

NORTH-LINN COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2004

NORTH-LINN COMMUNITY SCHOOL DISTRICT
Table of Contents
June 30, 2004

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis		4-13
Basic Financial Statements	<u>Exhibit</u>	
Government-wide Financial Statements		
Statement of Net Assets	A	15-16
Statement of Activities	B	17-18
Governmental Fund Financial Statements		
Balance Sheet	C	19
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	20
Statement of Revenues, Expenditures and Changes in Fund Balances	E	21-22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	23
Proprietary Fund Financial Statements		
Statement of Net Assets	G	24
Statement of Revenues, Expenses and Changes in Fund Net Assets	H	25
Statement of Cash Flows	I	26
Fiduciary Fund Financial Statements		
Statement of Fiduciary Net Assets	J	27
Statement of Changes in Fiduciary Net Assets	K	28
Notes to Financial Statements		29-39
Required Supplementary Information		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund		41
Budget to GAAP Reconciliation		42
Notes to Required Supplementary Information - Budgetary Reporting		43

NORTH-LINN COMMUNITY SCHOOL DISTRICT

Table of Contents

June 30, 2004

	<u>Schedule</u>	<u>Page</u>
Other Supplementary Information		
Nonmajor Governmental Funds		
Combining Balance Sheet	1	45
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	46-47
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	48-49
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	4	50
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		51-53
Audit Staff		54

NORTH-LINN COMMUNITY SCHOOL DISTRICT

Officials
June 30, 2004

Name	Title	Term Expires
Board of Education		
(Before September 2003 Election)		
Richard Bell	Board President	2005
Dennis Price	Board Member	2003
Elizabeth Benesch	Board Member	2003
Michael L. Schatzle	Board Member	2003
James Meisheid	Board Member	2004
Richard Balster	Board Member	2004
Douglas Winn	Board Member	2005
(After September 2003 Election)		
Richard Bell	Board President	2005
Dennis Price	Board Member	2006
Elizabeth Benesch	Board Member	2006
Michael L. Schatzle	Board Member	2006
James Meisheid	Board Member	2004
Richard Balster	Board Member	2004
Douglas Winn	Board Member	2005
School Officials		
Larry Boer	Superintendent	2004
Joyce Miller	District Secretary/Treasurer	2004
Brian Gruhn	Attorney	2004

KAY L. CHAPMAN, CPA PC

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Muscatine, Iowa 52761
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
North-Linn Community School District
Troy Mills, Iowa

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

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

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

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

In accordance with Government Auditing Standards, I have also issued my reports dated September 17, 2004 on my consideration of North-Linn Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations and contracts. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 14 and 42 through 44 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise North-Linn 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, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The 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.



Kay L. Chapman, CPA PC
September 17, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,141,898 in fiscal 2003 to \$5,218,482 in fiscal 2004, while General Fund expenditures increased from \$5,033,515 in fiscal 2003 to \$5,325,458 in fiscal 2004. The District's General Fund balance decreased from \$776,572 in fiscal 2003 to \$669,596 in fiscal 2004, a 14% decrease.
- The increase in General fund revenue was attributable to an increase in property tax and state and federal grant revenue in fiscal year 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.

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-Linn 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-Linn 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-

Linn Community School District acts solely as an agent or custodian for the benefit of those outside of District government.

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

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

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

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

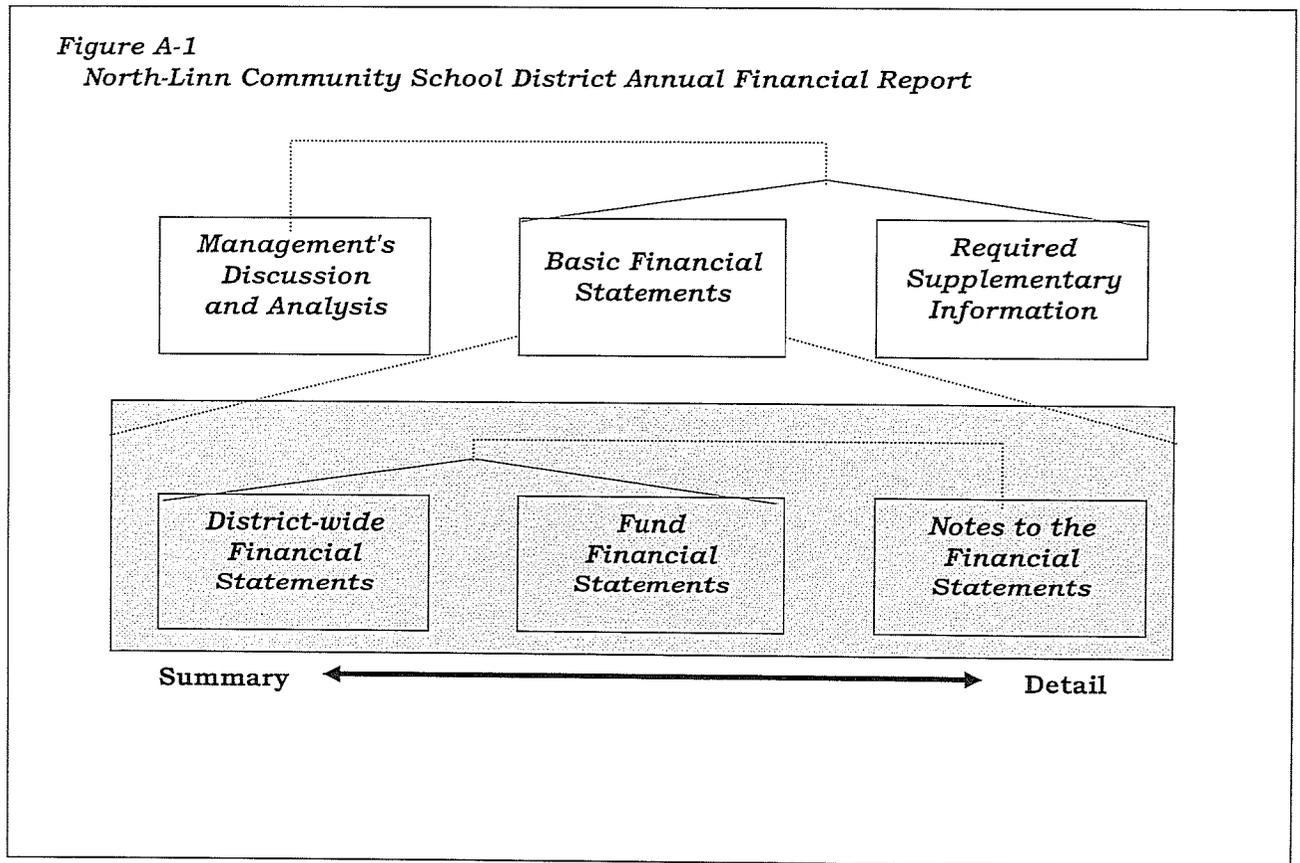


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

- Private-Purpose Trust Fund – The District accounts for outside donations and activities of various student groups in this fund.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2004 compared to June 30, 2003.

Figure A-3

	Condensed Statement of Net Assets						
	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2003-2004</u>
Current and other assets	\$ 3,548,166	\$ 3,746,616	\$ 55,516	\$ 49,243	\$ 3,603,682	\$ 3,795,859	-5.06%
Capital assets	<u>3,851,291</u>	<u>4,000,316</u>	<u>40,916</u>	<u>41,077</u>	<u>3,892,207</u>	<u>4,041,393</u>	-3.69%
Total assets	<u>7,399,457</u>	<u>7,746,932</u>	<u>96,432</u>	<u>90,320</u>	<u>7,495,889</u>	<u>7,837,252</u>	-4.36%
Long-term obligations	3,406,143	3,501,844	-	-	3,406,143	3,501,844	0.00%
Other liabilities	<u>2,664,006</u>	<u>2,833,976</u>	<u>22,418</u>	<u>21,365</u>	<u>2,686,424</u>	<u>2,855,341</u>	-5.92%
Total liabilities	<u>6,070,149</u>	<u>6,335,820</u>	<u>22,418</u>	<u>21,365</u>	<u>6,092,567</u>	<u>6,357,185</u>	-4.16%
Net assets							
Invested in capital assets, net of related debt	556,291	510,316	40,916	41,077	597,207	551,393	8.31%
Restricted	189,087	142,175	-	-	189,087	142,175	33.00%
Unrestricted	<u>583,930</u>	<u>758,621</u>	<u>33,098</u>	<u>27,878</u>	<u>617,028</u>	<u>786,499</u>	-21.55%
Total net assets	<u>\$ 1,329,308</u>	<u>\$ 1,411,112</u>	<u>\$ 74,014</u>	<u>\$ 68,955</u>	<u>\$ 1,403,322</u>	<u>\$ 1,480,067</u>	-5.19%

The District's combined net assets decreased by approximately 5.19%, or \$76,745, from the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$46,912, or 33% over the prior year. The increase was primarily a result of revenue received from the SILO tax and decreased expenditures in the Physical Plant and Equipment Levy 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 – decreased \$169,471, or 21.5%. This reduction in unrestricted net assets was a result of the District using carryover funds to meet financial obligations during the year.

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

Figure A-4
Change in Net Assets

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	Total School <u>District</u>
Revenues			
Program revenues			
Charges for service and sales	\$ 419,718	\$ 193,660	\$ 613,378
Operating grants, contributions and restricted interest	556,716	96,246	652,962
General revenues			
Property tax	2,320,867	-	2,320,867
Unrestricted state grants	2,638,438	-	2,638,438
Unrestricted investment earnings	9,386	195	9,581
Other	<u>23,650</u>	<u>-</u>	<u>23,650</u>
Total revenues	<u>5,968,775</u>	<u>290,101</u>	<u>6,258,876</u>
Program expenses			
Governmental activities			
Instruction	3,867,444	-	3,867,444
Support services	1,617,788	-	1,617,788
Non-instructional programs	-	285,042	285,042
Other expenses	<u>565,347</u>	<u>-</u>	<u>565,347</u>
Total expenses	<u>6,050,579</u>	<u>285,042</u>	<u>6,335,621</u>
Change in net assets	<u>\$ (81,804)</u>	<u>\$ 5,059</u>	<u>\$ (76,745)</u>

Property tax and unrestricted state grants account for 80% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 87% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$5,968,775 and expenses were \$6,050,579. In a difficult budget year, when expenditures exceeded revenues, the District used carryover funds to meet financial obligations during the year. Expenditures will need to be trimmed to match available funds in future years.

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

Figure A-5
Total and Net Cost of Governmental Activities

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 3,867,444	\$ 3,115,221
Support services	1,617,788	1,607,753
Other expenses	<u>565,347</u>	<u>351,171</u>
Total expenses	<u>\$ 6,050,579</u>	<u>\$ 5,074,145</u>

- The cost financed by users of the District's programs was \$419,718.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$556,716.
- The net cost of governmental activities was financed with \$2,320,867 in property taxes and \$2,638,438 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$290,101 and expenses were \$285,042. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2004, the School Nutrition Fund was able to maintain a balanced budget, due to careful planning by the Food Service Director and increased sales of Ala-carte items.

INDIVIDUAL FUND ANALYSIS

As previously noted, North-Linn 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 \$893,108, well below last year's ending fund

balances of \$923,648. The primary reason for the decrease in combined fund balance in fiscal year 2004 is due to the District's need to meet negotiated salaries and benefits.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is a result of many factors. Growth during the year in tax and state and federal funding resulted in an increase in revenue. However, the increase in revenue was more than offset by the District's increase in General fund expenditures requiring the District to use carryover fund balance to meet it's financial obligations.
- The General Fund balance decreased from \$776,572 to \$669,596, due in part to the negotiated salary and benefits settlement, and inadequate funding at the State level.

Proprietary Fund Highlights

Enterprise Fund net assets increased from \$68,955 at June 30, 2003 to \$74,014 at June 30, 2004, representing an increase of approximately 8%. The increase was due to receiving increased federal funding through the National School Lunch Program.

BUDGETARY HIGHLIGHTS

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

The District's receipts were \$118,502 more than budgeted receipts, a variance of 2%. A conservative approach is taken during the development of revenue projections, which decreases the possibility of exceeding estimated budgeted expenditures.

Total expenditures were less than budgeted, due primarily to the District's conservative approach to budgeting.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$3,892,207, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 4% 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 \$155,285.

The original cost of the District's capital assets was \$7,226,239. Governmental funds account for \$7,152,075, with the remainder of \$74,164 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred due to depreciation in several categories listed in Figure A-6.

Figure A-6

	Capital Assets, Net of Depreciation						Total
	Governmental Activities		Business-type Activities		Total School District		Change
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2003-2004</u>
Land	\$ 30,487	\$ 30,487	\$ -	\$ -	\$ 30,487	\$ 30,487	0.00%
Buildings and improvements	3,583,673	3,684,701	-	-	3,583,673	3,684,701	-2.74%
Improvements, other than buildings	180,744	198,511	-	-	180,744	198,511	-8.95%
Furniture and equipment	<u>56,387</u>	<u>86,617</u>	<u>40,916</u>	<u>41,077</u>	<u>97,303</u>	<u>127,694</u>	-23.80%
Totals	<u>\$3,851,291</u>	<u>\$4,000,316</u>	<u>\$40,916</u>	<u>\$41,077</u>	<u>\$3,892,207</u>	<u>\$4,041,393</u>	-3.69%

Long-Term Debt

At June 30, 2004, the District had \$3,406,143 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 3% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

The decrease in long-term debt was a result of payment on principal of the District's general obligation bonds.

The increase in early retirement payable was due to personnel electing to participate in the District's early separation plan.

Figure A-7

	Outstanding Long-term Obligations		
	Total		Total
	School District		Change
	<u>2004</u>	<u>2003</u>	<u>2003-2004</u>
General obligation bonds	\$ 3,295,000	\$ 3,490,000	-5.59%
Early retirement	<u>111,143</u>	<u>11,844</u>	838.39%
Total	<u>\$ 3,406,143</u>	<u>\$ 3,501,844</u>	-2.73%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The possibility of declining enrollment will affect the District's budgetary abilities, and result in lower revenues received from state funding.

- The District will negotiate a new agreement with the North-Linn Education Association during fiscal year 2005. Settlements in excess of “new money” or allowable growth in state funding will have an adverse affect on the District’s General Fund budget and related fund balance.

CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT

This financial report is designed to provide the District’s citizens, taxpayers, customers, investors and creditors with a general overview of the District’s finances and to demonstrate the District’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact Joyce Miller, District Secretary/Treasurer and Business Manager, North-Linn Community School District, 3033 Lynx Drive, P.O. Box 200, Troy Mills, Iowa 52344.

Basic Financial Statements

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

Exhibit A

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,313,579	\$ 47,167	\$ 1,360,746
Receivables			
Property tax			
Delinquent	40,100	-	40,100
Succeeding year	2,154,873	-	2,154,873
Accrued interest	310	-	310
Accounts receivable	2,820	-	2,820
Due from other governments	36,484	-	36,484
Inventories	-	8,349	8,349
Capital assets, net of accumulated depreciation	3,851,291	40,916	3,892,207
 Total assets	 7,399,457	 96,432	 7,495,889
 LIABILITIES			
Accounts payable	61,550	-	61,550
Salaries and benefits payable	438,490	20,995	459,485
Accrued interest payable	8,948	-	8,948
Due to other funds	145	-	145
Deferred revenue - succeeding year property tax	2,154,873	-	2,154,873
Deferred revenue - other	-	1,423	1,423
Long-term liabilities			
Portion due within one year			
Bonds payable	215,000	-	215,000
Early retirement payable	73,338	-	73,338
Portion due after one year			
Bonds payable	3,080,000	-	3,080,000
Early retirement payable	37,805	-	37,805
 Total liabilities	 6,070,149	 22,418	 6,092,567

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

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

Exhibit A

	Governmental Activities	Business-type Activities	Total
NET ASSETS			
Invested in capital assets, net of related debt	\$ 556,291	\$ 40,916	\$ 597,207
Restricted for			
Capital projects	37,653	-	37,653
Debt service	6,673	-	6,673
Physical plant and equipment levy	41,841	-	41,841
Other special revenue purposes	102,920	-	102,920
Unrestricted	583,930	33,098	617,028
 Total net assets	 \$ 1,329,308	 \$ 74,014	 \$ 1,403,322

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

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

Exhibit B

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental activities							
Instruction							
Regular instruction	\$ 2,637,551	\$ 266,806	\$ 229,014	\$ -	\$ (2,141,731)	\$ -	\$ (2,141,731)
Special instruction	754,462	-	109,701	-	(644,761)	-	(644,761)
Other instruction	475,431	143,018	3,684	-	(328,729)	-	(328,729)
	<u>3,867,444</u>	<u>409,824</u>	<u>342,399</u>	<u>-</u>	<u>(3,115,221)</u>	<u>-</u>	<u>(3,115,221)</u>
Support services							
Student services	115,550	-	-	-	(115,550)	-	(115,550)
Instructional staff services	186,579	-	-	-	(186,579)	-	(186,579)
Administration services	541,624	-	-	-	(541,624)	-	(541,624)
Operation and maintenance of plant services	529,492	750	-	-	(528,742)	-	(528,742)
Transportation services	244,243	9,144	141	-	(234,958)	-	(234,958)
Central support services	300	-	-	-	(300)	-	(300)
	<u>1,617,788</u>	<u>9,894</u>	<u>141</u>	<u>-</u>	<u>(1,607,753)</u>	<u>-</u>	<u>(1,607,753)</u>
Other expenditures							
Facilities acquisition	131,972	-	-	-	(131,972)	-	(131,972)
Long-term debt interest	122,514	-	-	-	(122,514)	-	(122,514)
AEA flowthrough	214,176	-	214,176	-	-	-	-
Depreciation (unallocated)*	96,685	-	-	-	(96,685)	-	(96,685)
	<u>565,347</u>	<u>-</u>	<u>214,176</u>	<u>-</u>	<u>(351,171)</u>	<u>-</u>	<u>(351,171)</u>
Total governmental activities	<u>6,050,579</u>	<u>419,718</u>	<u>556,716</u>	<u>-</u>	<u>(5,074,145)</u>	<u>-</u>	<u>(5,074,145)</u>

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

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

Exhibit B

<u>Functions/Programs (continued)</u>	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Business-type activities							
Non-instructional programs							
Food service operations	\$ 285,042	\$ 193,660	\$ 96,246	\$ -	\$ -	\$ 4,864	\$ 4,864
Total	<u>\$ 6,335,621</u>	<u>\$ 613,378</u>	<u>\$ 652,962</u>	<u>\$ -</u>	<u>\$ (5,074,145)</u>	<u>\$ 4,864</u>	<u>\$ (5,069,281)</u>
 <u>General Revenues</u>							
Property tax levied for							
General purposes					1,817,253	-	1,817,253
Debt service					318,902	-	318,902
Capital outlay					184,712	-	184,712
Unrestricted state grants					2,638,438	-	2,638,438
Unrestricted investment earnings					9,386	195	9,581
Gain on sale of real estate					1,000	-	1,000
Other					22,650	-	22,650
Total general revenues					<u>4,992,341</u>	<u>195</u>	<u>4,992,536</u>
Change in net assets					(81,804)	5,059	(76,745)
Net assets, beginning of year, as restated					<u>1,411,112</u>	<u>68,955</u>	<u>1,480,067</u>
Net assets, end of year					<u>\$ 1,329,308</u>	<u>\$ 74,014</u>	<u>\$ 1,403,322</u>

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

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

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

Exhibit C

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
ASSETS			
Cash and pooled investments	\$ 1,101,239	\$ 212,340	\$ 1,313,579
Receivables			
Property tax			
Delinquent	29,758	10,342	40,100
Succeeding year	1,537,243	617,630	2,154,873
Accounts receivable	1,236	1,584	2,820
Accrued interest	286	24	310
Due from other funds	85	-	85
Due from other governments	31,930	4,554	36,484
Total assets and other debits	<u>\$ 2,701,777</u>	<u>\$ 846,474</u>	<u>\$ 3,548,251</u>
 LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 56,303	\$ 5,247	\$ 61,550
Salaries and benefits payable	438,490	-	438,490
Due to other funds	145	85	230
Deferred revenue - Succeeding year property tax	1,537,243	617,630	2,154,873
Total liabilities	<u>2,032,181</u>	<u>622,962</u>	<u>2,655,143</u>
 Fund balances			
Reserved for			
Phase III	20,664	-	20,664
Iowa Early Intervention grant	83	-	83
Unreserved, undesignated			
Special revenue	-	170,238	170,238
Other governmental	648,849	53,274	702,123
Total fund balances	<u>669,596</u>	<u>223,512</u>	<u>893,108</u>
Total liabilities and fund balances	<u>\$ 2,701,777</u>	<u>\$ 846,474</u>	<u>\$ 3,548,251</u>

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

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

Exhibit D

Total fund balances of governmental funds	\$ 893,108
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.	3,851,291
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(8,948)
Long-term liabilities, including early retirement, bonds payable and notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(3,406,143)</u>
Net assets of governmental activities	<u>\$ 1,329,308</u>

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

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

Exhibit E

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues			
Local sources			
Local tax	\$ 1,716,832	\$ 601,997	\$ 2,318,829
Tuition	198,987	-	198,987
Other	105,999	146,768	252,767
State sources	3,050,285	528	3,050,813
Federal sources	146,379	-	146,379
Total revenues	<u>5,218,482</u>	<u>749,293</u>	<u>5,967,775</u>
Expenditures			
Current			
Instruction			
Regular instruction	2,529,098	4,934	2,534,032
Special instruction	754,462	-	754,462
Other instruction	336,005	139,426	475,431
	<u>3,619,565</u>	<u>144,360</u>	<u>3,763,925</u>
Support services			
Student services	115,550	-	115,550
Instructional staff services	186,579	-	186,579
Administration services	467,924	73,700	541,624
Operation and maintenance of plant services	506,464	-	506,464
Transportation services	214,900	4,251	219,151
Central support services	300	-	300
	<u>1,491,717</u>	<u>77,951</u>	<u>1,569,668</u>
Other expenditures			
Facilities acquisition	-	131,972	131,972
Long-term debt			
Principal	-	195,000	195,000
Interest and fiscal charges	-	124,574	124,574
AEA flowthrough	214,176	-	214,176
	<u>214,176</u>	<u>451,546</u>	<u>665,722</u>
Total expenditures	<u>5,325,458</u>	<u>673,857</u>	<u>5,999,315</u>

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

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

Exhibit E

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Excess (deficiency) of revenues over (under) expenditures	\$ (106,976)	\$ 75,436	\$ (31,540)
Other financing sources			
Sale of real property	-	1,000	1,000
Net change in fund balances	(106,976)	76,436	(30,540)
Fund balance, beginning of year, as restated	776,572	147,076	923,648
Fund balance, end of year	\$ 669,596	\$ 223,512	\$ 893,108

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

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

Exhibit F

Net change in fund balances - total governmental funds \$(30,540)

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

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

Depreciation expense (149,025)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 195,000

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

Early retirement (99,299)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 2,060

Change in net assets of governmental activities \$(81,804)

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

NORTH-LINN COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
Proprietary Fund
June 30, 2004

Exhibit G

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 47,167
Inventories	8,349
Capital assets, net of accumulated depreciation	<u>40,916</u>
Total assets	<u>96,432</u>
 LIABILITIES	
Salaries & benefits payable	20,995
Deferred revenue	<u>1,423</u>
Total liabilities	<u>22,418</u>
 NET ASSETS	
Invested in capital assets, net of related debt	40,916
Unreserved retained earnings	<u>33,098</u>
Total net assets	<u>\$ 74,014</u>

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

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

Exhibit H

	<u>School Nutrition</u>
Operating revenue	
Local sources	
Charges for service	<u>\$ 193,660</u>
Operating expenses	
Non-instructional programs	
Salaries	121,376
Benefits	16,464
Purchased services	596
Supplies	139,481
Equipment repairs	115
Miscellaneous	750
Depreciation	<u>6,260</u>
Total operating expenses	<u>285,042</u>
Operating loss	<u>(91,382)</u>
Non-operating revenue	
Interest income	195
State sources	4,413
Federal sources	<u>91,833</u>
Total non-operating revenue	<u>96,441</u>
Change in net assets	5,059
Net assets, beginning of year	<u>68,955</u>
Net assets, end of year	<u>\$ 74,014</u>

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

NORTH-LINN COMMUNITY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2004

Exhibit I

	<u>School Nutrition</u>
Cash flows from operating activities	
Cash received from sale of lunches and breakfasts	\$ 193,688
Cash payments to employees for services	(136,816)
Cash payments to suppliers for goods and services	<u>(121,529)</u>
Net cash used in operating activities	<u>(64,657)</u>
Cash flows from non-capital financing activities	
State grants received	4,413
Federal grants received	<u>75,383</u>
Net cash provided by non-capital financing activities	<u>79,796</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	<u>(6,099)</u>
Cash flows from investing activities	
Interest on investments	<u>195</u>
Net increase in cash and cash equivalents	9,235
Cash and cash equivalents, beginning of year	<u>37,932</u>
Cash and cash equivalents, end of year	<u><u>\$ 47,167</u></u>
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ (91,382)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	6,260
Commodities used	16,450
Decrease in inventories	2,962
Increase in deferred revenue	29
Increase in salaries and benefits payable	<u>1,024</u>
Net cash used in operating activities	<u><u>\$ (64,657)</u></u>

Non-cash investing, capital and financing activities

During the year ended June 30, 2004, the District received \$16,450 of federal commodities.

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

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

Exhibit J

	<u>Private Purpose Trust</u>
Assets	
Cash and pooled investments	\$ 28,316
Accrued interest receivable	16
Due from other funds	<u>145</u>
Total assets	28,477
 Liabilities	
	<u>-</u>
 Net assets	
Reserved	<u><u>\$ 28,477</u></u>

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

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

Exhibit K

	<u>Private Purpose Trust</u>
Additions	
Local sources	
Interest	\$ 6,038
Deductions	
Instruction	
Supplies	<u>8,720</u>
Change in net assets	(2,682)
Net assets, beginning of year	<u>31,159</u>
Net assets, end of year	<u>\$ 28,477</u>

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

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

Note 1. Summary of Significant Accounting Policies

The North-Linn Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. The geographic area served includes the City of Walker, portions of Troy Mills and Coggon, Iowa, and the agricultural territory in Benton, Buchanan, Delaware and Linn Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, North-Linn 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-Linn Community School District has no component units, which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental fund:

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.

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.

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

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit various student groups.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

The proprietary 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, they have a maturity date no longer than three months.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted nor did the District exceed its General Fund unspent authorized budget.

Note 2. Cash and Pooled Investments

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

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. The District had no investments at June 30, 2004.

Note 3. Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2004 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Student Activity	\$ 85
Trust	General	<u>145</u>
Total		<u>\$ 230</u>

These due to/due froms are to correct deposits recorded in the wrong fund during the year ended June 30, 2004. These amounts will be transferred during fiscal 2005.

Note 4. Capital Assets

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

	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 30,487	\$ -	\$ -	\$ 30,487
Capital assets being depreciated:				
Buildings and improvements	5,561,943	-	-	5,561,943
Improvements other than buildings	488,841	-	-	488,841
Furniture and equipment	<u>1,070,804</u>	<u>-</u>	<u>-</u>	<u>1,070,804</u>
Total capital assets being depreciated	<u>7,121,588</u>	<u>-</u>	<u>-</u>	<u>7,121,588</u>
Less accumulated depreciation for:				
Buildings and improvements	1,877,242	101,028	-	1,978,270
Improvements other than buildings	290,330	17,767	-	308,097
Furniture and equipment	<u>984,187</u>	<u>30,230</u>	<u>-</u>	<u>1,014,417</u>
Total accumulated depreciation	<u>3,151,759</u>	<u>149,025</u>	<u>-</u>	<u>3,300,784</u>
Total capital assets being depreciated, net	<u>3,969,829</u>	<u>(149,025)</u>	<u>-</u>	<u>3,820,804</u>
Governmental activities capital assets, net	<u>\$ 4,000,316</u>	<u>\$(149,025)</u>	<u>\$ -</u>	<u>\$ 3,851,291</u>
<u>Business-type activities</u>				
Furniture and equipment	\$ 68,065	\$ 6,099	\$ -	\$ 74,164
Less accumulated depreciation	<u>26,988</u>	<u>6,260</u>	<u>-</u>	<u>33,248</u>
Business-type activities capital assets, net	<u>\$ 41,077</u>	<u>\$ (161)</u>	<u>\$ -</u>	<u>\$ 40,916</u>

Depreciation expense was charged to the following functions:

Governmental activities

Instruction	
Regular	\$ 4,220
Support services	
Operation and maintenance of plant	23,028
Transportation	25,092
Unallocated	<u>96,685</u>

Total governmental activities depreciation expense \$ 149,025

Business-type activities

Food services	<u>\$ 6,260</u>
---------------	-----------------

During the year ended June 30, 2004, the District hired an outside company to perform a physical inventory of its capital assets. Also during the year ended June 30, 2004 the District changed its criteria for determining capitalized assets. Prior to the fiscal year ended June 30, 2004 the District included all assets costing more than \$500 in the General Fixed Asset Account Group. However, beginning in FY04 the District only includes items costing in excess of the limits summarized in Note 1, item D as capital assets. Due to these two changes, the District's beginning balance of capital assets in the year ended June 30, 2004 is less than the amounts reported on the financial statements of the prior fiscal year by \$863,691.

Note 5. Long-term Liabilities

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

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
General obligation bonds	\$ 3,490,000	\$ -	\$(195,000)	\$ 3,295,000	\$ 215,000
Early retirement	<u>11,844</u>	<u>104,233</u>	<u>(4,934)</u>	<u>111,143</u>	<u>73,338</u>
Total	<u>\$ 3,501,844</u>	<u>\$ 104,233</u>	<u>\$(199,934)</u>	<u>\$ 3,406,143</u>	<u>\$ 288,338</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees, administrators and board secretary. This voluntary early retirement plan is offered annually at the board's discretion. Eligible employees must have been at least age fifty-five and have completed fifteen years of consecutive service to the District. Employees must have completed an application, which was required to be approved by the Board of Education. The early retirement incentive for each eligible employee was equal to 20 percent of the employee's contracted base salary for the year prior to taking early retirement. Employees could choose to receive early retirement benefits in a single payment on January 15th of the year following separation from the District or in equal annual installments over a period of three years from the effective date of separation. Early retirement benefits paid during the year ended June 30, 2004 totaled \$4,934.

Bonds Payable

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

Year Ending June 30,	Principal	Interest	Total
2005	\$ 215,000	\$ 107,380	\$ 322,380
2006	225,000	100,930	325,930
2007	225,000	94,180	319,180
2008	235,000	87,430	322,430
2009	240,000	80,380	320,380
2010	255,000	73,180	328,180
2011	260,000	65,275	325,275
2012	270,000	56,955	326,955
2013	280,000	48,180	328,180
2014	290,000	38,800	328,800
2015	300,000	28,940	328,940
2016	310,000	18,440	328,440
2017	<u>190,000</u>	<u>7,125</u>	<u>197,125</u>
Total	<u>\$ 3,295,000</u>	<u>\$ 807,195</u>	<u>\$ 4,102,195</u>

Note 6. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$196,977, \$190,509 and \$191,221 respectively, equal to the required contributions for each year.

Note 7. Risk Management

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

Note 8. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$214,176 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 9. Accounting Change and Restatements

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

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

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

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

	Fund		
	<u>General</u>	Total Nonmajor <u>Governmental</u>	<u>Total</u>
<u>Governmental activities</u>			
Net assets June 30, 2003, as previously reported	\$ 776,572	\$ 142,175	\$ 918,747
GASB Interpretation 6 adjustments	<u>-</u>	<u>4,901</u>	<u>4,901</u>
Net assets July 1, 2003, as restated for governmental funds	<u>\$ 776,572</u>	147,076	923,648
GASB 34 adjustments:			
Capital assets, net of accumulated depreciation of \$3,151,759			4,000,316
Long-term liabilities			
Bonds		\$ (3,490,000)	
Early retirement		<u>(11,844)</u>	(3,501,844)
Accrued interest payable			<u>(11,008)</u>
Net assets July 1, 2003, as restated			<u>\$ 1,411,112</u>
<u>Business-type activities</u>			
Net assets June 30, 2003, as previously reported			\$ 41,675
Change in accumulated depreciation			<u>(598)</u>
Net assets July 1, 2003, as restated			<u>\$ 41,077</u>

Required Supplementary Information

NORTH-LINN COMMUNITY SCHOOL DISTRICT
 Budgetary Comparison Schedule of Receipts, Disbursements
 and Changes in Balances - Budget and Actual (Cash Basis)
 All Governmental Funds and Proprietary Fund
 Required Supplementary Information
 For the Year Ended June 30, 2004

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Funds	Fund		Original	Final	
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>			
Receipts						
Local sources	\$ 2,827,964	\$ 193,884	\$ 3,021,848	\$ 2,880,896	\$ 2,880,896	\$ 140,952
State sources	3,051,813	4,413	3,056,226	3,125,873	3,125,873	(69,647)
Federal sources	<u>146,814</u>	<u>75,383</u>	<u>222,197</u>	<u>175,000</u>	<u>175,000</u>	<u>47,197</u>
Total receipts	<u>6,026,591</u>	<u>273,680</u>	<u>6,300,271</u>	<u>6,181,769</u>	<u>6,181,769</u>	<u>118,502</u>
Disbursements						
Instruction	3,751,707	-	3,751,707	3,667,700	3,762,700	10,993
Support services	1,576,517	-	1,576,517	1,711,169	1,616,169	39,652
Non-instructional programs	-	264,445	264,445	269,300	269,300	4,855
Other expenditures	<u>681,026</u>	<u>-</u>	<u>681,026</u>	<u>699,996</u>	<u>699,996</u>	<u>18,970</u>
Total disbursements	<u>6,009,250</u>	<u>264,445</u>	<u>6,273,695</u>	<u>6,348,165</u>	<u>6,348,165</u>	<u>74,470</u>
Excess of receipts over disbursements	17,341	9,235	26,576	(166,396)	(166,396)	192,972
Other financing sources, net	<u>1,000</u>	<u>-</u>	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>1,000</u>
Excess of receipts and other financing sources over disbursements	18,341	9,235	27,576	(166,396)	(166,396)	193,972
Balance, beginning of year	<u>1,295,238</u>	<u>37,932</u>	<u>1,333,170</u>	<u>1,084,736</u>	<u>1,084,736</u>	<u>248,434</u>
Balance, end of year	<u>\$ 1,313,579</u>	<u>\$ 47,167</u>	<u>\$ 1,360,746</u>	<u>\$ 918,340</u>	<u>\$ 918,340</u>	<u>\$ 442,406</u>

See accompanying Independent Auditor's Report.

NORTH-LINN COMMUNITY SCHOOL DISTRICT
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation
 Required Supplementary Information
 For the Year Ended June 30, 2004

	Governmental Fund Types		
	Cash	Accrual	Modified
	<u>Basis</u>	<u>Adjustments</u>	<u>Basis</u>
Revenues	\$ 6,026,591	\$ (58,816)	\$ 5,967,775
Expenditures	<u>6,009,250</u>	<u>(9,935)</u>	<u>5,999,315</u>
Net	17,341	(48,881)	(31,540)
Other financing sources	1,000	-	1,000
Beginning fund balances	<u>1,295,238</u>	<u>(371,590)</u>	<u>923,648</u>
Ending fund balances	<u>\$ 1,313,579</u>	<u>\$ (420,471)</u>	<u>\$ 893,108</u>

	Proprietary Fund Type		
	Enterprise		
	Cash	Accrual	Accrual
	<u>Basis</u>	<u>Adjustments</u>	<u>Basis</u>
Revenues	\$ 273,680	\$ 16,421	\$ 290,101
Expenditures	<u>264,445</u>	<u>20,597</u>	<u>285,042</u>
Net	9,235	(4,176)	5,059
Beginning fund balances	<u>37,932</u>	<u>31,023</u>	<u>68,955</u>
Ending fund balances	<u>\$ 47,167</u>	<u>\$ 26,847</u>	<u>\$ 74,014</u>

See accompanying Independent Auditor's Report.

NORTH-LINN COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the Year Ended June 30, 2004

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

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

During the year ended June 30, 2004, District disbursements did not exceed the amounts budgeted in any of the four functions or the General Fund unspent authorized budget.

Other Supplementary Information

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

Schedule 1

	Special Revenue					Total
	Management	Student Activity	Physical Plant and Equipment Levy	Capital Projects	Debt Service	
ASSETS						
Cash and pooled investments	\$ 23,670	\$ 106,668	\$ 39,135	\$ 33,087	\$ 9,780	\$ 212,340
Receivables						
Property tax						
Delinquent	1,807	-	2,694	-	5,841	10,342
Succeeding year	156,086	-	139,164	-	322,380	617,630
Accounts receivable	-	1,584	-	-	-	1,584
Accrued interest	-	-	12	12	-	24
Due from other governments	-	-	-	4,554	-	4,554
Total assets	\$181,563	\$108,252	\$181,005	\$37,653	\$338,001	\$846,474
 LIABILITIES AND FUND EQUITY						
Liabilities						
Accounts payable	\$ -	\$ 5,247	\$ -	\$ -	\$ -	\$ 5,247
Due to other funds	-	85	-	-	-	85
Deferred revenue						
Succeeding year property tax	156,086	-	139,164	-	322,380	617,630
Total liabilities	156,086	5,332	139,164	-	322,380	622,962
Fund equity						
Unreserved fund balances	25,477	102,920	41,841	37,653	15,621	223,512
Total liabilities and fund equity	\$181,563	\$108,252	\$181,005	\$37,653	\$338,001	\$846,474

See accompanying Independent Auditor's Report.

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

Schedule 2

	Special Revenue					
	Management <u>Levy</u>	Student <u>Activity</u>	Physical Plant and Equipment <u>Levy</u>	Capital <u>Projects</u>	Debt <u>Service</u>	<u>Total</u>
Revenues						
Local sources						
Local taxes	\$ 98,819	\$ -	\$ 146,972	\$ 37,600	\$ 318,606	\$ 601,997
Other	100	145,411	559	53	645	146,768
State sources	92	-	140	-	296	528
Total revenues	99,011	145,411	147,671	37,653	319,547	749,293
Expenditures						
Current						
Instruction						
Regular program instruction	4,934	-	-	-	-	4,934
Other instruction	-	139,426	-	-	-	139,426
Support services						
Administration services	73,700	-	-	-	-	73,700
Transportation services	4,251	-	-	-	-	4,251

See accompanying Independent Auditor's Report.

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

Schedule 2

	Special Revenue					
	Management	Student	Physical Plant and Equipment	Capital	Debt	Total
	<u>Levy</u>	<u>Activity</u>	<u>Levy</u>	<u>Projects</u>	<u>Service</u>	<u> </u>
Expenditures (continued)						
Other expenditures						
Facilities acquisition and construction	\$ -	\$ -	\$ 131,972	\$ -	\$ -	\$ 131,972
Long-term debt: Principal	-	-	-	-	195,000	195,000
Interest and fiscal charges	-	-	-	-	124,574	124,574
Total expenditures	<u>82,885</u>	<u>139,426</u>	<u>131,972</u>	<u>-</u>	<u>319,574</u>	<u>673,857</u>
Excess (deficiency) of revenues over (under) expenditures	16,126	5,985	15,699	37,653	(27)	75,436
Other financing sources						
Sale of real property	<u>-</u>	<u>-</u>	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>1,000</u>
Excess (deficiency) of revenue and other financing sources over (under) expenditures	16,126	5,985	16,699	37,653	(27)	76,436
Fund balances, beginning of year, as restated	<u>9,351</u>	<u>96,935</u>	<u>25,142</u>	<u>-</u>	<u>15,648</u>	<u>147,076</u>
Fund balances, end of year	<u>\$ 25,477</u>	<u>\$ 102,920</u>	<u>\$ 41,841</u>	<u>\$ 37,653</u>	<u>\$ 15,621</u>	<u>\$ 223,512</u>

See accompanying Independent Auditor's Report.

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

Schedule 3

Account	Balance, Beginning of			Balance, End of Year
	Year	Revenues	Expenditures	
Track	\$ 3,245	\$ 1,687	\$ 3,925	\$ 1,007
Golf	2,249	1,576	2,959	866
Boys' basketball	101	4,512	3,202	1,411
Football	3,762	7,675	8,113	3,324
Baseball	4,259	2,128	3,320	3,067
Wrestling	2,650	7,845	5,158	5,337
Girls' basketball	167	5,077	3,305	1,939
Volleyball	372	1,870	1,070	1,172
Softball	3,140	1,623	3,199	1,564
Class of:				
2003	561	-	306	255
2004	2,436	80	2,023	493
2005	85	14,862	12,892	2,055
2006	40	80	-	120
2007	-	80	-	80
Speech	72	71	56	87
Vocal music	2,678	3,656	3,798	2,536
Instrumental music	586	1,120	1,076	630
Wellness	28	-	-	28
Entrepreneurship	386	776	760	402
Publication	5,383	5,828	4,020	7,191
Cheerleaders	2,126	-	1,998	128
Pom pom squad	960	-	438	522
Peer groups	582	-	-	582
National Honor Society	1,205	980	741	1,444
High school student council	11,778	4,086	3,523	12,341
FFA	5,917	29,557	29,528	5,946
FHA	909	115	349	675
Vending machines	134	-	-	134
Journalism	23	-	15	8
Weight room	62	-	-	62
Middle school student council	17,594	25,806	22,215	21,185

See accompanying Independent Auditor's Report.

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

Schedule 3

Account	Balance, Beginning of Year	Revenues	Expenditures	Balance, End of Year
FBLA	\$ 752	\$ 5,428	\$ 4,652	\$ 1,528
Junior Honor Society	896	-	169	727
Coggon store	1,211	1,181	1,217	1,175
Walker store	1,034	2,144	2,234	944
School pictures	6,159	1,363	665	6,857
Now interest	4,942	669	-	5,611
Recycling program - Coggon	3,666	7,136	6,757	4,045
Recycling program - Walker	1,583	5,209	6,745	47
McKinley Scholarship	3,202	2,393	200	5,395
Totals	<u>\$ 96,935</u>	<u>\$ 146,613</u>	<u>\$ 140,628</u>	<u>\$ 102,920</u>

See accompanying Independent Auditor's Report.

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

Schedule 4

	Modified Accrual Basis			
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues				
Local sources				
Local tax	\$ 2,318,829	\$ 2,292,171	\$ 2,139,322	\$ 2,092,167
Tuition	198,987	112,710	187,607	79,603
Other	252,767	309,112	249,498	388,238
State sources	3,050,813	3,005,028	2,966,590	2,913,891
Federal sources	146,379	132,990	142,198	142,510
Total revenues	<u>\$ 5,967,775</u>	<u>\$ 5,852,011</u>	<u>\$ 5,685,215</u>	<u>\$ 5,616,409</u>
Expenditures				
Instruction				
Regular instruction	2,534,032	2,413,359	2,413,938	2,375,090
Special instruction	754,462	572,333	551,068	447,847
Other instruction	475,431	443,505	462,194	455,665
Support services				
Student services	115,550	113,959	105,733	98,096
Instructional staff services	186,579	183,059	179,150	106,549
Administration services	541,624	539,400	535,018	518,025
Operation and maintenance of plant services	506,464	497,976	446,182	493,993
Transportation services	219,151	251,575	247,013	316,105
Central support services	300	-	-	15,778
Other expenditures				
Facilities acquisition	131,972	135,079	205,197	474,003
Long-term debt				
Principal	195,000	155,000	145,000	140,000
Interest and other charges	124,574	169,182	175,853	182,292
AEA flowthrough	214,176	222,982	223,992	224,828
Total expenditures	<u>\$ 5,999,315</u>	<u>\$ 5,697,409</u>	<u>\$ 5,690,338</u>	<u>\$ 5,848,271</u>

See accompanying Independent Auditor's Report.

KAY L. CHAPMAN, CPA PC

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

To the Board of Education
North-Linn Community School District
Troy Mills, Iowa

I have audited the financial statements of the North-Linn Community School District as of and for the year ended June 30, 2004, and have issued my report thereon dated September 17, 2004. I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. There were no prior year statutory comments to resolve. Current year statutory comments are detailed as follows:

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

2. Certified Budget - Disbursements for the year ended June 30, 2004 did not exceed the amounts budgeted.
3. Questionable Disbursements - I noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
4. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
5. Business Transactions - No business transactions between the District and District officials were noted.
6. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
7. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
8. Certified Enrollment - No variance in the basic enrollment data certified to the Department of Education were noted.
9. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
10. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely and I noted no significant deficiencies in the amounts reported.

Internal Control Over Financial Reporting

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

- A. Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that the bank deposits, the posting of most cash journals, payroll and payroll records are all done almost entirely by the same person.

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

Response - We will investigate available alternatives and implement as deemed necessary.

Conclusion - Response accepted.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe the lack of segregation of duties is a material weakness.

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

I would like to acknowledge the many courtesies and assistance extended to me by the personnel of the North-Linn 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.



Kay L. Chapman, CPA PC
September 17, 2004

NORTH-LINN COMMUNITY SCHOOL DISTRICT
Audit Staff
June 30, 2004

This audit was performed by

Kay Chapman, CPA