestricted investment earnings
 Sale of materials

Total general revenues

Changes in net assets

Net assets beginning of year, as restated Note 10

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(2,178,557)	0	(2,178,557)
(873,134)	0	(873,134)
(345,668)	0	(345,668)
(3,397,359)	0	(3,397,359)
(462,624)	0	(462,624)
(255,855)	0	(255,855)
(904,822)	0	(904,822)
(586,215)	0	(586,215)
(315,077)	0	(315,077)
(2,524,593)	0	(2,524,593)
(30,118)	0	(30,118)
(363,983)	0	(363,983)
0	0	0
(272,702)	0	(272,702)
(666,803)	0	(666,803)
(6,588,755)	0	(6,588,755)
0	319	319
0	648	648
0	967	967
(6,588,755)	967	(6,587,788)
\$ 3,090,523	0	3,090,523
375,234	0	375,234
269,178	0	269,178
426,900	0	426,900
3,281,378	0	3,281,378
23,206	534	23,740
4,304	0	4,304
7,470,723	534	7,471,257
881,968	1,501	883,469
2,351,608	173,238	2,524,846
\$ 3,233,576	174,739	3,408,315

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

	General	Physical Plant and Equipment Levy	Other Governmental Funds	Total
ASSETS				
Cash and pooled investments				
ISCAP (Note 4)	\$ 834,064	0	0	834,064
Other	880,261	392,827	552,388	1,825,476
Receivables:				
Property tax				
Delinquent	35,399	3,496	69,487	108,382
Succeeding year	2,726,714	264,322	778,694	3,769,730
Income surtax	127,491	0	0	127,491
Accounts	12,638	0	0	12,638
Accrued interest				
ISCAP (Note 4)	2,251	0	0	2,251
Due from other governments	170,694	0	0	170,694
Prepaid expenses	348	0	0	348
TOTAL ASSETS	\$ 4,789,860	660,645	1,400,569	6,851,074
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 13,841	90	10,279	24,210
Salaries and benefits payable	473,585	0	0	473,585
ISCAP warrants payable (Note 4)	829,000	0	0	829,000
ISCAP accrued interest payable (Note 4)	3,413	0	0	3,413
ISCAP premiums payable	7,779	0	0	7,779
Deferred revenue:				
Succeeding year property tax	2,726,714	264,322	778,694	3,769,730
Income surtax	127,491	0	0	127,491
Total liabilities	4,181,823	264,412	788,973	5,235,208
Fund balances:				
Reserved for:				
Debt service	0	0	78,299	78,299
Phase III	5,939	0	0	5,939
Teacher quality	252	0	0	252
Medicaid	8,613	0	0	8,613
Unreserved:				
Undesignated	593,233	396,233	533,297	1,522,763
Total fund balances	608,037	396,233	611,596	1,615,866
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,789,860	660,645	1,400,569	6,851,074

SEE NOTES TO FINANCIAL STATEMENTS.

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

Total fund balances of governmental funds (page 17)	\$	1,615,866
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.		8,296,979
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(57,512)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		127,491
Long-term liabilities, including bonds payable, and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(6,749,248)
Net assets of governmental activites (page 14)	\$	3,233,576

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Physical Plant and Equipment Levy	Other Governmental Funds	Total
REVENUES:				
Local sources:				
Local property tax	\$ 2,773,900	269,178	664,292	3,707,370
LOSST	0	0	426,900	426,900
Tuition	421,871	0	0	421,871
Other	137,688	14,497	300,928	453,113
Intermediate sources	11,500	0	0	11,500
State sources	3,863,554	2,320	5,862	3,871,736
Federal sources	325,348	140,937	0	466,285
Total revenues	7,533,861	426,932	1,397,982	9,358,775
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	2,987,594	0	0	2,987,594
Special instruction	1,019,440	0	0	1,019,440
Other instruction	463,067	0	292,922	755,989
	4,470,101	0	292,922	4,763,023
Support services:				
Student services	452,813	0	0	452,813
Instructional staff services	246,649	0	4,062	250,711
Administration services	734,653	0	162,784	897,437
Operation and maintenance of plant services	589,330	1,456	0	590,786
Transportation services	319,138	0	0	319,138
	2,342,583	1,456	166,846	2,510,885
Other expenditures:				
Facilities acquisitions	0	512,119	0	512,119
Long-term debt:				
Principal	0	0	390,000	390,000
Interest and fiscal charges	0	0	367,645	367,645
AEA flowthrough	299,347	0	0	299,347
	299,347	512,119	757,645	1,569,111
Total expenditures	7,112,031	513,575	1,217,413	8,843,019
Excess (deficiency) of revenues over (under) expenditures	421,830	(86,643)	180,569	515,756
Other financing sources (uses):				
Transfer in	0	0	379,498	379,498
Transfer out	0	0	(379,498)	(379,498)
Sale of materials	4,304	0	0	4,304
	4,304	0	0	4,304
Net change in fund balances	426,134	(86,643)	180,569	520,060
Fund balance beginning of year	181,903	482,876	431,027	1,095,806
Fund balance end of year	\$ 608,037	396,233	611,596	1,615,866

SEE NOTES TO FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds (page 19) \$ 520,060

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlays expenditures exceeded depreciation expense in the current year, as follows:

Capital expenditures	\$ 409,158	
Depreciation expense	(404,646)	4,512

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 390,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 3,662

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 27,565

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.
 Early retirement (63,831)

Changes in net assets of governmental activities (page 16) \$ 881,968

SEE NOTES TO FINANCIAL STATEMENTS.

MONTICELLO COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2004

	School Nutrition	School Accounts	Total
ASSETS			
Cash and cash equivalents	\$ 84,521	4,719	89,240
Inventories	2,645	0	2,645
Capital assets, net of accumulated depreciation	93,870	0	93,870
TOTAL ASSETS	181,036	4,719	185,755
LIABILITIES			
Accounts payable	680	0	680
Salary and benefits payable	5,237	0	5,237
Deferred revenue:			
Other	5,099	0	5,099
	11,016	0	11,016
NET ASSETS			
Invested in capital assets, net of related debt	93,870	0	93,870
Unrestricted	76,150	4,719	80,869
TOTAL NET ASSETS	\$ 170,020	4,719	174,739

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition	School Accounts	Total
OPERATING REVENUE:			
Local sources:			
Other local sources:			
Sale of lunches and breakfasts:			
Students	\$ 231,975	0	231,975
Adults	13,486	0	13,486
Miscellaneous	55	1,010	1,065
TOTAL OPERATING REVENUES	245,516	1,010	246,526
OPERATING EXPENSES:			
Non-instructional programs:			
Salaries	141,376	0	141,376
Benefits	25,074	0	25,074
Services	8,228	0	8,228
Supplies	192,793	362	193,155
Depreciation	14,697	0	14,697
TOTAL OPERATING EXPENSES	382,168	362	382,530
OPERATING INCOME (LOSS)	(136,652)	648	(136,004)
NON-OPERATING REVENUES:			
Interest	534	0	534
State sources	5,505	0	5,505
Federal sources	131,466	0	131,466
TOTAL NON-OPERATING REVENUES	137,505	0	137,505
Change in net assets	853	648	1,501
Net assets at beginning of year as restated (Note 10)	169,167	4,071	173,238
Net assets end of year	\$ 170,020	4,719	174,739

SEE NOTES TO FINANCIAL STATEMENTS.

MONTICELLO COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2004

	School Nutrition	School Accounts	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 244,702	0	244,702
Cash received from miscellaneous operating activities	55	1,010	1,065
Cash payments to employees for services	(166,259)	0	(166,259)
Cash payments to suppliers for goods or services	(185,104)	(362)	(185,466)
Net cash provided by(used in) operating activities	(106,606)	648	(105,958)
Cash flows from non-capital financing activities:			
State grants received	5,505	0	5,505
Federal grants received	117,710	0	117,710
Net cash provided by non-capital financing activities	123,215	0	123,215
Cash flows from investing activities:			
Interest on investments	534	0	534
Net cash provided by investing activities	534	0	534
Cash flows from capital financing activities:			
Purchase of assets	(8,315)	0	(8,315)
Net cash used in capital financing activities	(8,315)	0	(8,315)
Net increase in cash and cash equivalents	8,828	648	9,476
Cash and cash equivalents at beginning of year	75,693	4,071	79,764
Cash and cash equivalents at end of year	\$ 84,521	4,719	89,240
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:			
Operating income(loss)	\$ (136,652)	648	(136,004)
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:			
Commodities consumed	13,756	0	13,756
Depreciation	14,697	0	14,697
Decrease in inventories	1,747	0	1,747
Decrease in accounts receivables	149	0	149
Increase in accounts payable	414	0	414
Increase in salaries and benefits payable	191	0	191
Decrease in deferred revenue	(908)	0	(908)
Net cash provided by(used in) operating activities	\$ (106,606)	648	30,046
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and pooled investments	\$ 84,521	4,719	89,240
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
During the year ended June 30, 2004, the District received Federal commodities valued at \$13,756.			
SEE NOTES TO FINANCIAL STATEMENTS.			

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

	<u>Agency</u>
ASSETS	
Cash and pooled investments	\$ 5,757
LIABILITIES	
Due to other groups	5,757
NET ASSETS	<u>\$ 0</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

The Monticello Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Monticello, Iowa, and the predominate agricultural territory in Linn, Jones, Delaware and Dubuque Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, Monticello Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Monticello Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

The District reports the following major governmental funds:

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

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

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

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

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

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

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

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

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

Salaries and benefits payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

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

receivables and other receivables not collected within sixty days after year end.

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

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements in the other expenditures functional program area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

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

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

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$519 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

(3) **Transfers**

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 379,498

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

(4) Iowa School Cash Anticipation Program (ISCAP)

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

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2003-04B	1/30/04	1/28/05	413,799	2,251	411,000	3,413
2004-05A	6/30/04	6/30/05	420,265	0	418,000	0
Total			\$ 834,064	2,251	829,000	3,413

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2004 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2003-04A	\$ 0	280,000	280,000	0

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

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

(5) Capital Assets

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

	Balance Beginning of Year, as restated (Note 10)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 23,390	0	0	23,390
Total capital assets not being depreciated	23,390	0	0	23,390
Capital assets being depreciated:				
Buildings	9,426,480	0	0	9,426,480
Land improvements	1,678,647	341,064	0	2,019,711
Machinery and equipment	3,478,190	68,094	0	3,546,284
Total capital assets being depreciated	14,583,317	409,158	0	14,992,475
Less accumulated depreciation for:				
Buildings	2,161,419	183,530	0	2,344,949
Land improvements	995,552	89,172	0	1,084,724
Machinery and equipment	3,157,269	131,944	0	3,289,213
Total accumulated depreciation	6,314,240	404,646	0	6,718,886
Total capital assets being depreciated, net	8,269,077	4,512	0	8,273,589
Governmental activities capital assets, net \$	8,292,467	4,512	0	8,296,979

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 170,180	8,315	(9)	178,504
Less accumulated depreciation	69,928	14,697	(9)	84,634
Business-type activities capital assets, net \$	100,252	(6,382)	0	93,870

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 52,782
Special	2,927
Other	1,601
Support services:	
Student services	2,435
Instructional staff services	5,144
Administration services	7,385
Operation and maintenance of plant services	4,579
Transportation	55,091
	131,944
Unallocated depreciation	272,702
Total governmental activities depreciation expense	\$ 404,646
Business-type activities:	
Food services	\$ 14,697

(6) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 7,060,000	0	390,000	6,670,000	410,000
Early retirement	15,417	72,335	8,504	79,248	26,153
Total	\$ 7,075,417	72,335	398,504	6,749,248	436,153

General Obligation Bonds Payable

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

Year Ending June 30,	Interest Rate		Bond issue Principal	December 16, 1996 Interest	Total
2005	6.300	% \$	205,000	172,376	377,376
2006	4.875		215,000	162,383	377,383
2007	4.800		230,000	152,063	382,063
2008	4.900		240,000	141,023	381,023
2009	4.900		255,000	129,262	384,262
2010	5.000		270,000	116,768	386,768
2011	5.100		285,000	103,267	388,267
2012	5.200		300,000	88,733	388,733
2013	5.300		315,000	73,132	388,132
2014	5.375		330,000	56,438	386,438
2015	5.375		350,000	38,700	388,700
2016	5.375		370,000	19,888	389,888
Subtotal			\$ 3,365,000	1,254,033	4,619,033

Year Ending June 30,	Interest Rate		Bond issue Principal	March 25, 1997 Interest	Total
2005	5.000	% \$	205,000	172,698	377,698
2006	5.000		220,000	162,448	382,448
2007	5.000		235,000	151,448	386,448
2008	5.000		245,000	139,698	384,698
2009	5.000		255,000	127,448	382,448
2010	5.150		265,000	114,698	379,698
2011	5.200		275,000	101,049	376,049
2012	5.300		290,000	86,749	376,749
2013	5.350		305,000	71,379	376,379
2014	5.400		320,000	55,062	375,062
2015	5.450		335,000	37,782	372,782
2016	5.400		355,000	19,525	374,525
Subtotal			\$ 3,305,000	1,239,984	4,544,984

Total \$ 6,670,000 2,494,017 9,164,017

Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must be at least age fifty-five and employees must have completed ten years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. The early retirement incentives for each eligible employee is the amount of unused sick leave time the employees per diem contract rate for teaching only. The maximum benefits for full-time staff is \$15,000. Early retirement benefits paid during the year ended June 30, 2004, totaled \$8,504.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$254,663, \$246,056, and \$273,023, respectively, equal to the required contributions for each year.

(8) Risk Management

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

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

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$811,516.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment

may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the District's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

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

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$299,347 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Accounting Change and Restatements

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

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

The government-wide financial statements separate the District's programs between governmental and business type activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities and the

changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

Beginning capital assets for governmental activities of \$4,543,917 were restated to \$14,606,707. The restatement primarily added assets that weren't previously recognized by the District.

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

	Fund			Total
	General	Physical Plant and Equipment Levy	Other Governmental Funds	
Net assets, June 30, 2003, as previously reported	\$ 181,903	482,876	431,027	1,095,806
GASB Interpretation 6 adjustments	0	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	\$ 181,903	482,876	431,027	1,095,806
GASB 34 adjustments:				
Capital assets, net of accumulated depreciation of \$6,314,240				8,292,467
Income surtax				99,926
Long-term liabilities:				
General obligation bonds			7,060,000	
Early retirement			15,417	(7,075,417)
Accrued interest				(61,174)
Net assets July 1, 2003, as restated				\$ 2,351,608
Fund School Nutrition				
Net assets, June 30, 2003, as previously reported				\$ 52,703
Capital contributions				116,464
Net assets, July 1, 2003, as restated for proprietary funds				\$ 169,167

(11) Budget Overexpenditure

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

REQUIRED SUPPLEMENTAL INFORMATION

MONTICELLO COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF RECEIPTS, DISBURSEMENTS AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 5,030,671	246,301
Intermediate sources	11,500	0
State sources	3,884,874	5,505
Federal sources	430,060	131,466
Total receipts	<u>9,357,105</u>	<u>383,272</u>
Disbursements:		
Instruction	4,803,033	0
Support services	2,522,122	0
Non-instructional programs	0	373,796
Other expenditures	1,591,087	0
Total disbursements	<u>8,916,242</u>	<u>373,796</u>
Excess(deficiency) of receipts over(under) disbursements	440,863	9,476
Other financing sources, net	4,304	0
Excess(deficiency) of receipts and other financing sources over(under) disbursements	445,167	9,476
Balance beginning of year	1,380,309	79,764
Balance end of year	<u>\$ 1,825,476</u>	<u>89,240</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
5,276,972	4,897,077	4,897,077	379,895
11,500	0	0	11,500
3,890,379	4,422,781	4,422,781	(532,402)
561,526	309,644	309,644	251,882
9,740,377	9,629,502	9,629,502	110,875
4,803,033	4,830,000	4,830,000	26,967
2,522,122	3,088,382	3,088,382	566,260
373,796	401,903	401,903	28,107
1,591,087	1,453,509	1,453,509	(137,578)
9,290,038	9,773,794	9,773,794	483,756
450,339	(144,292)	(144,292)	594,631
4,304	0	0	4,304
454,643	(144,292)	(144,292)	598,935
1,460,073	853,075	853,075	606,998
1,914,716	708,783	708,783	1,205,933

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

	Governmental Fund Types		
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 9,357,105	1,670	9,358,775
Expenses	8,916,242	(73,223)	8,843,019
Net	440,863	74,893	515,756
Other financing sources, net	4,304	0	4,304
Beginning fund balances	1,380,309	(284,503)	1,095,806
Ending fund balances	\$ 1,825,476	(209,610)	1,615,866

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 383,272	759	384,031
Expenses	373,796	8,734	382,530
Net	9,476	(7,975)	1,501
Beginning retained earnings	79,764	93,474	173,238
Ending retained earnings	\$ 89,240	85,499	174,739

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

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

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

During the year ended June 30, 2004, disbursements in the other expenditures functional program area exceeded the amount budgeted.

OTHER SUPPLEMENTAL INFORMATION

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

	Special Revenue						Total Normajor Governmental Funds
	Manage- ment	Student Activity	Expendable Trust	Special Revenue- Total	Capital Projects	Debt Service	
ASSETS							
Cash and pooled investments	\$ 225,998	99,383	10,858	336,239	142,723	73,426	552,388
Receivables:							
Property tax:							
Current year delinquent	4,753	0	0	4,753	59,861	4,873	69,487
Succeeding year	238,000	0	0	238,000	0	540,694	778,694
TOTAL ASSETS	\$ 468,751	99,383	10,858	578,992	202,584	618,993	1,400,569
LIABILITIES AND FUND EQUITY							
Liabilities:							
Accounts payable	\$ 791	9,488	0	10,279	0	0	10,279
Deferred revenue:							
Succeeding year property tax	238,000	0	0	238,000	0	540,694	778,694
	238,791	9,488	0	248,279	0	540,694	788,973
Fund equity:							
Fund balances:							
Unreserved:							
Debt service	0	0	0	0	0	78,299	78,299
Unreserved:							
Undesignated	229,960	89,895	10,858	330,713	202,584	0	533,297
Total fund balances	229,960	89,895	10,858	330,713	202,584	78,299	611,596
TOTAL LIABILITIES AND FUND EQUITY	\$ 468,751	99,383	10,858	578,992	202,584	618,993	1,400,569

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue Funds						
	Manage- ment	Student Activity	Expendable Trust	Special Revenue- Total	Capital Projects	Debt Service	Total Nonmajor Governmental Funds
REVENUES:							
Local sources:							
Local tax	\$ 289,058	0	0	289,058	0	375,234	664,292
LCSST	0	0	0	0	426,900	0	426,900
Other	1,787	292,391	3,636	297,814	0	3,114	300,928
State sources	2,628	0	0	2,628	0	3,234	5,862
TOTAL REVENUES	293,473	292,391	3,636	589,500	426,900	381,582	1,397,982
EXPENDITURES:							
Current:							
Instruction:							
Other instruction	0	292,922	0	292,922	0	0	292,922
Support services:							
Instructional staff services	0	0	4,062	4,062	0	0	4,062
Administration services	162,784	0	0	162,784	0	0	162,784
	162,784	0	4,062	166,846	0	0	166,846
Other expenditures:							
Long-term debt:							
Principal	0	0	0	0	0	390,000	390,000
Interest and fiscal charges	0	0	0	0	0	367,645	367,645
	0	0	0	0	0	757,645	757,645
TOTAL EXPENDITURES	162,784	292,922	4,062	459,768	0	757,645	1,217,413
Excess (deficiency) of revenues over (under) expenditures	130,689	(531)	(426)	129,732	426,900	(376,063)	180,569
Other financing sources (uses):							
Transfers in	0	0	0	0	0	379,498	379,498
Transfers out	0	0	0	0	(379,498)	0	(379,498)
Total other financing sources (uses)	0	0	0	0	(379,498)	379,498	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures	130,689	(531)	(426)	129,732	47,402	3,435	180,569
Fund balance beginning of year	99,271	90,426	11,284	200,981	155,182	74,864	431,027
Fund balance end of year	\$ 229,960	89,895	10,858	330,713	202,584	78,299	611,596

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Interest	\$ 7,042	508	7,302	248
Elementary-all	7,288	4,751	3,899	8,140
Elementary-PE	242	0	0	242
Music	4	0	0	4
Student council	10	0	0	10
Vocal-Carpenter	1,708	609	529	1,788
JH instrumental	2,255	1,217	1,126	2,346
Student organization	6,714	9,988	8,973	7,729
Co-ed athletics	(1,313)	6,546	8,091	(2,858)
Yearbook-JH	282	0	0	282
HS vocal	7,564	3,862	2,806	8,620
HS instrumental	(310)	2,185	1,466	409
HS student organization	6,450	28,204	25,110	9,544
HS co-ed athletics	15,334	81,424	18,032	78,726
Cross country	0	918	2,363	(1,445)
Boys basketball-JH	0	73	4,978	(4,905)
Football-JH	0	1,990	12,188	(10,198)
Baseball-JH	(125)	60	9,547	(9,612)
Boys track-JH	(188)	75	5,559	(5,672)
Soccer-JH	0	0	4,219	(4,219)
Boys golf-JH	0	0	858	(858)
Wrestling-JH	0	0	8,022	(8,022)
Girls basketball-JH	0	0	3,572	(3,572)
Volleyball-JH	0	0	4,088	(4,088)
Softball-JH	870	0	8,242	(7,372)
Softball concessions	1,433	2,164	2,666	931
Girls track	(187)	0	3,236	(3,423)
Girls golf	0	75	1,378	(1,303)
Paw prints	340	0	0	340
Pop machine	(20)	20	0	0
Model UN	34	70	0	104
Cheerleader	5,541	14,365	16,849	3,057
Dance team	1,800	5,237	5,629	1,408
Speech and drama	2,933	11,088	8,716	5,305
HS music	2,803	25	37	2,791
Boys basketball-HS	0	1,015	1,170	(155)
Football-HS	0	2,561	2,704	(143)
Baseball-HS	724	0	0	724
Girls basketball-HS	494	9,874	8,717	1,651
Volleyball-HS	1,696	685	1,771	610

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Student council-HS	3,933	1,227	1,635	3,525
Yearbook-HS	(13,395)	4,559	7,057	(15,893)
Job olympics	11	0	0	11
Montisports.org	0	11,782	11,272	510
Sixth grade	1,309	1,019	760	1,568
7th grade	0	12,442	8,758	3,684
8th grade	3,383	6,220	7,717	1,886
Freshman	1,345	0	0	1,345
Sophomore	1,406	0	0	1,406
Junior	1,632	8,160	7,277	2,515
Senior	1,632	0	510	1,122
FFA	11,802	50,444	47,228	15,018
FHI	347	6	0	353
Science club	247	0	72	175
BPA	390	4,988	4,249	1,129
M-club	409	0	0	409
Coffee club	2,880	372	1,330	1,922
Camera club	1,046	0	0	1,046
International club	631	1,583	1,214	1,000
Total	\$ 90,426	292,391	292,922	89,895

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTICELLO COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 EXPENDABLE TRUST FUNDS
 JUNE 30, 2004

	Farm Scholarship	Capenter Trust	Burrichter Memorial	Zubler Memorial	Total
ASSETS					
Cash and pooled investments	\$ 500	6,838	2,394	1,126	10,858
TOTAL ASSETS	\$ 500	6,838	2,394	1,126	10,858
LIABILITIES AND FUND EQUITY					
Liabilities:	\$ 0	0	0	0	0
Fund equity:					
Fund balances:					
Unreserved, undesignated	500	6,838	2,394	1,126	10,858
TOTAL LIABILITIES AND FUND EQUITY	\$ 500	6,838	2,394	1,126	10,858

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTICELLO COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 EXPENDABLE TRUST FUNDS
 YEAR ENDED JUNE 30, 2004

	Farm Scholarship	Capenter Trust	Burrichter Memorial	Zubler Memorial	Total
REVENUES:					
Local sources:					
Interest on investments	\$ 0	2,618	19	0	2,637
Donation	500	0	0	500	1,000
TOTAL REVENUES	500	2,618	19	500	3,637
EXPENDITURES:					
Instruction:					
Other	500	3,063	0	500	4,063
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	0	(445)	19	0	(426)
FUND BALANCE BEGINNING OF YEAR	500	7,283	2,375	1,126	11,284
FUND BALANCE END OF YEAR	\$ 500	6,838	2,394	1,126	10,858

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTICELLO COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
YEAR ENDED JUNE 30, 2004

	Balance			Balance
	Beginning			End
	of Year	Additions	Deletions	of Year
ASSETS				
Cash and pooled investments	\$ 6,616	33,938	34,797	5,757
LIABILITIES				
Due to other groups	\$ 6,616	33,938	34,797	5,757

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 4,134,270	3,992,086	3,650,298	3,387,825
Tuition	421,871	308,226	331,348	331,193
Other	453,113	446,443	384,664	473,680
Intermediate sources	11,500	0	6,810	0
State sources	3,871,736	4,103,771	3,746,027	4,062,179
Federal sources	466,285	182,028	169,289	175,336
Total	\$ 9,358,775	9,032,554	8,288,436	8,430,213
Expenditures:				
Instruction:				
Regular instruction	\$ 2,987,594	3,001,967	3,203,306	2,988,551
Special instruction	1,019,440	988,359	1,106,880	1,049,277
Other instruction	755,989	752,198	662,205	647,745
Support services:				
Student services	452,813	387,151	397,064	349,285
Instructional staff services	250,711	257,769	342,902	491,924
Administration services	897,437	906,103	785,707	628,270
Operation and maintenance of plant services	590,786	637,512	521,699	720,577
Transportation services	319,138	324,240	310,262	392,930
Other expenditures:				
Facilities acquisitions	512,119	89,796	590,956	262,836
Long Term Debt:				
Principal	390,000	370,000	350,000	330,000
Interest	367,645	388,483	409,550	430,530
AEA flow-through	299,347	319,677	309,422	326,126
Total	\$ 8,843,019	8,423,255	8,989,953	8,618,051

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION (non-cash)	10.550	FY 04	\$ 13,756
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 04	15,714
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 04	101,996
			<u>117,710</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	4446-G	96,228
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	4446-GC	22,477
			<u>118,705</u>
INDIVIDUALS WITH DISABILITIES			
EDUCATION ACT (IDEA)	84.027	FY 04	277
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM			
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 03	8,090
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 04	31,131
			<u>39,221</u>
EISENHOWER PROFESSIONAL DEVELOPMENT STATE GRANTS			
EISENHOWER PROFESSIONAL DEVELOPMENT STATE GRANTS	84.281	FY 04	5,848
FUND FOR THE IMPROVEMENT OF EDUCATION			
FUND FOR THE IMPROVEMENT OF EDUCATION	84.215	FY 04	17,502
SCHOOL RENOVATION, IDEA AND TECHNOLOGY GRANT PROGRAMS			
SCHOOL RENOVATION, IDEA AND TECHNOLOGY GRANT PROGRAMS	84.352	FY 04	276,216
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)			
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)	84.298	FY 03	3,748
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)	84.298	FY 04	3,997
			<u>7,745</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS			
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 04	9,239

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

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DEPARTMENT OF EDUCATION (CONT):			
DATA DRIVEN LEADERSHIP	84.348	FY 04	2,247
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A)	84.369	FY 03	5,290
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A)	84.369	FY 04	6,348
			11,638
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 04	11,978
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 04	41,950
DEPARTMENT OF HUMAN SERVICES:			
MEDICAL ASSISTANCE PROGRAM	93.778	FY 04	69,656
TOTAL			\$ 743,688

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

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

We have audited the financial statements of Monticello Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated October 28, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Monticello Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings and Questioned Costs.

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

Internal Control Over Financial Reporting

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

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

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

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Monticello Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Nolte, Cornman & Johnson
NOLTE, CORNMAN & JOHNSON, P.C.

October 28, 2004

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

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

To the Board of Education of
Monticello Community School District

Compliance

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

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

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

Internal Control Over Compliance

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

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Monticello Community School District's ability to administer a major

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federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described as item III-A-04 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulation, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance 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 a material weakness. However, we believe item III-A-04 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 Monticello Community School District and other parties to whom Monticello Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Nolte, Cornman & Johnson". The signature is written in a cursive, flowing style.

NOLTE, CORNMAN & JOHNSON, P.C.

October 28, 2004

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

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - CFDA Number 84.352 – School Renovation, IDEA Grant
 - CFDA Number 84.010 – Title I
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Monticello Community School District did not qualify as a low-risk auditee.

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

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

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

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

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

Response - We will investigate available alternatives.

Conclusion - Response accepted.

II-B-04 Student Activity Fund - We noted during our audit that the Student Activity fund included an interest account.

Recommendation - The interest earned each year should be allocated out at on an annual basis to the individual activity accounts.

Response - Due to a limited staff it would be a hardship on the District for this allocation therefore we would like to continue with our present procedure where the expense of this fund has been utilized for all students in the District with Board approval.

Conclusion - Response acknowledged. The interest earned should be allocated out to individual student activity accounts. The expenditures for those funds then would be reflected in the accounts benefited. The District should consider allocating at least on an annual basis.

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

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 84.352: School Renovation, IDEA Grant
Federal Award Year: 2004
U.S. Department of Education
Passed Through the Iowa Department of Education

CFDA Number 84.010: Title I
Federal Award Year: 2004
U.S. Department of Education
Passed Through the Iowa Department of Education

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

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

Response - We will investigate available alternatives.

Conclusion - Response accepted.

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

Part IV: Other Findings Related to Statutory Reporting

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

IV-B-04 Certified Budget - District disbursements for the year ended June 30, 2004 exceeded the amount budgeted in the other expenditures functional program area.

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

Response - We will review and monitor the expenses in the future and amend when needed.

Conclusion - Response accepted.

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

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

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

Name, Title and Business Connection	Transaction Description	Amount
Nick Sauser, Bus Driver Owns Nick's Service Center	Repairs	\$478
Kathy Harms, Teacher Spouse owns Subway	Food	\$235
Jenny Lambert, Teacher Spouse owns Lambert's Carpet	Carpet	\$6,882
Daniel Sauser, Teacher Father-in-law owns Welter Storage	Supplies	\$510
Janeece Lasley, Teacher Spouse owns Net Tech Consulting	Computer Equipment	\$4,280
Connie Reyner, Business Manager Brother-in-law owns Darrell's	Supplies	\$107

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with the District's bus driver does not appear to represent a conflict of interest.

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with the spouses, father-in-law, and brother-in-law of the District's employees do not appear to represent a conflict of interest.

- IV-F-04 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- IV-H-04 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- IV-I-04 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- IV-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.
- IV-K-04 PPEL Revenues - We noted during our audit that there was a sale of equipment receipted in the PPEL Fund that would be more appropriately recorded into the General Fund.

Recommendation - The District should make a corrective transfer from the PPEL Fund to the General Fund in the amount of \$3,510.03.

Response - We will comply with the recommendation and make an adjustment to correct the sale of equipment

Conclusion - Response accepted.