

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

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

June 30, 2004

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Independent Auditor's Report

To the Board of Education of
[North Kossuth](#) Community School District:

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

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

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

As described in Note 11 to the financial statements, during the year ended June 30, 2004, [North Kossuth](#) Community School District adopted Governmental Accounting Standards Board Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement Number 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement Number 38, Certain Financial Statement Note Disclosures; Statement Number 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation Number 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated [November 12, 2004](#), on our consideration of [North Kossuth](#) Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 38 through 40 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise North Kossuth Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003, (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental 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 our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

November 12, 2004

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT
Management's Discussion and Analysis

North Kossuth 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 \$3,401,527 in fiscal 2003 to \$3,504,293 in fiscal 2004, while General Fund expenditures increased from \$3,322,990 fiscal year 2003 to \$3,324,344 in fiscal 2004.

The increase in General Fund revenues was attributable to an increase in property tax and state and federal grant revenue in fiscal 2004. The increase in expenditures, while only slight, was due primarily to an increase in the negotiated salary and benefits. Significant reductions in teaching and administrative staff helped reduce the effect of the increased expenses. The General Fund balance increased due to the difference between the sizes of the increase in revenue as compared to the increase in expenses.

Overview of the Financial Statements

This 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 Kossuth 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 Kossuth 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 Kossuth Community School District acts solely as an agent or custodian for the benefit of those outside of County government.
- Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.
- Other Supplementary Information provides detailed information about the non-major Special Revenue Funds.

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

Figure A-1
Relationship of the Sections of This Report

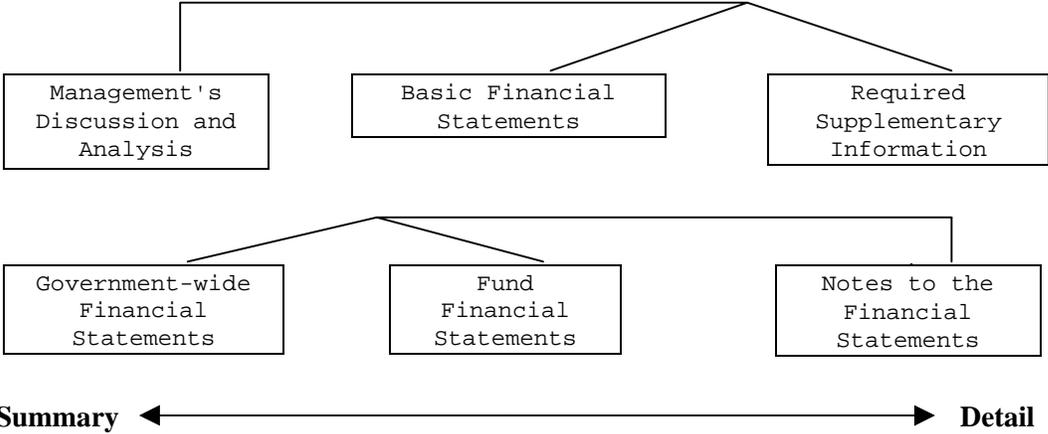


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the Management's Discussion and Analysis highlights the structure and contents of the statements.

**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	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, such as food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	Statement of net assets Statement of activities	Balance sheet Statement of revenues, expenditures, and changes in fund balances	Statement of fiduciary net assets Statement of revenues, expenses, and changes in fund net assets Statement of cash flows	Statement of fiduciary net assets Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the 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 the 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 be readily 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. Internal Service Funds, the other kind of proprietary fund, are optional and available to report activities that provide supplies

and services for other District programs. The District's Internal Service Fund is used to reimburse employees for a portion of their health insurance deductibles.

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

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

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Funds - The District does not choose to use Agency Funds.

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

The required financial statements for fiduciary funds include 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 provides a summary of the District's net assets on June 30, 2004, as compared to June 30, 2003.

**Figure A-3
Condensed Statement of Net Assets
(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	2003 to 2004
Current and other assets	\$3,133	\$4,772	\$10	\$10	\$3,143	\$4,782	-34.3%
Capital assets	\$2,490	\$625	\$8	\$10	\$2,498	\$635	294.4%
Total assets	\$5,623	\$5,397	\$18	\$20	\$5,641	\$5,417	4.1%
Long-term liabilities	\$1,028	\$1,061	\$0	\$0	\$1,028	\$1,061	-3.1%
Other liabilities	\$1,862	\$1,805	\$1	\$0	\$1,863	\$1,805	3.2%
Total liabilities	\$2,890	\$2,866	\$1	\$0	\$2,891	\$2,866	.9%
Net assets:							
Invested in capital assets, net of related debt	\$1,751	\$624	\$8	\$10	\$1,759	\$634	177.4%
Restricted	\$239	\$1,358	\$0	\$0	\$239	\$1,358	-82.4%
Unrestricted	\$743	\$550	\$9	\$10	\$752	\$560	34.3%
Total net assets	\$2,733	\$2,532	\$17	\$20	\$2,750	\$2,552	7.8%

The District's total assets increased by 4.1%, or approximately \$224,000. While Cash and cash equivalents and anticipated Property Tax receipts decreased, they were more than offset by the increased value of the Capital assets. This is mainly the new addition and remodeling at the Swea City center.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they may be used. The District's restricted net assets decreased by 82.4%, or approximately \$1,119,000. This amount was funding spent on the new addition and remodeling at the Swea City center. The newly enacted Local Option Sales Tax provided \$83,524 in 2004.

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 by 34.4%, or approximately \$198,000.

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

**Figure A-4
Changes in Net Assets
(Expressed in Thousands)**

	Governmental Activities	Business type Activities	Total District
Revenues:			
Program Revenues:			
Charges for Service	\$381	\$45	\$426
Operating grants, contributions, and restricted interest	\$458	\$36	\$494
Capital grants, contributions, and restricted interest	\$36	\$0	\$36
General Revenues:			
Property Tax	\$1,978	\$0	\$1,978
Local Option Sales & Service Tax	\$84	\$0	\$84
Unrestricted state grants	\$1,112	\$0	\$1,112
Unrestricted investment earnings	\$5	\$0	\$5
Other revenues	\$0	\$0	\$0
Sub-total Revenues	\$4,054	\$81	\$4,135
Transfers in	\$0	\$20	\$20
Total Revenues	\$4,054	\$101	\$4,155
Expenses:			
Program Expenses:			
Instruction	\$2,522		\$2,522
Support Services	\$1,101		\$1,101
Non-instructional programs	\$0	\$104	\$104
Other expenses	\$210		\$210
Sub-Total Expenses	\$3,833		\$3,937
Transfers out	\$20		\$20
Total Expenses	\$3,853	\$104	\$3,957
Change in Net Assets	\$201	-\$3	\$198

Property tax and unrestricted state grants account for 74% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 92.5% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$4,054,113 and expenses were \$3,832,745. Staff reductions implemented for the 2003-04 school year allowed the District to keep expenses below available revenue.

The following table shows 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
(Expressed in Thousands)

	Total Cost of Services	Net Cost of Services
Instruction	\$2,522	\$1,872
Support Services	\$1,101	\$1,068
Non-instructional Programs	\$0	\$0
Other Expenses	\$210	\$18
Totals	\$3,833	\$2,958

- The cost financed by users of the District's programs was \$380,863.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$494,676.
- The net cost of governmental activities was financed with \$2,062,193 in property and other taxes and \$1,111,548 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$81,219, and expenses were \$103,978. 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, fewer lunches were served due to the realignment of the grades, thus decreasing revenue. Since elementary students do not attend the Swea City center, the breakfast program was also discontinued, also resulting in decreased revenue.

A transfer of \$20,000 from governmental activities was required to bring revenue nearly in line with expenses. There was a deficit of \$2,714 in the School Nutrition Fund at the end of the fiscal year.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$1,076,902 as compared to last year's balance of \$2,700,750. This decrease is primarily due to paying expenses for the remodeling and addition to the Swea City center from previously received funds.

Governmental Fund Highlights

- In the General Fund, the balance at the end of the year was \$548,769, an increase of \$159,949. Staff reductions allowed for a decrease in expenses for instruction of \$117,592. A decrease in expenses for support services of \$122,207 resulted partly from a reduction in administration costs.
- The Physical Plant and Equipment Levy (PPEL) balance decreased by \$1,077,862 due to expenses related to the remodeling and construction at the Swea City center.
- The Capital Projects Fund balance decreased by \$754,189, again due to expenses related to the remodeling and construction at the Swea City center.

Proprietary Fund Highlights

- School Nutrition Fund net assets decreased from \$19,786 to \$17,072, a decrease of \$2,714. A contributing factor was the grade realignment that started in the fall of 2003. Fewer students attend the Swea City center resulting in fewer lunches being served. With the move of the elementary grades to the Bancroft center, the School Breakfast program in Swea City was discontinued, resulting in a decrease in both revenue and expenses.
- A transfer of \$20,000 from the governmental fund to the School Nutrition Fund was required to offset the decrease in assets to the level reported.
- The Internal Service Fund was started to provide reimbursement to employees for part of their deductibles for medical insurance. The district was able to reduce the premium dollars sent to the health insurance company to fund this benefit.

BUDGETARY HIGHLIGHTS

- The District's receipts were \$31,269 greater than budgeted. This is due to greater revenue from local sources that was partly offset by less revenue from state and federal sources.
- Total expenses were less than budgeted. \$589,274 less was spent on instruction and support services, while \$366,225 more was spent on other expenditures, primarily the building project. Expenses occurred more quickly than anticipated on the project, resulting in an overexpenditure in this area.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

On June 30, 2004, the District had invested \$1,759,032, net of related debt, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment, and transportation equipment. This represents a net increase of \$1,124,752, or 177%. This is primarily due to the remodeling and construction at the Swea City center. More detailed information about the District's capital assets is presented in Note 4 to the Financial Statements. Depreciation expense for the year was \$134,281.

The original cost of the District's capital assets was \$4,848,786. Governmental funds account for \$4,773,909, with the remainder of \$74,877 accounted for in the Proprietary School Nutrition fund.

The largest change in capital asset activity during the year occurred in the Construction in Progress category. The District's construction in progress totaled \$1,931,844 as of June 30, 2004. This number was zero on June 30, 2003. The voter-approved Physical Plant and Equipment Levy and the Vision Iowa Grant allowed for construction and remodeling to take place at the Swea City center.

Figure A-6
Capital Assets, Net of Depreciation
(Expressed in Thousands)

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30 2004	June 30 2003	June 30 2004	June 30 2003	June 30 2004	June 30 2003	June 30 2003 to 2004
Land	\$31	\$31			\$31	\$31	\$0
Construction in progress	\$1,932	\$0			\$1,932	\$0	\$1,932
Buildings	\$115	\$121			\$115	\$121	-\$6
Improvements other than buildings	\$3	\$3			\$3	\$3	\$0
Furniture and Equipment	\$409	\$470	\$8	\$10	\$417	\$480	-\$63
Totals	\$2,490	\$625	\$8	\$10	\$2,498	\$635	\$1,863

Long-Term Debt

As of June 30, 2004, the District had \$1,028,419 in Capital Loan notes and Early Retirement obligations outstanding. This represents a net decrease of \$32,915 from last year. One of the Capital Loan notes of \$100,000 was paid during 2003-04. Offsetting this reduction was an increase of \$67,085 in early retirement obligations. The remaining obligation for the Capital Loan notes is \$935,000.

Figure A-7
Outstanding Long-Term Obligations
(Expressed in Thousands)

	Total District		Total Change
	June 30 2004	June 30 2003	June 30 2003 to 2004
Capital Loan Notes	\$935	\$1,035	-\$100
Early Retirement	\$93	\$26	\$67
Totals	\$1,028	\$1,061	-\$33

ECONOMIC FACTORS BEARING DOWN 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.

- Enrollment declined significantly in September, 2003. This affects the amount of funding available to support the educational program. A similar decline was also noted in September, 2004, further eroding available finances.
- An ethanol plant in the district is planning to double in size, increasing the amount of natural gas consumed. This will increase the amount of excise tax paid to the district in lieu of property tax, since the ethanol plant land is in a TIF district and does not pay property tax.
- The size of the district requires significant transportation cost for busing students to and from the attendance centers. With the continuous increases in fuel costs, General Fund revenues will continue to be strained.

- Negotiations for the Master Contract with the North Kossuth Education Association will require an increase in salary and benefits costs. Until this year, attrition and staff reduction allowed the district to offset these increases by employing fewer staff. It is not likely that staff reduction can be used to offset increases for the 2005-06 school year.
- The District began to partially self-fund employee health insurance in July, 2004. It is projected that \$40,000 less will be sent to the health insurance provider by June 30, 2005. This money will likely remain in the PSF account to allow the district to consider increasing the portion that is self-funded, further reducing the amount that is paid to the insurance provider.

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 Janet Knoner, Board Secretary, North Kossuth Community School District, 202 E. Center St., PO Box 350, Bancroft, IA 50517.

BASIC FINANCIAL STATEMENTS

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Government al Activities	Business Type	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	1,087,394	1,863	1,089,257
Receivables:			
Property tax:			
Delinquent	37,892	-	37,892
Succeeding year	1,752,736	-	1,752,736
Accounts	2,274	-	2,274
Accrued interest	-	-	-
Due from other governments	252,966	-	252,966
Inventories	-	7,803	7,803
Capital assets, net of accumulated depreciation	2,489,770	8,083	2,497,853
Total assets	5,623,032	17,749	5,640,781
Liabilities			
Accounts payable	104,344	-	104,344
Accrued interest payable	4,648	-	4,648
Deferred revenue:			
Succeeding year property tax	1,752,736	-	1,752,736
Other	-	677	677
Long-term liabilities:			
Portion due within one year:			
Capital loan notes payable	105,000	-	105,000
Early retirement	17,016	-	17,016
Portion due after one year:			
Capital loan notes payable	830,000	-	830,000
Early retirement	76,403	-	76,403
Total liabilities	2,890,147	677	2,890,824
Net assets			
Invested in capital assets, net of related debt	1,750,949	8,083	1,759,032
Restricted for:			
Physical plant and equipment levy	95,883	-	95,883
Other special revenue purposes	59,984	-	59,984
Local option sales tax capital projects	83,524	-	83,524
Unrestricted	742,545	8,989	751,534
Total net assets	2,732,885	17,072	2,749,957

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	1,419,412	107,588	168,452	-
Special instruction	737,332	145,938	97,466	-
Other instruction	365,010	126,737	4,041	-
	<u>2,521,754</u>	<u>380,263</u>	<u>269,959</u>	<u>-</u>
Support services:				
Student services	46,247	-	-	-
Instructional staff services	74,736	-	-	-
Administration services	468,481	-	-	-
Operation and maintenance of plant services	233,809	600	-	-
Transportation services	277,528	-	32,700	-
	<u>1,100,801</u>	<u>600</u>	<u>32,700</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	41,083	-	22,981	36,249
Long-term debt interest	30,009	-	-	-
AEA flowthrough	132,787	-	132,787	-
Depreciation (unallocated)*	6,311	-	-	-
	<u>210,190</u>	<u>-</u>	<u>155,768</u>	<u>36,249</u>
Total governmental activities	3,832,745	380,863	458,427	36,249
Business type activities				
Non-instructional programs:				
Food service operations	103,958	45,304	35,915	-
	<u>103,958</u>	<u>45,304</u>	<u>35,915</u>	<u>-</u>
Total	<u>3,936,703</u>	<u>426,167</u>	<u>494,342</u>	<u>36,249</u>

General Revenues:

Property taxes levied for:
 General purposes
 Capital outlay
Income surtax
Local option sales and services tax
Unrestricted state grants
Unrestricted investment earnings
Other

Total general revenues

Transfers

Total general revenues and transfers

Change in net assets

Net assets beginning of year, as restated

Net assets end of year

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

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
(1,143,372)	-	(1,143,372)
(493,928)	-	(493,928)
(234,232)	-	(234,232)
<u>(1,871,532)</u>	<u>-</u>	<u>(1,871,532)</u>
(46,247)	-	(46,247)
(74,736)	-	(74,736)
(468,481)	-	(468,481)
(233,209)	-	(233,209)
(244,828)	-	(244,828)
<u>(1,067,501)</u>	<u>-</u>	<u>(1,067,501)</u>
18,147	-	18,147
(30,009)	-	(30,009)
-	-	-
(6,311)	-	(6,311)
<u>(18,173)</u>	<u>-</u>	<u>(18,173)</u>
(2,957,206)	-	(2,957,206)
<u>-</u>	<u>(22,739)</u>	<u>(22,739)</u>
<u>(2,957,206)</u>	<u>(22,739)</u>	<u>(2,979,945)</u>
1,610,773	-	1,610,773
202,299	-	202,299
165,597	-	165,597
83,524	-	83,524
1,111,548	-	1,111,548
4,528	25	4,553
305	-	305
3,178,574	25	3,178,599
(20,000)	20,000	-
<u>3,158,574</u>	<u>20,025</u>	<u>3,178,599</u>
201,368	(2,714)	198,654
<u>2,531,517</u>	<u>19,786</u>	<u>2,551,303</u>
<u>2,732,885</u>	<u>17,072</u>	<u>2,749,957</u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2004

	General Fund	Physical Plant and Equipment Levy	Capital Projects	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments:	457,952	103,831	353,561	153,035	1,068,379
Receivables:					
Property tax:					
Delinquent	33,673	4,219	-	-	37,892
Succeeding year	1,571,507	169,229	-	12,000	1,752,736
Accounts	2,274	-	-	-	2,274
Due from other governments	157,352	80,118	15,496	-	252,966
Total assets	<u>2,222,758</u>	<u>357,397</u>	<u>369,057</u>	<u>165,035</u>	<u>3,114,247</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	2,335	12,167	89,354	488	104,344
Deferred revenue:					
Succeeding year property tax	1,571,507	169,229	-	12,000	1,752,736
Other	100,147	80,118	-	-	180,265
Total liabilities	<u>1,673,989</u>	<u>261,514</u>	<u>89,354</u>	<u>12,488</u>	<u>2,037,345</u>
Fund balances:					
Unreserved	<u>548,769</u>	<u>95,883</u>	<u>279,703</u>	<u>152,547</u>	<u>1,076,902</u>
Total liabilities and fund balances	<u>2,222,758</u>	<u>357,397</u>	<u>369,057</u>	<u>165,035</u>	<u>3,114,247</u>

NORTH KOSSUTH 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 (Exhibit C)	1,076,902
 <i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	2,489,770
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	180,265
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	(4,648)
An internal service fund is used by the District's management to charge the costs of the medical deductible reimbursement plan to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	19,015
Long-term liabilities, including notes payable and early retirement benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(1,028,419)</u>
Net assets of governmental activities (Exhibit A)	<u><u>2,732,885</u></u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2004

	General Fund	Physical Plant and Equipment Levy Fund	Capital Projects Fund	Nonmajor Governmental Funds
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,700,206	272,567	83,524	-
Tuition	245,588	-	-	-
Other	11,505	548	59,230	127,750
State sources	1,410,097	-	-	-
Federal sources	136,897	-	-	-
Total revenues	<u>3,504,293</u>	<u>273,115</u>	<u>142,754</u>	<u>127,750</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	1,295,688	-	-	21,466
Special instruction	737,332	-	-	-
Other instruction	251,840	-	-	111,682
	<u>2,284,860</u>	<u>-</u>	<u>-</u>	<u>133,148</u>
Support services:				
Student services	46,247	-	-	-
Instructional staff services	74,736	-	-	-
Administration services	346,890	94,393	-	14,108
Operation and maintenance of plant services	207,988	-	-	22,467
Transportation services	230,836	50,712	-	7,231
	<u>906,697</u>	<u>145,105</u>	<u>-</u>	<u>43,806</u>
Other expenditures:				
Facilities acquisition	-	41,083	1,931,844	-
Long-term debt:				
Principal	-	-	-	100,000
Interest and fiscal charges	-	-	-	30,193
AEA flowthrough	132,787	-	-	-
	<u>132,787</u>	<u>41,083</u>	<u>1,931,844</u>	<u>130,193</u>
Total expenditures	<u>3,324,344</u>	<u>186,188</u>	<u>1,931,844</u>	<u>307,147</u>
Excess (deficiency) of revenues over (under) expenditures	<u>179,949</u>	<u>86,927</u>	<u>(1,789,090)</u>	<u>(179,397)</u>
Other financing sources (uses):				
Sales of real property	-	305	-	-
Operating transfers in	-	-	1,034,901	130,193
Operating transfers out	(20,000)	(1,165,094)	-	-
Total other financing sources (uses)	<u>(20,000)</u>	<u>(1,164,789)</u>	<u>1,034,901</u>	<u>130,193</u>
Net change in fund balances	159,949	(1,077,862)	(754,189)	(49,204)
Fund balances beginning of year, as restated	388,820	1,173,745	1,033,892	201,751
Fund balances end of year	<u>548,769</u>	<u>95,883</u>	<u>279,703</u>	<u>152,547</u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2004

	<u>Total</u>
	\$
Revenues:	
Local sources:	
Local tax	2,056,297
Tuition	245,588
Other	199,033
State sources	1,410,097
Federal sources	136,897
Total revenues	<u>4,047,912</u>
Expenditures:	
Current:	
Instruction:	
Regular instruction	1,317,154
Special instruction	737,332
Other instruction	363,522
	<u>2,418,008</u>
Support services:	
Student services	46,247
Instructional staff services	74,736
Administration services	455,391
Operation and maintenance of plant services	230,455
Transportation services	288,779
	<u>1,095,608</u>
Other expenditures:	
Facilities acquisition	1,972,927
Long-term debt:	
Principal	100,000
Interest and fiscal charges	30,193
AEA flowthrough	132,787
	<u>2,235,907</u>
Total expenditures	<u>5,749,523</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,701,611)</u>
Other financing sources (uses):	
Sales of real property	305
Operating transfers in	1,165,094
Operating transfers out	(1,185,094)
Total other financing sources (uses)	<u>(19,695)</u>
Net change in fund balances	(1,721,306)
Fund balances beginning of year, as restated	<u>2,798,208</u>
Fund balances end of year	<u><u>1,076,902</u></u>

NORTH KOSSUTH 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 (Exhibit E)		(1,721,306)

**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 year as follows:

Expenditures for capital assets	1,996,746	
Depreciation expense	<u>(132,082)</u>	1,864,664

Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.

5,896

Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

100,000

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

184

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, as follows:

Early retirement		(67,085)
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An internal service fund is used by the District's management to charge the costs of the health insurance deductible reimbursement program to the individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.

19,015

Changes in net assets of governmental activities (Exhibit B)		<u><u>201,368</u></u>
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NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2004

	<u>Enterprise Fund</u> Nonmajor School Nutrition \$	Governmental Activities - Internal Service Fund \$
Assets		
Cash and cash equivalents	1,863	19,015
Inventories	7,803	-
Capital assets, net of accumulated depreciation	<u>8,083</u>	<u>-</u>
Total assets	17,749	19,015
Liabilities		
Deferred revenue	<u>677</u>	<u>-</u>
Net assets		
Invested in capital assets, net of related debt	8,083	-
Unrestricted	<u>8,989</u>	<u>19,015</u>
Total net assets	<u><u>17,072</u></u>	<u><u>19,015</u></u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds

Year ended June 30, 2004

	<u>Enterprise Fund</u> Nonmajor School Nutrition \$	Governmental Activities - Internal Service Fund \$
Operating revenue:		
Local sources:		
Charges for service	45,304	19,015
	<u>45,304</u>	<u>19,015</u>
Operating expenses:		
Non-instructional programs:		
Salaries	38,560	-
Benefits	24,119	-
Purchased services	289	-
Supplies	38,791	-
Depreciation	2,199	-
	<u>103,958</u>	<u>-</u>
Operating gain (loss)	<u>(58,654)</u>	<u>19,015</u>
Non-operating revenue:		
State sources	1,087	-
Federal sources	34,828	-
Interest income	25	-
Total non-operating revenue	<u>35,940</u>	<u>-</u>
Gain (loss) before contributions and transfers	(22,714)	19,015
Transfers in	<u>20,000</u>	<u>-</u>
Change in net assets	(2,714)	19,015
Net assets beginning of year	<u>19,786</u>	<u>-</u>
Net assets end of year	<u><u>17,072</u></u>	<u><u>19,015</u></u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2004

	<u>Enterprise Fund</u> Nonmajor <u>School Nutrition</u> \$	Governmental Activities - Internal <u>Service Fund</u> \$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	46,059	-
Cash from services provided to other funds	-	19,015
Cash payments to employees for services	(62,679)	-
Cash payments to suppliers for goods or services	(30,467)	-
Net cash (used by) provided by operating activities	<u>(47,087)</u>	<u>19,015</u>
Cash flows from non-capital financing activities:		
State grants received	1,087	-
Federal grants received	26,677	-
Net cash provided by non-capital financing activities	<u>27,764</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Transfers from other funds	<u>20,000</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>25</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	702	19,015
Cash and cash equivalents at beginning of year	<u>1,161</u>	<u>-</u>
Cash and cash equivalents at end of year	<u><u>1,863</u></u>	<u><u>19,015</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:		
Operating gain (loss)	(58,654)	19,015
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	8,151	-
Depreciation	2,199	-
Decrease (increase) in inventories	531	-
Decrease (increase) in accounts receivable	78	-
(Decrease) increase in accounts payable	(69)	-
(Decrease) increase in deferred revenue	677	-
Net cash used in operating activities	<u><u>(47,087)</u></u>	<u><u>19,015</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$8,151 of federal commodities.

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2004

	Private Purpose Trust Scholarship
	<u>\$</u>
Assets	
Cash and pooled investments	2,000
Liabilities	
	<u>-</u>
Net Assets	
Reserved for scholarships	<u><u>2,000</u></u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2004

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	2,000
Deductions:	
Support services:	
Scholarships awarded	<u>5,000</u>
Change in net assets	(3,000)
Net assets beginning of year	<u>5,000</u>
Net assets end of year	<u><u>2,000</u></u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2004

1. Summary of Significant Accounting Policies

North Kossuth Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Bancroft and Swea City, Iowa and the predominately agricultural territory in a portion of Kossuth County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, North Kossuth 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 Kossuth Community School District has no component units that 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 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.

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 that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those 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 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.

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

The Physical Plant and Equipment Levy Fund is a special revenue fund that is used to account for the revenues from and expenditures of the physical plant and equipment property tax levy.

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's internal service fund is also reported as a proprietary fund. The internal service fund is used to account for the District's health insurance deductible reimbursement plan.

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

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

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 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 judgements, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

D. Assets, Liabilities and Fund Equity

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

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

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, 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 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 became due and collectible in September and March of the fiscal year with a 1 ½% 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.

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	-
Buildings	2,000
Improvements other than buildings	2,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	40 years
Improvements other than buildings	20-40 years
Furniture and equipment	5-20 years

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

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds, amounts received in advance for meal sales and 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 and sick leave hours for subsequent use. Employees are not paid for unused vacation and sick leave benefits when employment with the District ends.

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

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

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

E. Budgeting and Budgetary Control

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

2. **Cash and Pooled 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.

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 meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

3. Interfund Transfers

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

Transfer to	Transfer from	Amount
		\$
Capital Projects Fund	Special Revenue: Physical Plant and Equipment Levy Fund	1,034,901
Enterprise: School Nutrition Fund	General Fund	20,000
Debt Service Fund	Special Revenue: Physical Plant and Equipment Levy Fund	130,193

These transfers moved revenues from the funds statutorily required to collect the resources to the funds statutorily required to expend the resources.

4. Capital Assets

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

	Balance Beginning of Year, as Restated	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	-	1,931,844	-	1,931,844
Land	30,725	-	-	30,725
Total capital assets not being depr.	<u>30,725</u>	<u>1,931,844</u>	<u>-</u>	<u>1,962,569</u>
Capital assets being depreciated:				
Buildings	735,655	-	2,002	733,653
Improvements other than buildings	42,105	-	-	42,105
Furniture and equipment	1,970,680	64,902	-	2,035,582
Total capital assets being deprec.	<u>2,748,440</u>	<u>64,902</u>	<u>2,002</u>	<u>2,811,340</u>
Less accumulated depreciation for:				
Buildings	614,299	6,118	2,002	618,415
Improvements other than buildings	39,310	193	-	39,503
Furniture and equipment	1,500,450	125,771	-	1,626,221
Total accumulated depreciation	<u>2,154,059</u>	<u>132,082</u>	<u>2,002</u>	<u>2,284,139</u>
Total capital assets being depreciated, net	<u>594,381</u>	<u>(67,180)</u>	<u>-</u>	<u>527,201</u>
Governmental activities capital assets, net	<u>625,106</u>	<u>1,864,664</u>	<u>-</u>	<u>2,489,770</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	74,877	-	-	74,877
Less accumulated depreciation	<u>64,595</u>	<u>2,199</u>	-	<u>66,794</u>
Business type activities capital assets, net	<u>10,282</u>	<u>(2,199)</u>	-	<u>8,083</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	68,378
Other	1,488
Support Services:	
Administration services	13,090
Operation and maintenance of plant services	3,354
Transportation	<u>39,461</u>
	125,771
Unallocated depreciation	<u>6,311</u>
Total depreciation expense – governmental activities	<u>132,082</u>
Business type activities:	
Food services	<u>2,199</u>

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
	\$	\$	\$	\$	\$
Capital loan notes	1,035,000	-	100,000	935,000	105,000
Early retirement	<u>26,334</u>	<u>78,171</u>	<u>11,086</u>	<u>93,419</u>	<u>17,016</u>
Total	<u>1,061,334</u>	<u>78,171</u>	<u>111,086</u>	<u>1,028,419</u>	<u>122,016</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be between the ages **fifty-five and sixty-two** and must have completed **fifteen** years of full time service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives include a cash payment and single premium health insurance until age sixty-five. Early retirement expenditures for the year ended June 30, **2004** totaled **\$11,086**

Capital Loan Notes

The District issued \$1,035,000 of capital loan notes during the year ended June 30, 2003. These notes and the interest will be paid from the Special Revenue, Physical Plant and Equipment Levy Fund. Details of the capital loan notes are as follows:

<u>Year Ending June 30,</u>	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	<u>%</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
2005	2.000	105,000	27,892	132,892
2006	2.250	110,000	25,792	135,792
2007	2.625	110,000	23,318	133,318
2008	3.000	115,000	20,430	135,430
2009	3.250	120,000	16,980	136,980
2010-2012	3.50-3.65	375,000	26,946	401,946
		<u>935,000</u>	<u>141,358</u>	<u>1,076,358</u>

During the year ended June 30, 2004 the District made principal and interest payments totaling \$129,892 under the note agreement.

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, Iowa, 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 contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$105,818, \$111,343, and \$114,537 respectively, equal to the required contributions for each year.

7. Risk Management

North Kossuth 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.

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 \$132,787 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.

9. Construction Commitment

The District has entered into a \$2,192,671 contract for improvements at the high school. As of June 30, 2004 costs of \$1,787,025 had been incurred against the contracts. The balances remaining at June 30, 2004 will be paid as work on the project progresses.

10. Lease Commitment

The District entered into a ten year contract to lease a school building in fiscal year 2002. The payments the District will make over the next eight years are as follows:

Year Ended June 30	Lease Payment
	\$
2005	63,996
2006	63,966
2007	63,966
2008	63,966
2009	63,966
2010	63,966
2011	63,966
2012	63,966

The lease also contains a provision that the District may be required to pay additional rent if the District's share of utilities exceeds \$1,500 per month. In no event should the required rent payment by the District exceed \$72,000 per year.

The lease may be terminated if the District's student count drops below 325 students. If the District terminates the lease under this provision, the District shall continue to pay \$3,833 per month through year seven of the lease and \$3,000 per month through year ten of the lease.

11. Accounting Change and Restatement

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:

	Funds				Total
	General	PPEL	Capital Projects	Nonmajor	
	\$	\$	\$	\$	\$
Net assets, June 30, 2003, as previously reported	388,820	1,173,745	1,033,892	191,894	2,788,351
Reclassification of District Support Trust	-	-	-	9,857	9,857
GASB Interpretation 6 adjustments	-	-	-	-	-
Net assets, July 1, 2003, as restated for Governmental funds	<u>388,820</u>	<u>1,173,745</u>	<u>1,033,892</u>	<u>201,751</u>	2,798,208
GASB 34 adjustments:					
Capital assets net of accumulated depreciation of \$2,154,059					625,106
Long-term liabilities:					
Capital loan notes				1,035,000	
Early retirement				<u>26,334</u>	(1,061,334)
Accrued interest payable					(4,832)
Deferred revenue					<u>174,369</u>
Net assets, July 1, 2003, as restated					<u>2,531,517</u>

REQUIRED SUPPLEMENTARY INFORMATION

NORTH KOSSUTH 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

Year ended June 30, 2004

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Receipts:						
Local sources	2,522,847	46,084	2,568,931	2,407,025	2,407,025	161,906
Intermediate sources	-	-	-	5,000	5,000	(5,000)
State sources	1,417,802	1,087	1,418,889	1,471,051	1,471,051	(52,162)
Federal sources	104,697	34,828	139,525	213,000	213,000	(73,475)
Total receipts	<u>4,045,346</u>	<u>81,999</u>	<u>4,127,345</u>	<u>4,096,076</u>	<u>4,096,076</u>	<u>31,269</u>
Disbursements:						
Instruction	2,417,277	-	2,417,277	2,738,600	2,738,600	321,323
Support services	1,099,049	-	1,099,049	1,367,000	1,367,000	267,951
Non-instructional programs	-	101,297	101,297	127,917	127,917	26,620
Other expenditures	2,146,553	-	2,146,553	1,780,328	1,780,328	(366,225)
Total disbursements	<u>5,662,879</u>	<u>101,297</u>	<u>5,764,176</u>	<u>6,013,845</u>	<u>6,013,845</u>	<u>249,669</u>
Excess (deficiency) of receipts over (under) disbursements	(1,617,533)	(19,298)	(1,636,831)	(1,917,769)	(1,917,769)	280,938
Other financing sources (uses) net	<u>(19,695)</u>	<u>20,000</u>	<u>305</u>	<u>1,000</u>	<u>1,000</u>	<u>(695)</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements	(1,637,228)	702	(1,636,526)	(1,916,769)	(1,916,769)	280,243
Balance beginning of year	<u>2,705,607</u>	<u>1,161</u>	<u>2,706,768</u>	<u>2,621,859</u>	<u>2,621,859</u>	<u>84,909</u>
Balance end of year	<u>1,068,379</u>	<u>1,863</u>	<u>1,070,242</u>	<u>705,090</u>	<u>705,090</u>	<u>365,152</u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
	\$	\$	\$
Revenues	4,045,346	2,566	4,047,912
Expenditures	5,662,879	86,644	5,749,523
Net	(1,617,533)	(84,078)	(1,701,611)
Other financing sources (uses) net	(19,695)	-	(19,695)
Beginning fund balances	2,705,607	92,601	2,798,208
Ending fund balances	1,068,379	8,523	1,076,902

	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
\$	\$	\$	
Revenues	81,999	(755)	81,244
Expenditures	101,297	2,661	103,958
Net	(19,298)	(3,416)	(22,714)
Other financing sources (uses) net	20,000	-	20,000
Beginning fund balances	1,161	18,625	19,786
Ending fund balances	1,863	15,209	17,072

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2004

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

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

During the year ended June 30, [2004](#), disbursements in the [other expenditures](#) function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2004

	<u>Special Revenue Funds</u>			<u>Total</u>
	Management Levy	Student Activity Fund	District Support Trust - Music Boosters	
Assets	\$	\$	\$	\$
Cash and pooled investments	93,051	45,425	14,559	153,035
Receivables:				
Property tax:				
Succeeding year	<u>12,000</u>	<u>-</u>	<u>-</u>	<u>12,000</u>
Total assets	<u><u>105,051</u></u>	<u><u>45,425</u></u>	<u><u>14,559</u></u>	<u><u>165,035</u></u>
Liabilities & Fund Balances				
Liabilities:				
Accounts payable	488	-	-	488
Deferred revenue:				
Succeeding year property tax	<u>12,000</u>	<u>-</u>	<u>-</u>	<u>12,000</u>
Total liabilities	<u>12,488</u>	<u>-</u>	<u>-</u>	<u>12,488</u>
Fund balances:				
Unreserved fund balance	<u>92,563</u>	<u>45,425</u>	<u>14,559</u>	<u>152,547</u>
Total liabilities and fund balances	<u><u>105,051</u></u>	<u><u>45,425</u></u>	<u><u>14,559</u></u>	<u><u>165,035</u></u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2004

	<u>Special Revenue Funds</u>				<u>Total</u>
	Management	Student	District	Debt	
	Levy	Activity	Support	Service	
	\$	Fund	Trust -	\$	\$
	\$	\$	Music	\$	\$
			Boosters		
Revenues:					
Local sources:					
Other	652	113,473	13,625	-	127,750
Expenditures:					
Current:					
Instruction:					
Regular instruction	12,543	-	8,923	-	21,466
Other instruction	-	111,682	-	-	111,682
Support services:					
Administration services	14,108	-	-	-	14,108
Operation and maintenance of plant services	22,467	-	-	-	22,467
Transportation services	7,231	-	-	-	7,231
Other expenditures:					
Long-term debt:					
Principal	-	-	-	100,000	100,000
Interest and fiscal charges	-	-	-	30,193	30,193
Total expenditures	56,349	111,682	8,923	130,193	307,147
Excess (deficiency) of revenues over (under) expenditures	(55,697)	1,791	4,702	(130,193)	(179,397)
Other financing sources (uses):					
Operating transfers in	-	-	-	130,193	130,193
Net change in fund balances	(55,697)	1,791	4,702	-	(49,204)
Fund balances beginning of year, as restated	148,260	43,634	9,857	-	201,751
Fund balances end of year	92,563	45,425	14,559	-	152,547

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance	Revenues	Expenditures	Balance End
	Beginning of			of Year
	Year			
	\$	\$	\$	\$
Athletics	9,997	56,824	55,947	10,874
Vocal	532	451	474	509
Instrumental	640	2,484	2,476	648
Band tour	5	-	-	5
Robe replacement	610	-	-	610
Band uniform replacement	455	-	-	455
MS student council	169	234	-	403
MS pals	152	-	-	152
MS yearbook	417	-	-	417
MS cheerleaders	508	-	-	508
MS athletics	22	875	746	151
MS science club	147	-	-	147
Activity tickets	-	2,055	2,055	-
Insurance	-	90	90	-
Interest	439	321	652	108
Voc. ag.	-	228	228	-
Computer	-	245	245	-
Shop resale	-	237	237	-
Home ec.	-	149	149	-
Art	-	159	159	-
Drama and speech	444	942	875	511
FFA	3,013	9,465	9,353	3,125
FFA scholarship CD	1,010	(10)	-	1,000
FCCLA	359	603	871	91
Student council-high school	4,562	2,449	2,222	4,789
National honor society	688	-	232	456
Annual	9,971	6,755	9,386	7,340
Pictures	138	-	-	138
Spanish club	68	5,975	2,997	3,046
Economics club	313	4,613	4,676	250
Voc. team club	137	200	337	-
FCA club	-	108	30	78
Elementary book club	1,482	2,119	1,982	1,619
Elementary read-a-thon	110	-	-	110
Business club	1,148	2,097	2,509	736
Quiz bowl	50	485	359	176
Science	331	-	-	331
Class of 2004	4,298	224	3,050	1,472
Class of 2005	1,327	8,908	7,392	2,843
Class of 2006	92	4,188	1,953	2,327
Total	43,634	113,473	111,682	45,425

See accompanying independent auditor's report.

NORTH KOSSUTH 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	2,056,297	1,932,775	1,602,568	1,537,163
Tuition	245,588	181,007	191,628	122,874
Other	199,033	179,151	176,906	138,798
Intermediate sources	-	-	-	1,000
State sources	1,410,097	1,354,393	2,422,117	1,401,335
Federal sources	136,897	129,676	158,622	139,341
Total revenues	<u>4,047,912</u>	<u>3,777,002</u>	<u>4,551,841</u>	<u>3,340,511</u>
Expenditures:				
Instruction:				
Regular instruction	1,317,154	1,387,550	1,418,713	1,327,050
Special instruction	737,332	699,569	656,110	641,649
Other instruction	363,522	317,076	337,308	311,077
Support services:				
Student services	46,247	43,304	91,807	88,187
Instructional staff services	74,736	47,592	45,496	80,530
Administration services	455,391	569,836	469,770	465,110
Operation and maintenances of plant services	230,455	177,960	219,368	242,662
Transportation services	288,779	225,289	240,836	198,251
Central support services	-	-	32,265	61,105
Non-instructional programs	-	-	5,389	-
Other expenditures:				
Facilities acquisition	1,972,927	247	33,544	5,000
Long-term debt:				
Principal	100,000	-	-	-
Interest and other charges	30,193	7,623	-	-
AEA flowthrough	132,787	135,998	137,349	140,659
Total expenditures	<u>5,749,523</u>	<u>3,612,044</u>	<u>3,687,955</u>	<u>3,561,280</u>

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

To the Board of Education of the
[North Kossuth](#) Community School District:

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

Compliance

As part of obtaining reasonable assurance about whether [North Kossuth](#) Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. [However, we noted certain immaterial instances of noncompliance that are described in Part II 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 our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved except for items [04-II-B](#) and [04-II-K](#).

Internal Control over Financial Reporting

In planning and performing our audit, we considered [North Kossuth](#) Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items [04-I-A](#) and [04-I-B](#) are material weaknesses. Prior year reportable conditions have all been resolved except for items [04-I-A](#) and [04-I-B](#).

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the [North Kossuth](#) 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.

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

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

[November 12, 2004](#)

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

04-I-A Segregation of Duties: The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although we noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

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

District Response: The District is aware of the lack of complete segregation of duties and will make changes as the opportunity arises.

Conclusion: Response accepted.

04-I-B Check Signatures: We noted that checks are being signed for the board secretary and board president, by the District's accounting software. This practice negates the control procedure established by requiring two signatures on checks.

Recommendation: We recommend that this practice cease. The Board may designate a person other than the Board President to cosign checks.

District Response: We will review the practice of having the accounting software print checks with signatures.

Conclusion: Response accepted.

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

04-II-A 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.

04-II-B Certified Budget: Disbursements for the year ended June 30, 2004, exceeded the amount budgeted in the other expenditures 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.

District Response: We will amend future budgets before disbursements exceed the budget.

Conclusion: Response accepted.

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

04-II-D Travel Expenses: 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.

04-II-E Business Transactions: We noted no transactions between the District and District officials or employees.

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

04-II-G Board Minutes: We noted no transactions requiring Board approval that had not been approved by the Board.

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

04-II-I Deposits and Investments: We 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.

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

04-II-K Reclassification of Student Activity Fund Accounts: The Student Activity Fund is to be used to account for the District's extra-curricular student activity program. There are some accounts in the Student Activity Fund that are not for extra-curricular student activities.

Recommendation: We recommend these accounts be reviewed and transferred to the proper fund.

District Response: We will review the accounts and make any necessary adjustments.

Conclusion: Response accepted.