

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

- Prepared By -

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NORTH FAYETTE COMMUNITY SCHOOL DISTRICT

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NORTH FAYETTE COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September, 2003 Election)</b>		
Eugene Nuss	President	2004
Karen Michelson	Vice President	2003
Tim O'Brien	Board Member	2003
Raymond Snyder	Board Member	2004
Roy Guenther	Board Member	2005
Judy Heyer	Board Member	2005
Lynn Pleggenkuhle	Board Member	2005
<b>Board of Education (After September, 2003 Election)</b>		
Eugene Nuss	President	2004
Karen Michelson	Vice President	2006
Roy Guenther	Board Member	2005
Judy Heyer	Board Member	2005
Lynn Pleggenkuhle	Board Member	2005
Tim O'Brien	Board Member	2006
Raymond Snyder	Board Member	2004
<b>School Officials</b>		
Ronald O'Kones	Superintendent	June 30, 2004
Sue Thoms	District Secretary/Treasurer	June 30, 2004
Jon Antes	Attorney	June 30, 2004

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
North Fayette Community School District:

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

I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 12 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

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

As described in Note 13 to the financial statements, during the year ended June 30, 2004, the North Fayette 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, I have also issued my report dated October 12, 2004 on my consideration of the North Fayette Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 43 through 45 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

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

October 12, 2004

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

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

#### **2004 FINANCIAL HIGHLIGHTS**

General Fund revenues decreased from \$7,551,917 in fiscal 2003 to \$7,532,856 in fiscal 2004, while General Fund expenditures increased from \$7,655,243 in fiscal 2003 to \$7,724,248 in fiscal 2004. The District's General Fund balance decreased from \$1,037,296 in fiscal 2003 to \$794,720 in fiscal 2004, a 22% decrease.

The decrease in General Fund revenues was attributable to a decrease in state grant revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures. One reason the General Fund balance decreased is because the negotiated salary and benefits settlement was greater than the District's increase in General Fund revenue for fiscal 2004. As a result, the District funded a portion of the current year General Fund salaries and benefits from the carryover fund balance.

A decline in interest rates during the past three fiscal years, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone decreasing from \$14,587 in fiscal 2003 to \$8,367 in fiscal 2004.

#### **USING THIS ANNUAL REPORT**

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of North Fayette Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report North Fayette Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which North Fayette Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

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

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

Other Supplementary Information provides detailed information about the nonmajor Governmental Funds.

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

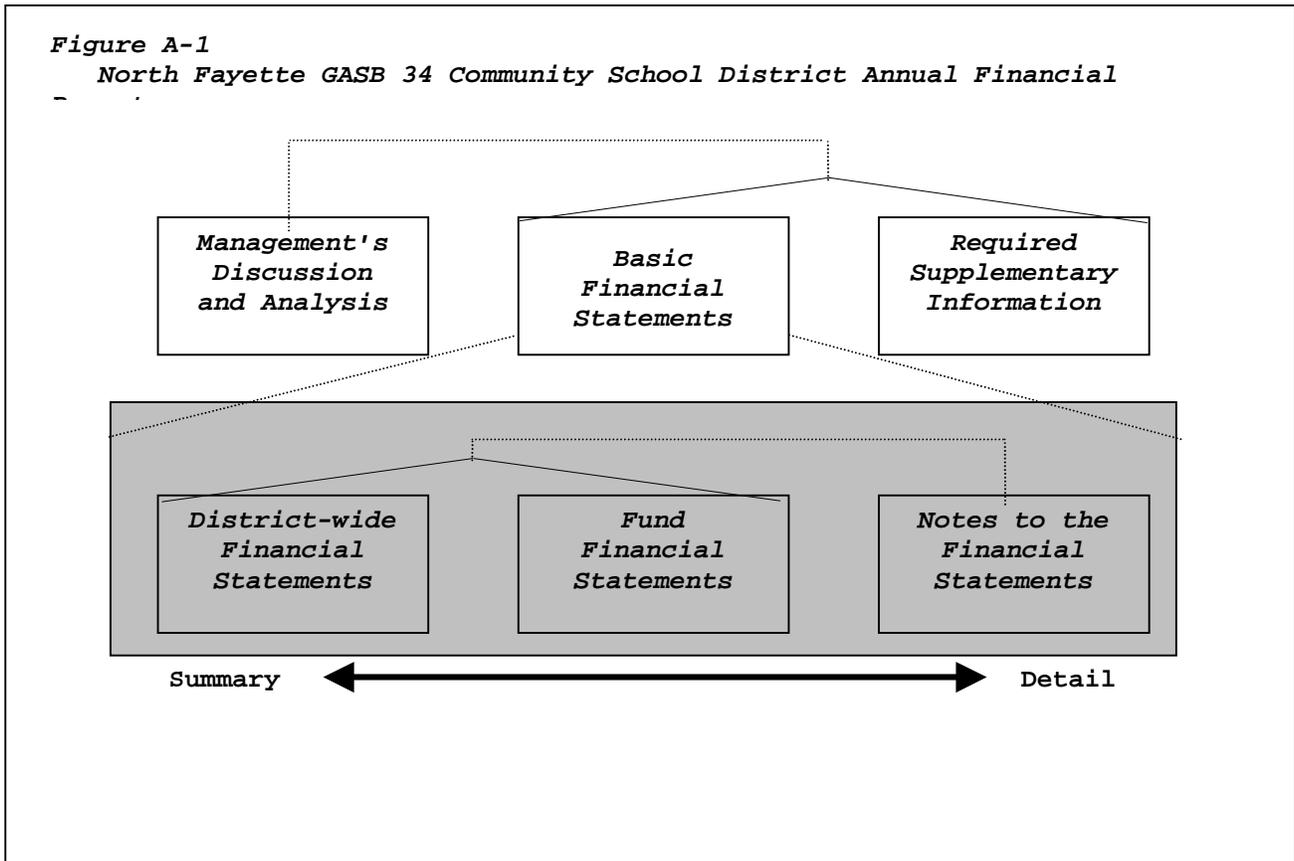


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

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

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

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

*Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.

*Business type activities:* The district charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### *Fund Financial Statements*

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

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

The District has two kinds of funds:

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

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

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

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

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

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The table below provides a summary of the District's net assets at June 30, 2004 compared to June 30, 2003.

	Condensed Statement of Net Assets							
	(Expressed in Thousands)							
	Governmental		Business type		Total		Total	
	Activities		Activities		District		Change	
June 30,		June 30,		June 30,		June 30,		
2004	2003	2004	2003	2003	2004	2003 - 2004		
Current and other								
assets	\$ 8,924	\$ 5,624	\$ 43	\$ 47	\$ 8,967	\$ 5,671		58%
Capital assets	2,977	3,293	25	28	3,002	3,321		(10)
Total assets	\$ 11,901	\$ 8,917	\$ 68	\$ 75	\$ 11,969	\$ 8,992		33%
Long-term								
liabilities	\$ 3,423	\$ 881	\$ -	\$ -	\$ 3,423	\$ 881		289%
Other liabilities	4,494	3,936	8	9	4,502	3,945		14
Total								
Liabilities	\$ 7,917	\$ 4,817	\$ 8	\$ 9	\$ 7,925	\$ 4,826		64%
Net assets:								
Invested in capital assets,								
net of related								
debt	\$ 2,337	\$ 2,412	\$ 25	\$ 28	\$ 2,362	\$ 2,440		(3)%
Restricted	600	642	-	-	600	642		(7)
Unrestricted	1,047	1,046	35	38	1,082	1,084		1
Total net								
Assets	\$ 3,984	\$ 4,100	\$ 60	\$ 66	\$ 4,044	\$ 4,166		(3)%

The District's combined net assets decreased by nearly 3%, or approximately \$120,000, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$42,000, or 7% over the prior year. The decrease was primarily a result of increased expenditures in the Management Fund.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased approximately \$8,000, or 1%.

The table below shows the change in net assets for the year ended June 30, 2004.

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total District</u>
Revenues:			
Program revenues:			
Charges for service	\$ 1,155	\$ 242	\$ 1,397
Operating grants, contributions and restricted interest	718	176	894
General Revenues:			
Property tax	2,970	-	2,970
Local option sales and service tax	322	-	322
Unrestricted state grants	3,561	-	3,561
Unrestricted investment Earnings	12	1	13
Other	81	-	81
Total revenues	<u>\$ 8,819</u>	<u>\$ 419</u>	<u>\$ 9,238</u>
Program expenses:			
Governmental activities:			
Instruction	\$ 5,717	\$ -	\$ 5,717
Support services	2,187	-	2,187
Non-instructional programs	-	425	425
Other expenses	1,029	-	1,029
Total expenses	<u>\$ 8,933</u>	<u>\$ 425</u>	<u>\$ 9,358</u>
Change in net assets	<u>\$ (114)</u>	<u>\$ (6)</u>	<u>\$ (120)</u>

Property tax and unrestricted state grants account for 71% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 84% of the total expenses.

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### Governmental Activities

Revenues for governmental activities were \$8,818,127 and expenses were \$8,932,866. In a difficult budget year, the District was able to balance the budget by using reserve funds.

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

	<b>Total and Net Cost of Governmental Activities</b>	
	(Expressed in Thousands)	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 5,717	\$ 4,166
Support services	2,187	2,185
Other expenses	<u>1,029</u>	<u>709</u>
Totals	<u>\$ 8,933</u>	<u>\$ 7,060</u>

- The cost financed by users of the District's programs was \$1,153,710.

- Federal and state governments subsidized certain programs with grants and contributions total \$718,259.
- The net cost of governmental activities was financed with \$3,292,276 in property and other taxes and \$3,560,574 in unrestricted state grants.

**Business Type Activities**

Revenues for business type activities were \$419,195 and expenses were \$425,018. The District's business type activities include the School Nutrition Fund. Revenues of this activity were comprised of charges for service, federal and state reimbursements and investment income.

**INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$3,983,474, below last year's ending fund balances of \$4,098,213. However, the primary reason for the decrease in combined fund balances in fiscal 2004 is due to approximately \$75,000 less received in state aid.

**Governmental Fund Highlights**

The District's deteriorating General Fund financial position is the result of many factors. General fund revenues decreased while at the same time, general fund expenditures increased. This required the District to use carryover fund balance to meet its financial obligations during the year.

The General Fund balance decreased from \$1,037,296 to \$794,720, due in part to the negotiated salary and benefits settlement, the prior year reduction in state aid and existing expenditure commitments of the District.

The Capital Projects Fund balance increased due to the sale of \$1,470,000 in local option sales and services tax revenue bonds during fiscal 2004. This fund is new to the District in 2004. Fiscal 2004 ended with a balance of \$1,588,405, consisting primarily of unexpended bond proceeds which will be expended as the project is completed.

### **Proprietary Fund Highlights**

School Nutrition Fund net assets decreased from \$66,208 at June 30, 2003 to \$60,385 at June 30, 2004, representing a decrease of approximately 9%. Revenue from sales of lunches and state and federal grants all decreased during the year. Operating expenses remained the same as the prior year.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, North Fayette Community School District amended its annual budget one time to reflect additional revenue and expenditures associated with the local option sales tax monies.

The District's receipts were \$151,798 more than budgeted receipts, a variance of 2%.

Total expenditures were less than budgeted, due primarily to the District's budget for the Capital Project Fund.

In spite of the District's budgetary practice, the certified budget was exceeded in the instruction functional area due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### **Capital Assets**

At June 30, 2004, the District had invested \$3,001,120, 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-3) This represents a net decrease of 9.6% from last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$322,590.

The original cost of the District's capital assets was \$8,711,100. Governmental funds account for \$8,635,322, with the remainder of \$75,778 accounted for in the Proprietary, School Nutrition Fund.

Figure A-3  
Capital Assets, net of Depreciation  
(expressed in thousands)

	Governmental Activities		Business type Activities		Total District		Total Change	
	June 30,		June 30,		June 30,		June 30,	
	2004	2003	2004	2003	2004	2003	2004	2003
Land	\$ 88	\$ 88	\$ -	\$ -	\$ 88	\$ 88	-	%
Building	183	162	-	-	183	162	(13)	
Improvements other than building	2,426	2,348	-	-	2,426	2,348	(3)	
Furniture and equipment	596	379	28	24	624	403	(55)	
Totals	<u>\$ 3,293</u>	<u>\$ 2,977</u>	<u>\$ 28</u>	<u>\$ 24</u>	<u>\$ 3,321</u>	<u>\$3,001</u>	<u>(11)</u>	<u>%</u>

**Long-Term Debt**

At June 30, 2004, the District had \$2,159,000 in general obligation, revenue and other long-term debt outstanding. This represents an increase of approximately 145% from last year. (See Figure A-4) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

In July 2004, the District issued \$1,470,000 in local option sales and services tax revenue bonds to pay for construction of an auditorium. The District had total outstanding bonded indebtedness at June 30, 2004 of \$2,110,000.

Figure A-4  
Outstanding Long-Term Obligations  
(expressed in thousands)

	Total District		Total Change
	June 30,		June 30,
	2004	2003	2003-2004
General obligation bonds	\$ 640	\$ 785	(18)%
Revenue Bonds	1,470	-	-
Capital Lease	49	96	(49)
Totals	<u>\$ 2,159</u>	<u>\$ 881</u>	<u>145%</u>

**ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

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

Although the District has experienced declining enrollment for the past three years, the District expects a slight increase in enrollment within the District.

The District has evaluated the condition of its transportation vehicles and determined one bus must be replaced during fiscal 2005 at a cost of \$52,038.

The District recently sold revenue bonds, to be repaid with sales tax proceeds, totaling \$1.47 million to help finance a proposed fine arts auditorium. The remainder of the project is expected to be made up of funds raised through the North Fayette Foundation as well as grant proceeds.

**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 Sue Thoms, District Secretary, North Fayette Community School District, West Union, Iowa, 52175.

**EXHIBIT A**

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

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
<b>ASSETS:</b>			
Cash and investments:			
ISCAP (note 3)	\$ 1,250,742	\$ -	\$ 1,250,742
Other	4,079,176	39,285	4,118,461
Receivables:			

Property tax:			
Delinquent	51,038	-	51,038
Succeeding year	3,215,344	-	3,215,344
Accounts	1,589	217	1,806
Income surtaxes	206,116	-	206,116
Due from other governments	120,162	-	120,162
Inventories	-	4,691	4,691
Capital assets, net of accumulated depreciation	<u>2,976,516</u>	<u>24,604</u>	<u>3,001,120</u>

**Total assets** \$11,900,683    \$ 68,797    \$11,969,480

**LIABILITIES:**

Bank deficit balance	\$ 255,398	\$ -	\$ 255,398
Accounts payable	136,633	-	136,633
Salaries and benefits payable	789,697	5,222	794,919
Early retirement payable	96,845	-	96,845
Deferred revenue:			
Succeeding year property tax	3,215,344	-	3,215,344
Other	-	3,190	3,190
ISCAP warrants payable (Note 3)	1,244,000	-	1,244,000
ISCAP accrued interest payable	17,254	-	17,254
Long term liabilities:			
Portion due within one year:			
General obligation bonds payable	150,000	-	150,000
Revenue bonds payable	145,000	-	145,000
Notes payable	52,038	-	52,038
Portion due after one year:			
General obligation bonds payable	490,000	-	490,000
Revenue bonds payable	<u>1,325,000</u>	<u>-</u>	<u>1,325,000</u>
<b>Total liabilities</b>	<u>\$ 7,917,209</u>	<u>\$ 8,412</u>	<u>\$ 7,925,621</u>

**NET ASSETS:**

Invested in capital assets	\$ 2,336,516	\$ 24,604	\$ 2,361,120
Restricted for:			
Management levy	57,618	-	57,618
Physical plant and equipment levy	327,234	-	327,234
Other special revenue purposes	75,270	-	75,270
Unrestricted	<u>1,186,836</u>	<u>35,781</u>	<u>1,222,617</u>
<b>Total net assets</b>	<u>\$ 3,983,474</u>	<u>\$ 60,385</u>	<u>\$ 4,043,859</u>

*See Notes to Financial Statements.*

**NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
Statement of Activities  
Year ended June 30, 2004**

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Operating Charges for Service</u>	<u>Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
<b>Functions/Programs</b>				
Governmental activities:				
Instruction:				
Regular instruction	\$4,040,841	\$ 772,525	\$ 345,953	\$ -
Special instruction	849,384	50,637	47,144	-
Other instruction	826,454	328,918	5,634	-
	<u>\$5,716,679</u>	<u>\$1,152,080</u>	<u>\$ 398,731</u>	<u>\$ -</u>

Support services:				
Student services	\$ 213,058	\$ -	\$ -	\$ -
Instructional staff				
Services	270,129	-	-	-
Administration				
Services	690,015	-	-	-
Operation and				
maintenance of plant				
services	694,658	-	-	-
Transportation services	319,469	1,630	-	-
	<u>\$2,187,329</u>	<u>\$ 1,630</u>	<u>\$ -</u>	<u>\$ -</u>
Non-instructional programs	-	-	-	-
Other expenditures:				
Facilities acquisition	\$ 350,768	\$ -	-	\$ -
Long-term debt interest	39,425	-	-	-
AEA flowthrough	319,528	-	319,528	-
Depreciation(unallocated)*	319,137	-	-	-
	<u>\$1,028,858</u>	<u>\$ -</u>	<u>\$ 319,528</u>	<u>\$ -</u>
Total governmental				
Activities	\$8,932,866	\$1,153,710	\$ 718,259	\$ -
Business type activities:				
Non-instructional programs:				
Food service operations	<u>425,018</u>	<u>241,984</u>	<u>176,673</u>	<u>-</u>
Total	<u>\$9,357,884</u>	<u>\$1,395,694</u>	<u>\$ 894,932</u>	<u>\$ -</u>

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

(Continued)

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EXHIBIT B

**Net (Expense) Revenue  
And Changes in Net Assets**

<u>Governmental</u> <u>Activities</u>	<u>Business Type</u> <u>Activities</u>	<u>Total</u>
\$ (2,922,363)	\$ -	\$ (2,922,363)
(751,603)	-	(751,603)
(491,902)	-	(491,902)
<u>\$ (4,165,868)</u>	<u>\$ -</u>	<u>\$ (4,165,868)</u>
\$ (213,058)	\$ -	\$ (213,058)
(270,129)	-	(270,129)
(690,015)	-	(690,015)

(694,658)	-	(694,658)
(317,839)	-	(317,839)
<u>\$(2,185,699)</u>	<u>\$ -</u>	<u>\$(2,185,699)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ (350,768)	\$ -	\$ (350,768)
(39,425)	-	(39,425)
-	-	-
(319,137)	-	(319,137)
<u>\$ (709,330)</u>	<u>\$ -</u>	<u>\$ (709,330)</u>
\$ (7,060,897)	\$ -	\$ (7,060,897)
-	(6,361)	(6,361)
<u>\$(7,060,897)</u>	<u>\$(6,361)</u>	<u>\$(7,067,258)</u>

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NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
Statement of Activities  
Year ended June 30, 2004

Program Revenues			
	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Expenses</b>	<b>Service</b>	<b>Interest</b>	<b>Interest</b>

**General Revenues:**

Property tax levied for:  
  General purposes  
Local option sales and services tax  
Unrestricted state grants  
Unrestricted investment earnings  
Other

Total general revenues

Change in net assets

Net assets beginning of year, as restated

Net assets end of year

See Notes to Financial Statements.

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EXHIBIT B  
(Continued)

**Net (Expense) Revenue  
And Changes in Net Assets**

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ 2,969,905	\$ -	\$ 2,969,905
322,371	-	322,371
3,560,574	-	3,560,574
12,244	538	12,782
<u>81,064</u>	<u>-</u>	<u>81,064</u>
\$ 6,946,158	\$ 538	\$ 6,946,696
\$ (114,739)	\$ (5,823)	\$ (120,562)
<u>4,098,213</u>	<u>66,208</u>	<u>4,164,421</u>
<u>\$ 3,983,474</u>	<u>\$ 60,385</u>	<u>\$ 4,043,859</u>



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

	<u>General</u>	<u>Capital Projects</u>
<b>ASSETS:</b>		
Cash and investments:		
ISCAP (Note 3)	\$1,250,742	\$ -
Other	1,762,075	1,618,300
Receivables:		
Property taxes:		
Current year delinquent	43,890	-
Succeeding year	2,732,673	-
Income surtaxes	206,116	-
Accounts receivable	419	-
Due from other governments	<u>63,868</u>	<u>56,294</u>
<b>Total assets</b>	<b><u>\$6,059,783</u></b>	<b><u>\$1,674,594</u></b>
<b>LIABILITIES AND FUND BALANCES:</b>		
Liabilities:		
Bank deficit balance	\$ 255,398	\$ -
Accounts payable	19,925	116,189
Salaries and benefits payable	789,697	-
Early retirement payable	-	-
ISCAP warrants payable (Note 3)	1,244,000	-
ISCAP accrued interest payable	17,254	-
Deferred revenue:		
Succeeding year property tax	2,732,673	-
Income surtaxes	206,116	-
Total liabilities	<u>\$5,265,063</u>	<u>\$ 116,189</u>
Fund balances:		
Unreserved:		
Undesignated	<u>794,720</u>	<u>1,558,405</u>
<b>Total liabilities and fund balances</b>	<b><u>\$6,059,783</u></b>	<b><u>\$1,674,594</u></b>

*See Notes to Financial Statements.*

<u>Nonmajor Governmental Funds</u>	<u>Total</u>
\$ -	\$1,250,742
688,730	4,069,105
7,148	51,038
-	206,116
482,671	3,215,344
1,170	1,589
-	120,162
<b><u>\$1,179,719</u></b>	<b><u>\$8,914,096</u></b>
\$ -	\$ 255,398
519	136,633
-	789,697
96,845	96,845
-	1,244,000
-	17,254
482,671	3,215,344
-	206,116
\$ 580,035	\$5,961,287
599,684	2,952,809
<b><u>\$1,179,719</u></b>	<b><u>\$8,914,096</u></b>

NORTH FAYETTE 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 20) \$2,952,809

*Amounts reported for governmental activities in the  
 Statement of Net Assets are different because:*

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 2,976,516

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds. 206,116

The Internal Service Fund is used by management to charge the costs of employee health expenses to the individual funds. The assets of the Internal Service Fund are reported as assets in the governmental funds. 10,071

Long-term liabilities, including bonds and notes payable and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds. (2,162,038)

**Net assets of governmental activities (page 14) \$3,983,474**

*See Notes to Financial Statements.*

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
Year ended June 30, 2004

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues:				
Local sources:				
Local tax	\$2,763,789	\$ 321,671	\$ 423,779	\$3,509,239
Tuition	211,671	-	-	211,671
Other	54,403	700	331,777	386,880
Intermediate sources	34,507	-	-	34,507
State sources	4,226,366	-	383	4,226,749
Federal sources	242,120	-	-	242,120
Total revenues	<u>\$7,532,856</u>	<u>\$ 322,371</u>	<u>\$ 755,939</u>	<u>\$8,611,166</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$3,951,960	\$ -	\$ 89,248	\$4,041,208
Special instruction	849,384	-	-	849,384
Other instruction	520,989	-	305,465	826,454
	<u>\$5,322,333</u>	<u>\$ -</u>	<u>\$ 394,713</u>	<u>\$5,717,046</u>
Support services:				
Student services	\$ 213,058	\$ -	\$ -	\$ 213,058
Instructional staff Services	270,129	-	-	270,129
Administration services	690,015	-	-	690,015
Operation and maintenance of plant services	602,910	-	91,748	694,658
Transportation services	306,275	-	13,194	319,469
	<u>\$2,082,387</u>	<u>\$ -</u>	<u>\$ 104,942</u>	<u>\$2,187,329</u>
Other expenditures:				
Facilities acquisition	\$ -	\$ 233,966	\$ 119,402	\$ 353,368
Long-term debt Principal	-	-	191,401	191,401
Interest and fiscal Charges	-	-	39,425	39,425
AEA flowthrough	319,528	-	-	319,528
	<u>\$ 319,528</u>	<u>\$ 233,966</u>	<u>\$ 350,228</u>	<u>\$ 903,722</u>
Total expenditures	<u>\$7,724,248</u>	<u>\$ 233,966</u>	<u>\$ 849,883</u>	<u>\$8,808,097</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (191,392)</u>	<u>\$ 88,405</u>	<u>\$ (93,944)</u>	<u>\$ (196,931)</u>

(Continued)

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Other financing sources (uses):				
Operating transfers in	\$ -	\$ -	\$ 230,826	\$ 230,826
Operating transfers out	(52,038)	-	(178,788)	(230,826)
Compensation for loss of fixed Assets	854	-	-	854
Revenue bonds issued	-	1,470,000	-	1,470,000
Total other financing sources (uses)	<u>\$ (51,184)</u>	<u>\$1,470,000</u>	<u>\$ 52,038</u>	<u>\$1,470,854</u>
Net change in fund balances	\$(242,576)	\$1,588,405	\$ (41,906)	\$1,273,923
Fund balances beginning of year, as restated (note 13)	<u>1,037,296</u>	-	<u>641,590</u>	<u>1,678,886</u>
Fund balances end of year	<u>\$ 794,720</u>	<u>\$1,588,405</u>	<u>\$ 599,684</u>	<u>\$2,952,809</u>

***See Notes to Financial Statements.***

NORTH FAYETTE 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 \$1,273,923  
 (page 23)

*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 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 outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 2,600	
Depreciation expense	<u>(319,137)</u>	(316,537)

Certain delinquent property tax not collected for several months after year end is not considered available revenue and is deferred in the governmental funds. 206,116

The Internal Service Fund is used by management to charge the costs of employee health expenses to individual funds. The Change on net assets of the Internal Service Fund is reported in the governmental funds. 367

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:

Issued	(1,470,000)	
Repaid	<u>191,392</u>	<u>(1,278,608)</u>

Change in net assets of governmental activities (page 18) \$ (114,739)

*See Notes to Financial Statements.*

	<u>Enterprise Fund School Nutrition</u>	<u>Internal Service Fund Employee Health</u>
<b>ASSETS:</b>		
Cash and investments	\$ 39,285	\$ 10,071
Accounts receivable	217	-
Inventories	4,691	-
Capital assets, net of accumulated depreciation	<u>24,604</u>	<u>-</u>
<b>Total assets</b>	<b><u>\$ 68,797</u></b>	<b><u>\$ 10,071</u></b>
<b>LIABILITIES:</b>		
Salaries and benefits payable	\$ 5,222	\$ -
Deferred revenue:		
Other	<u>3,190</u>	<u>-</u>
<b>Total liabilities</b>	<b><u>\$ 8,412</u></b>	<b><u>\$ -</u></b>
<b>NET ASSETS:</b>		
Invested in capital assets	\$ 24,604	\$ -
Unrestricted	<u>35,781</u>	<u>10,071</u>
<b>Total net assets</b>	<b><u>\$ 60,385</u></b>	<b><u>\$ 10,071</u></b>

*See Notes to Financial Statements.*

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
Year ended June 30, 2004

	<u>Enterprise Fund School Nutrition</u>	<u>Internal Service Fund Employee Health</u>
Operating revenue:		
Local sources	\$ 241,984	\$ 70,897
Operating expenses:		
Non-instructional programs:		
Food service operations:		
Salaries and benefits	\$ 209,030	\$ -
Purchased services	2,601	-
Supplies	209,934	-
Depreciation	-	-
Other	3,453	70,530
Total operating expenses	<u>\$ 425,018</u>	<u>\$ 70,530</u>
Operating loss	<u>\$(183,034)</u>	<u>\$ 367</u>
Non-operating revenues:		
State sources	\$ 6,580	\$ -
Federal sources	170,093	-
Interest income	538	-
Total non-operating revenues	<u>\$ 177,211</u>	<u>\$ -</u>
Change in net assets	\$ (5,823)	\$ 367
Net assets beginning of year	<u>66,208</u>	<u>9,704</u>
<b>Net assets end of year</b>	<b><u>\$ 60,385</u></b>	<b><u>\$ 10,071</u></b>

*See Notes to Financial Statements.*

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
Statement of Cash Flows  
Proprietary Fund  
Year ended June 30, 2004

	<u>Enterprise Fund School Nutrition</u>	<u>Internal Service Fund Employee Health</u>
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 242,338	\$ -
Cash paid to employees for services	(208,994)	-
Cash paid to suppliers for goods or services	(184,812)	-
Cash reimbursed by operating fund	-	70,897
Cash payments for medical expenses	-	(70,530)
Net cash used by operating activities	<u>\$(151,468)</u>	<u>\$ 367</u>
Cash flows from non-capital financing activities:		
State grants received	\$ 6,580	\$ -
Federal grants received	145,631	-
Net cash provided by non-capital financing activities	<u>\$ 152,211</u>	<u>\$ -</u>
Cash flows from investing activities:		
Interest on investments	<u>\$ 538</u>	<u>\$ -</u>
Net increase in cash and cash equivalents	\$ 1,281	\$ 367
Cash and cash equivalents beginning of year	<u>38,004</u>	<u>9,704</u>
Cash and cash equivalents end of year	<u>\$ 39,285</u>	<u>\$ 10,071</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$(183,034)	\$ 367
Adjustments to reconcile operating loss to net cash used by operating activities:		
Commodities used	27,574	-
Depreciation	3,455	-
Decrease in inventories	704	-
Decrease in accounts receivable	151	-
Increase in salaries and benefits payable	36	-
(Decrease) in deferred revenues	<u>(354)</u>	<u>-</u>
Net cash used by operating activities	<u>\$(151,468)</u>	<u>\$ 367</u>
Non-cash investing, capital and financing activities:		
During the year ended June 30, 2004, the District received \$24,462 of federal commodities.		

**See Notes to Financial Statements.**

(1) Summary of Significant Accounting Policies

The North Fayette Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of West Union, Fayette and Hawkeye, Iowa and the predominate agricultural territory in Fayette County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, the North Fayette Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The North Fayette 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 does 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 Fayette County Assessor's 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 service.

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

(1) Summary of Significant Accounting Policies - continued

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 attributable to the acquisition, construction or improvement of those assets.

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

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

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

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

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

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

(1) Summary of Significant Accounting Policies - continued

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

The District reports the following major proprietary fund:

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

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary 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.

(1) Summary of Significant Accounting Policies - continued

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

(1) Summary of Significant Accounting Policies - continued

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

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

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

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

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

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair 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.

(1) Summary of Significant Accounting Policies - continued

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

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are 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 represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

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

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

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

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

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

E. Budgets and Budgetary Accounting

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

(2) Cash and Investments

The District's deposits in banks 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.

(2) Cash and Investments - continued

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.

(3) **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. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2004 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
2003-04A	6/20/03	6/18/04	\$1,250,742	\$ -	\$1,244,000	\$ 17,254

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 25<sup>th</sup> 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:

<u>Series</u>	<u>Balance Beginning of Year</u>	<u>Advances Received</u>	<u>Advances Repaid</u>	<u>Balance End of Year</u>
2003-04A	\$ -	\$ -	\$ -	\$ -

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

(3) **Iowa School Cash Anticipation Program (ISCAP)** - continued

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

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2003-04A	2.000%	2.603%

(4) **Interfund Transfers**

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	General	\$ 52,038
	Special Revenue:	
	Physical Plant and equipment levy	<u>178,788</u>
Total		<u>\$ 230,826</u>

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

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

(5) Capital Assets

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

	Balance Beginning of Year, as restated (note 13)	<u>Increases</u>	<u>Decreases</u>	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 88,450	\$ -	\$ -	\$ 88,450
Capital assets being depreciated:				
Buildings	\$ 448,905	-	-	\$ 448,905
Improvements other than buildings	4,241,944	-	-	4,241,944
Furniture and equipment	3,853,423	2,600	-	3,856,023
Total capital assets being Depreciated	\$ 8,544,272	\$ 2,600	\$ -	\$ 8,546,872
Less accumulated depreciation for:				
Buildings	\$ 265,581	\$ 20,688	\$ -	\$ 286,269
Improvements	1,816,841	78,420	-	1,895,261
Furniture and equipment	3,257,247	220,029	-	3,477,276
Total accumulated depreciation	\$ 5,339,669	\$ 319,137	-	\$ 5,658,806
Total capital assets being depreciated, net	\$ 3,204,603	\$ (316,537)	\$ -	\$ 2,888,066
Governmental activities capital assets, net	\$ 3,293,053	\$ (316,537)	\$ -	\$ 2,976,516
<b>Business type activities:</b>				
Furniture and equipment	\$ 75,778	-	-	\$ 75,778
Less accumulated depreciation	47,721	3,453	-	51,174
Business type activities capital assets, net	\$ 28,057	\$ (3,453)	-	\$ 24,604
Depreciation expense was charged to the following functions:				
Governmental activities:				
Unallocated				\$ 321,737
Business type activities:				
Food service operations				\$ 3,453

(6) Long-Term Liabilities

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

	<u>Balance Beginning Of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance End of Year</u>	<u>Due Within One Year</u>
General obligation bonds	\$ 785,000	\$ -	\$ 145,000	\$ 640,000	\$ 150,000
Revenue bonds	-	1,470,000	-	1,470,000	145,000
Total	<u>\$ 785,000</u>	<u>\$1,470,000</u>	<u>\$ 145,000</u>	<u>\$2,110,000</u>	<u>\$ 295,000</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to 50% of the employee's base salary calculated by using the current year regular salary schedule, less any other additional pay. Early retirement benefits of \$20,635 were paid during the year ended June 30, 2004.

General Obligation Bonds Payable

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

<u>Year Ending June 30,</u>	<u>Bond Issue of July 1, 1998</u>		
	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>
2005	4.25%	\$ 150,000	\$ 27,697
2006	4.30	155,000	21,323
2007	4.35	165,000	14,658
2008	4.40	170,000	7,480
		<u>\$ 640,000</u>	<u>\$ 71,158</u>

Revenue Bonds Payable

Details of the District's June 30, 2004 local option sales and services tax revenue bonded indebtedness are as follows:

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

(6) Long-Term Liabilities - Continued

Year Ending June 30,	Bond Issue of July 1, 2004		
	Interest Rate	Principal	Interest
2005	3.00%	\$ 145,000	\$ 54,668
2006	3.00	150,000	50,318
2007	3.10	155,000	45,818
2008	3.40	155,000	41,013
2009	3.75	160,000	35,743
2010	4.00	165,000	29,743
2011	4.15	175,000	23,143
2012	4.30	180,000	15,880
2013	4.40	185,000	8,140
		<u>\$1,470,000</u>	<u>\$ 304,466</u>

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) \$16,639 of the proceeds from the issuance of the revenue bonds shall be deposited to the Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited to the Project Account.
- b) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

(6) **Long-Term Liabilities** - Continued

Capital Lease

The District leases school buses under capital leases. Future minimum payments for the leases are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2005	\$ 52,038
Amounts representing interest	<u>2,899</u>
Present value of net minimum lease payments	<u>\$ 49,139</u>

(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, IA, 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 \$286,701, \$278,471, and \$265,687 respectively, equal to the required contributions for each year.

(8) **Risk Management**

North Fayette 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 \$319,528 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.

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

(10) **Related Party Transactions**

The District had business transactions between the District and District officials or employees, totaling \$4,908 during the year ended June 30, 2004.

(11) **Construction Commitment**

The District has entered into a contract totaling \$287,260 for a reroofing project. As of June 30, 2004, costs of \$193,377 had been incurred against the contract. The balance of \$93,883 remaining at June 30, 2004 will be paid as work on the project progresses.

(12) Subsequent Event

On July 19, 2004 the Board approved the purchase of a new bus for \$52,038.

(13) 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; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

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

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

(13) Accounting Change and Restatements - continued

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

	Fund			
	General	Capital Projects	Nonmajor Governmental	Total
Net assets June 30, 2003, as previously Reported	\$1,037,296	\$ -	\$ 648,404	\$ 1,685,700
GASB Interpretation 6 adjustments	-	-	-	-
Net assets July 1, 2003, as restated for governmental funds	<u>\$1,037,296</u>	<u>\$ -</u>	<u>\$ 648,404</u>	<u>\$ 1,685,700</u>

GASB 34 adjustments:		
Capital assets, net of accumulated depreciation of \$5,339,669		3,293,053
Long-term liabilities:		
Bonds and notes	785,000	
Lease obligations	<u>95,540</u>	<u>(880,540)</u>
Net assets July 1, 2003, as restated		<u>\$ 4,098,213</u>

**NORTH FAYETTE COMMUNITY SCHOOL DISTRICT**  
**Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -**  
**Budget and Actual - All Governmental Funds and Proprietary Funds**  
**Required Supplementary Information**  
**Year ended June 30, 2004**

	<b>Governmental Funds Actual</b>	<b>Proprietary Funds Actual</b>
<b>RECEIPTS:</b>		
Local sources	\$4,107,790	\$ 242,522
State sources	34,507	-
Intermediary sources	4,226,749	31,042
Federal sources	242,120	145,631
Total receipts	<u>\$8,611,166</u>	<u>\$ 419,195</u>
<b>DISBURSEMENTS:</b>		
Instruction	\$5,717,046	\$ -
Support services	2,187,329	-
Non-instructional programs	-	425,018
Other expenditures	903,722	-
Total disbursements	<u>\$8,808,097</u>	<u>\$ 425,018</u>
Deficiency of receipts under disbursements	\$ (196,931)	\$ (5,823)
Other financing sources	<u>1,470,854</u>	<u>-</u>
Excess (deficiency) of receipts and other financing Sources over (under) disbursements	\$1,273,923	\$ (5,823)
Balance beginning of year	<u>1,678,886</u>	<u>66,208</u>
<b>Balance end of year</b>	<b><u>\$2,952,809</u></b>	<b><u>\$ 60,385</u></b>

*See Accompanying Independent Auditor's Report.*

<u>Total Actual</u>	<u>Budgeted Amounts</u>		<u>Final to Actual Variance</u>
	<u>Original</u>	<u>Final</u>	
\$4,350,312	\$4,019,487	\$4,019,487	\$ 330,825
4,257,791	4,423,866	4,423,866	(166,075)
34,507	38,316	38,316	(3,809)
387,751	396,894	396,894	(9,143)
<u>\$9,030,361</u>	<u>\$8,878,563</u>	<u>\$8,878,563</u>	<u>\$ 151,798</u>
\$5,717,046	\$5,495,900	\$5,681,073	\$ (35,973)
2,187,329	2,644,500	2,459,327	271,998
425,018	430,000	450,000	24,982
903,722	913,312	1,212,924	309,202
<u>\$9,233,115</u>	<u>\$9,483,712</u>	<u>\$9,803,324</u>	<u>\$570,209</u>
\$ (202,754)	\$ (605,149)	\$ (924,761)	\$ 722,007
<u>1,470,854</u>	<u>-</u>	<u>-</u>	<u>1,470,854</u>
\$1,268,100	\$ (605,149)	\$ (924,761)	\$2,192,861
<u>1,745,094</u>	<u>1,606,836</u>	<u>1,606,836</u>	<u>138,258</u>
<u><b>\$3,013,194</b></u>	<u><b>\$1,001,687</b></u>	<u><b>\$ 682,075</b></u>	<u><b>\$2,331,119</b></u>

**NORTH FAYETTE 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. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the accrual basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures

or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$319,612.

During the year ended June 30, 2004, disbursements in the instruction function exceeded the amount budgeted.



NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds  
Year ended June 30, 2004

	<u>Schoolhouse</u>	<u>Management</u>	<u>Student Activity</u>
<b>REVENUES:</b>			
Local sources:			
Local tax	\$ -	\$133,424	\$ -
Other	451	507	329,391
State sources	-	123	-
Total revenues	<u>\$ 451</u>	<u>\$134,054</u>	<u>\$329,391</u>
<b>EXPENDITURES:</b>			
Current:			
Instruction:			
Regular instruction	\$ -	\$89,248	\$ -
Other instruction	-	-	305,465
Support services:			
Operation and maintenance of plant service	-	91,748	-
Transportation services		13,194	-
Other expenditures:			
Facilities acquisition	-	-	-
Long term debt:			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	<u>\$ -</u>	<u>\$194,190</u>	<u>\$305,465</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 451</u>	<u>\$(60,136)</u>	<u>\$ 23,926</u>
Other financing sources (uses):			
Operating transfers in	\$ -	\$ -	\$ -
Operating transfers out	-	-	-
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ 451</u>	<u>\$(60,136)</u>	<u>\$ 23,926</u>
Balance beginning of year	<u>74,819</u>	<u>117,754</u>	<u>115,636</u>
<b>Balance end of year</b>	<b><u>\$ 75,270</u></b>	<b><u>\$ 57,618</u></b>	<b><u>\$139,562</u></b>

*See Accompanying Independent Auditor's Report*

<u>Physical Plant and Equipment Levy</u>	<u>Debt Service</u>	<u>Total</u>
\$ 290,355	\$ -	\$ 423,779
1,428	-	331,777
260	-	383
<u>\$ 292,043</u>	<u>\$ -</u>	<u>\$ 755,939</u>
\$ -	\$ -	\$ 89,248
-	-	305,465
-	-	91,748
-	-	13,194
119,402	-	119,402
-	191,401	191,401
-	39,425	39,425
<u>\$ 119,402</u>	<u>\$ 230,826</u>	<u>\$ 849,883</u>
<u>\$ 172,641</u>	<u>\$(230,826)</u>	<u>\$ (93,944)</u>
\$ -	\$ 230,826	\$ 230,826
(178,788)	-	(178,788)
<u>\$(178,788)</u>	<u>\$ 230,826</u>	<u>\$ 52,038</u>
\$ (6,147)	\$ -	\$ (41,906)
333,381	-	641,590
<u>\$ 327,234</u>	<u>\$ -</u>	<u>\$ 599,684</u>

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NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
Schedule of Changes in Special Revenue Fund, Individual Student Activity Accounts  
Year ended June 30, 2004

<u>Account</u>	<u>Balance Beginning of year</u>	<u>Revenues</u>
Middle School Activities:		

Athletics	\$ 805	\$ 17,906
Student Council	1,339	1,340
Micro Society	3,906	10,203
Science Club	175	-
Pop Machine	1,985	7,552
School Store	49	2,934
Outdoor Furniture	10,520	11,826
FRCYSE -at RISE	1,096	-
Mentoring	320	-
High School Activities:		
Athletics	41,211	78,712
Interest	1,788	1,187
Speech	169	573
Speech contest	1,152	16,413
NE district speech	118	-
Speech fall play	154	-
Vocal music	2,312	7,597
Musical	-	7,479
Band	4,971	2,912
Art club	330	910
Yearbook	4,173	12,022
MOC	1,808	13,388
FFA	4,052	13,228
FFA fruit	-	25,507
FFA test plot	-	1,435
FHA	82	3,478
Honor society	303	1,288
Student council	4,979	10,500
Shop & I tech	406	-
Math/science	185	5,156
Technology club	239	560
German	4,046	2,443
German bound	-	115
British	763	2,861
British bound	-	11,796
Spanish	5,368	1,794
Spanish bound	2,095	200
Cheerleading	703	667
Dance line	574	2,010

(continued)

<u>Expenditures</u>	<u>Intrafund Transfers</u>	<u>Balance End of year</u>
\$ 14,133	\$ -	\$ 4,578
925	-	1,754
11,247	-	2,862
-	-	175
7,621	-	1,916
2,848	-	135
3,232	-	19,114
137	-	959
-	-	320
71,917	2,920	50,926
1,029	6	1,952
3,542	3,451	651
11,114	(3,451)	3,000
118	-	-
15	-	139
9,098	-	811
5,569	-	1,910
4,359	-	3,524
919	-	321
14,285	-	1,910
13,439	-	1,757
20,717	9,605	6,168
16,229	(9,278)	-
1,098	(337)	-
3,032	-	528
1,215	-	376
10,418	(200)	4,861
-	-	406
5,172	-	169
419	-	380
2,804	405	4,090
-	-	115
3,364	790	1,050
11,006	(790)	-
2,158	-	5,004
2,295	-	-
870	-	500
1,722	-	862

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
 Schedule of Changes in Special Revenue Fund, Individual Student Activity Accounts  
 Year ended June 30, 2004

<u>Account</u>	<u>Balance</u> <u>Beginning of year</u>	<u>Revenues</u>
High School Activities:		
Class of:		
2004	\$ 929	\$ 438
2005	191	5,377
2006	254	380
2007	-	445
2003	163	-
Activity ticket	2,567	3,005
Graduation fees	3,679	2,871
STW - Enterprise	3,018	35,616
Mini Arts Festival	1,919	708
Post prom	740	4,559
<b>Total</b>	<b><u>\$115,636</u></b>	<b><u>\$329,391</u></b>

*See Accompanying Independent Auditor's Report.*

<u>Expenditures</u>	<u>Intrafund Transfers</u>	<u>Balance End of year</u>
\$ 224	\$ -	\$ 1,143
4,653	-	915
209	-	425
148	-	297
-	-	163
110	(3,121)	2,341
4,125	-	2,425
33,517	-	5,117
432	-	2,195
3,981	-	1,318
<u>\$ 305,465</u>	<u>\$ -</u>	<u>\$139,562</u>

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

	Modified Accrual Basis			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$3,509,239	\$3,017,254	\$2,677,576	\$2,546,003
Tuition	211,671	218,357	220,872	218,444
Other	386,880	400,483	344,405	413,564
Intermediate sources	34,507	31,837	24,396	-
State sources	4,226,749	4,380,646	4,601,973	4,773,181
Federal sources	242,120	224,013	203,435	191,740
<b>Total</b>	<b><u>\$8,611,166</u></b>	<b><u>\$8,272,590</u></b>	<b><u>\$8,072,657</u></b>	<b><u>\$8,142,932</u></b>
Expenditures:				
Instruction:				
Regular instruction	\$4,041,208	\$3,866,487	\$3,679,470	\$3,532,030
Special instruction	849,384	839,138	812,433	829,317
Other instruction	826,454	786,979	748,435	707,977
Support services:				
Student services	213,058	205,997	206,049	229,478
Instructional staff services	270,129	249,890	312,964	376,405
Administration services	679,503	640,251	844,241	703,128
Operation and maintenance of plant services	694,658	742,441	571,133	691,066
Transportation services	319,469	381,888	417,276	353,533
Central support services	-	4,445	35,769	5,900
Other expenditures:				
Facilities acquisition	353,368	28,340	86,383	148,345
Long term debt:				
Principal	191,401	183,816	176,375	182,038
Interest	39,425	47,820	55,863	50,530
AEA flowthrough	319,528	343,191	347,695	359,614
<b>Total</b>	<b><u>\$8,797,585</u></b>	<b><u>\$8,316,238</u></b>	<b><u>\$8,294,086</u></b>	<b><u>\$8,169,361</u></b>

*See Accompanying Independent Auditor's Report.*

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

To the Board of Education of the  
North Fayette Community School District:

I have audited the financial statements of the North Fayette Community School District as of and for the year ended June 30, 2004, and have issued my report thereon dated October 12, 2004. I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

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

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted a certain matter involving the internal control over financial reporting and its operation that I consider to be a reportable condition. A reportable condition involves matters coming to my attention relating to significant deficiencies in

the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe the reportable condition described above, item II-A-04, is a material weakness. Prior year reportable conditions have all been resolved except for item 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 the North Fayette Community School District and other parties to whom the District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to us by personnel of the North Fayette Community School District during the course of my audit.

Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

October 12, 2004

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
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) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements, which was a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**REPORTABLE CONDITION:**

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. The cash revenues listing, bank deposits, posting of the cash revenues and expenditures and preparation of the bank reconciliation are all done by the same individual.

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

Response - We will review procedures and make changes to improve internal control where possible.

Conclusion - Response acknowledged. The District could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

**Part III: Findings and Questioned Costs for Federal Awards:**

Not applicable.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
 Schedule of Findings  
 Year Ended June 30, 2004

**Part IV: Other Findings Related to Statutory Reporting:**

IV-A-04 Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

IV-B-04 Certified Budget - Disbursements for the year ended June 30, 2004 exceeded the amount budgeted in the instruction functional area.

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

Response - We will amend our budget before disbursements exceed the budget.

Conclusion - Response accepted.

IV-C-04 Questionable Expenditures - No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

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

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Alpha Builders, owned by Raymond Snyder, School Board Member	roof repair	\$ 3,228
Thomas Buresh, employee	official	385
Daniel Hovden, employee	official	350
Robert Lape, Jr., employee	official	665
Mark Nuss, employee	official	280

These transactions may represent a conflict of interest.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
Year Ended June 30, 2004

**Part IV: Other Findings Related to Statutory Reporting:** - continued

IV-E-04 Business Transactions - continued

Recommendation - The District should consult legal counsel to determine the disposition of this matter.

Response - We will consult our attorney.

Conclusion - Response accepted.

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 - No transactions were found that I believe should have been approved in the Board minutes but were not.

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

IV-I-04 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.

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

Fayette County Union  
West Union, IA 52175

**N E W S   R E L E A S E**

**FOR RELEASE November 16, 2004**

Larry Pump, CPA, Charles City, Iowa today released an audit report on the North Fayette Community School District for the year ended June 30, 2004.

The District has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements include a Statement of Net Assets and a Statement of Activities which provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Also included is Management's Discussion and Analysis of the District's financial statements.

The District's revenues totaled \$9,237,322 for the year ended June 30, 2004. Revenues included \$2,969,905 in local tax, charges for service of \$1,395,694 operating grants, unrestricted interest of \$894,932 and other general revenues of \$3,976,253.

Expenses for District operations totaled \$9,347,739. Expenses included \$4,040,841 for regular instruction, \$849,384 for special instruction and \$826,454 for other instruction.

A copy of the audit report is available for review in the office of the Auditor of State and in the District Secretary's office.

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Hawkeye Booster  
Hawkeye, IA 52147

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KOEL Radio  
Oelwein, IA 50662

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Fayette Leader  
Fayette, IA 52142

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**X X X X X X X X X X**

November 16, 2004

Office of Auditor of State  
State of Iowa  
State Capitol Building  
Des Moines, IA 50319

RE: Audit of the North Fayette Community School District for the year ended June  
30, 2004

Gentlemen:

I have enclosed a copy of the news release, a copy of my bill to the District, and  
two copies of the Audit Report. I will appreciate your comments and suggestions.

Sincerely yours,

Larry Pump, CPA

jlp  
enclosures

November 10, 2004

Mr. Ronald O'Kones, Superintendent  
North Fayette Community School District  
105 E. Main Street  
West Union, IA 52175

Dear Mr. O'Kones:

Enclosed are your twelve copies of our audit report for the year ended June 30, 2004.

I will see you at the Board meeting on November 12<sup>th</sup> or 15th, 2004. Please call if you have questions.

Sincerely,

Larry Pump, CPA

jlp  
enclosures

November 16, 2004

Iowa Department of Education  
Budgeting and Finance Team  
Grimes State Office Building  
400 East 14<sup>th</sup> Street  
Des Moines, IA 50319-0146

Gentlemen:

I have enclosed a copy of the Audit Report of the North Fayette Community School District for the year ended June 30, 2004, as required by your office. I will appreciate your comments and suggestions.

Sincerely yours,

Larry Pump, CPA

jlp

enclosures

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