

**NORTHWOOD-KENSETT COMMUNITY SCHOOL
DISTRICT**

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

June 30, 2004

Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-16
Basic Financial Statements:	<u>Exhibit</u>	
Government-Wide Financial Statements:		
Statement of Net Assets	A	18-19
Statement of Activities	B	20-21
Governmental Fund Financial Statements:		
Balance Sheet	C	22
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	23
Statement of Revenues, Expenditures and Changes in Fund Balances	E	24
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	25
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	26
Statement of Revenues, Expenses, and Changes in Net Assets	H	27
Statement of Cash Flows	I	28
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	29
Statement of Changes in Fiduciary Net Assets	K	30
Notes to Financial Statements		31-40
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund		42
Budget to GAAP Reconciliation		43
Notes to Required Supplementary Information - Budgetary Reporting		44
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	46
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	47
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	48-49
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	4	50
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	5	51
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		52-53
Schedule of Findings		54-57

Independent Auditor's Report

To the Board of Education of
[Northwood-Kensett](#) 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 [Northwood-Kensett](#) Community School District, [Northwood](#), 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 [Northwood-Kensett](#) 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, [Northwood-Kensett](#) 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 18, 2004](#), on our consideration of [Northwood-Kensett](#) 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 16 and 42 through 44 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. 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 Northwood-Kensett 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 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in 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 18, 2004

Management Discussion & Analysis

Northwood-Kensett 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 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.

Financial Highlights

General Fund revenues decreased from \$3,810,589 in fiscal 2003 to \$3,786,643 in fiscal 2004, while General Fund expenditures increased from \$3,638,113 in fiscal 2003 to \$3,922,329 in fiscal 2004. The District's General Fund balance decreased from \$362,661 in fiscal 2003 to \$227,002 in fiscal 2004, a 37% decrease.

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

A decline in interest rates during the past three fiscal years combined with less cash available for investing resulted in interest earnings in the General Fund alone to drop from \$9,444 in fiscal year 2003 to \$7,242 in fiscal year 2004.

We're in our 7th year of a 20 year Debt Service on New Elementary Construction and Junior/Senior Remodeling Project, which ends in 2017 for 3,765,000.

In March, 2004, the Worth County voters approved a 1% Local Option Sales Tax for 10 years with revenue to begin in July, 2004. One-half is designated for school infrastructure and one-half is to be used for debt service reduction.

Wind Turbine – In March of 2004, the District purchased a wind turbine for \$60,000. The purchase was financed by a \$135,000 Energy Loan. One-half of the loan has a 4.38% rate, and the other one-half of the loan is interest free. The turbine will be moved and placed on school property during fiscal year 2005.

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 the Northwood-Kensett 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 Northwood-Kensett 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 Northwood-Kensett 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 Special Revenue Funds.

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 Financial 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 is included here	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 cash flows • Statement of Revenues, Expenses, and Changes in Net Assets 	<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 focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	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 differences 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:

- *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 funds statements provide a detailed short-term view that helps you 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.

- *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 District-wide 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.

- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. Those funds include Private-Purpose Trust and *Agency Funds*.
- The Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other entities and the Empowerment Program, whereby the District acts as the fiscal agent.

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

Figure A-3

Condensed Statement of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Percentage Change
	2004	2003	2004	2003	2004	2003	2003-2004
	\$	\$	\$	\$	\$	\$	%
Current and other assets	2,645,806	3,516,024	4,150	25,867	2,649,956	3,541,891	-25.2
Capital assets	4,587,107	4,352,174	23,468	29,538	4,610,575	4,381,712	5.2
Total Assets	7,232,913	7,868,198	27,618	55,405	7,260,531	7,923,603	-8.4
Current liabilities	2,066,087	2,640,421	5,043	7,070	2,071,130	2,647,491	-21.8
Long-term liabilities	3,218,665	3,323,837	-	-	3,218,665	3,323,837	-3.2
Total liabilities	5,284,752	5,964,258	5,043	7,070	5,289,795	5,971,328	-11.4
Net Assets:							
Invested in capital assets, Net of related debt	1,457,075	1,137,975	23,468	29,538	1,480,543	1,167,513	26.8
Restricted	228,337	386,746	-	-	228,337	386,746	-41.0
Unrestricted	262,749	379,219	(893)	18,797	261,856	398,016	-34.2
TOTAL NET ASSETS	1,948,161	1,903,940	22,575	48,335	1,970,736	1,952,275	.9

The District's total net assets increased by nearly 1 % or approximately \$18,641 over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$158,409, or 41% over the prior year. The decrease was primarily a result of increased 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 approximately \$136,160, or 34.2%. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

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

Figure A-4

Changes in Net Assets from Operating Results

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total School District</u>
	<u>2004</u>	<u>2004</u>	<u>2004</u>
	\$	\$	\$
Revenues			
Program Revenues			
Charges for services	279,407	128,932	408,339
Operating Grants & Contributions	429,350	87,846	517,196
Capital Grants & Contributions	51,250	-	51,250
General Revenues			
Property taxes & income surtax	2,151,863	-	2,151,863
Unrestricted State Grants	1,608,100	-	1,608,100
Unrestricted Investment Earnings	14,026	78	14,104
Other Revenue	1,368	(738)	630
Total Revenues	4,535,364	216,118	4,751,482
Expenses			
Instruction	2,789,637	-	2,789,637
Support Services	1,178,283	-	1,178,283
Non-Instructional Programs	-	241,878	241,878
Other Expenses	523,223	-	523,223
Total Expenses	4,491,143	241,878	4,733,021
Change in Net Assets	44,221	(25,760)	18,461

Property tax, income surtax and unrestricted state grants account for 79.1% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 83.8% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$4,535,364 and expenses were \$4,491,143. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities. The table shows each activity's net cost (total cost, less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions. (As with *Figure A-4*, a two-year comparison with the prior fiscal year is not possible under the new GASB 34 format. In the future a two-year comparison will be provided.)

Figure A-5

Net Cost of Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004
	<u> </u>	<u> </u>
	\$	\$
Instruction	2,789,637	2,242,559
Support Services	1,178,283	1,169,222
Non-instructional Programs	-	-
Other Expenses	523,223	319,355
TOTAL	<u>4,491,143</u>	<u>3,731,136</u>

The cost financed by users of the District's programs was \$279,407.

The federal and state government subsidized certain programs with grants and contributions totaling \$480,600.

The net cost of governmental activities was financed with \$2,151,863 in property and income surtaxes and \$1,608,100 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$216,118 and expenses were \$241,878 resulting in a negative \$25,760 change in net assets. 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.

A meal price increase and an ala carte program will go in effect for the fiscal year 2005 to keep this fund a self sufficient fund.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Northwood-Kensett 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 \$507,413, well below last year's ending fund balances of \$803,592.

Governmental Fund Highlights

The District's General Fund financial position is the result of a decrease in state foundation aid that was announced by the State of Iowa after the District had made commitments for fiscal year 2004 expenditures. The District used its carryover fund balance to meet its financial obligations during the year.

The General Fund balance decreased from \$362,661 to \$227,002, due in part to the prior year reduction in state aid and existing expenditure commitments of the District.

The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$224,042 in fiscal 2003 to \$138,756 in fiscal year 2004. While revenues remained approximately the same, the District used current revenues and a portion of the prior year fund balance carry over to complete roof replacement projects and purchase equipment.

The District Support Trust Funds include donations that have been received by the District that must be used for a specific purpose. During fiscal years 2003 and 2004 the District received \$92,000 of donations that were to be used for a technology center. This money was used to purchase computers and technology equipment during fiscal year 2004.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$48,335 at June 30, 2003 to \$22,575 at June 30, 2004, representing a decrease of approximately 53%.

Budgetary Highlights

The District's receipts were \$145,095 more than budgeted receipts, a variance of 3.1%. The most significant variance resulted from the District receiving less in state aid and more in federal aid than originally anticipated.

Total expenditures were more than budgeted, the certified budget was exceeded in the instruction by \$216,891; in the support services by \$8,172; in the non-instructional programs by \$24,823 and in other expenditures functional areas by \$386,362 for a total of \$636,248. Expenditures are to be budgeted at the maximum authorized spending authority for the General Fund. General Fund spending is then managed or controlled through the line-item budget. The District's certified budget should always exceed actual expenditures for the year. Expenditures are to be watched more closely so the budget can be amended in a timely manner.

Spending Authority

School districts have two levels of budgetary control. One form of budgetary control exists through the "certified budget", which includes all funds of the District as noted above. This budget is certified with the County Auditor and Department of Management each year. Iowa school districts may not certify a general fund budget in excess of its spending authority.

The other level of budgetary control is the "unspent (maximum) authorized budget" and pertains only to the General Fund of the District. The maximum authorized budget is the total "spending authority" in the General Fund of the District. The unspent balance is a budgetary concept and does not mean the "actual General Fund cash". It is imperative for users of District financial information to make this important distinction. The unspent balance is the amount of spending authority that is carried over into the next fiscal year. The unspent balance is a budgetary carryover and does not represent actual dollars

(General Fund cash) or actual financial position (unreserved, undesignated General Fund balance) of the District.

Capital Asset and Debt Administration

Capital Assets

By the end of fiscal 2004, the District had invested \$4,610,575 net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers and audio-visual equipment, and transportation equipment. (See Figure A-6) This amount represents a net increase of from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$205,204.

During fiscal year 2004 the District completed \$295,500 of roof repairs and fire safety improvements. The District also purchased \$124,000 of computers and technology equipment, \$88,000 of transportation equipment, \$28,000 of maintenance equipment, \$14,000 of vocational education equipment, and \$12,000 of musical instruments during 2004.

During 2004 the District invested \$88,144 in wind turbine. Costs of approximately \$160,000 will be incurred in fiscal year 2005 to complete the project.

Figure A-6

Capital Assets (net of depreciation)

	Governmental Activities		Business--type Activities		Total School District		Total % Change 2003-04
	2003	2004	2003	2004	2003	2004	
	Land	36,425	36,425	-	-	36,425	
Construction in progress	189,275	88,144	-	-	189,275	88,144	-53.4
Buildings	3,928,827	4,049,508	-	-	3,928,827	4,049,508	3.1
Improvements other than buildings	56,842	56,500	-	-	56,842	56,500	-.6
Equipment & Furniture	140,805	356,530	29,538	23,468	170,343	379,998	123.1
TOTAL	4,352,174	4,587,107	29,538	23,468	4,381,712	4,610,575	5.2

Long-Term Debt

At year-end, the district had \$3,218,665 in general obligation debt and other long-term debt outstanding. This represents a decrease of 3.2% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

Figure A-7

Outstanding Long-Term Obligations

	Total District		Total Change
	June 30,		June 30,
	2004	2003	2003-2004
General obligation bonds	2,915,000	3,075,000	-160,000
Energy loans	183,460	77,418	106,042
Capital leases	31,572	61,781	-30,209
Early retirement	73,105	94,138	-21,033
Compensated absences	15,528	15,500	28
Totals	3,218,665	3,323,837	-105,172

Economic Factors Bearing on the District's Future

Economic factors that will have an effect on the district include increases in taxable valuations, increases in health insurance premiums, and increases in salaries and benefits for employees. Additionally, the installation of a Wind Turbine, to be completed by August 2005, will have a tremendous economic benefit for the district. The most recent fire inspection report listed deficiencies that need to be corrected within three years.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and 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: Karen Abrahams, Business Manager; Board Secretary, Northwood-Kensett Community Schools, 1200 1st Avenue North, P.O. Box 289, Northwood, IA 50459-0289.

BASIC FINANCIAL STATEMENTS

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business Type	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	465,690	-	465,690
Receivables:			
Property tax:			
Delinquent	55,960	-	55,960
Succeeding year	2,012,424	-	2,012,424
Accrued interest	541	-	541
Interfund receivable/payable	(1,005)	1,005	-
Due from Agency Fund	1,764	-	1,764
Due from other governments	110,432	-	110,432
Inventories	-	3,145	3,145
Capital assets, net of accumulated depreciation	4,587,107	23,468	4,610,575
Total assets	7,232,913	27,618	7,260,531
Liabilities			
Warrants issued in excess of bank balances	-	3,033	3,033
Accounts payable	40,431	200	40,631
Accrued interest payable	13,232	-	13,232
Deferred revenue:			
Succeeding year property tax	2,012,424	-	2,012,424
Other	-	1,810	1,810
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	165,000	-	165,000
Energy capital loan notes	28,506	-	28,506
Capital leases	31,572	-	31,572
Early retirement	19,506	-	19,506
Compensated absences	1,050	-	1,050
Portion due after one year:			
General obligation bonds payable	2,750,000	-	2,750,000
Energy capital loan notes	154,954	-	154,954
Early retirement	53,599	-	53,599
Compensated absences	14,478	-	14,478
Total Liabilities	5,284,752	5,043	5,289,795

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business Type	Total
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Net assets			
Invested in capital assets, net of related debt	1,457,075	23,468	1,480,543
Restricted for:			
Physical plant and equipment levy	138,756	-	138,756
Other special revenue purposes	74,879	-	74,879
Debt service	14,702	-	14,702
Unrestricted	<u>262,749</u>	<u>(893)</u>	<u>261,856</u>
Total net assets	<u><u>1,948,161</u></u>	<u><u>22,575</u></u>	<u><u>1,970,736</u></u>

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

Functions/Programs	<u>Program Revenues</u>			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	1,769,479	154,014	187,359	-
Special instruction	613,428	-	79,689	-
Other instruction	406,730	116,332	9,684	-
	<u>2,789,637</u>	<u>270,346</u>	<u>276,732</u>	<u>-</u>
Support services:				
Student services	128,773	-	-	-
Instructional staff services	123,543	-	-	-
Administration services	427,141	-	-	-
Operation and maintenance of plant services	329,586	2,271	-	-
Transportation services	169,240	6,790	-	-
	<u>1,178,283</u>	<u>9,061</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	77,095	-	-	51,250
Long-term debt interest	156,143	-	1,133	-
AEA flowthrough	151,485	-	151,485	-
Depreciation (unallocated)*	138,500	-	-	-
	<u>523,223</u>	<u>-</u>	<u>152,618</u>	<u>51,250</u>
Total governmental activities	4,491,143	279,407	429,350	51,250
Business type activities				
Non-instructional programs:				
Food service operations	241,878	128,932	87,846	-
Total	<u>4,733,021</u>	<u>408,339</u>	<u>517,196</u>	<u>51,250</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Debt service				
Capital outlay				
Income surtax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				

Change in net assets

Net assets beginning of year, as restated

Net assets end of year

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

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
(1,428,106)	-	(1,428,106)
(533,739)	-	(533,739)
(280,714)	-	(280,714)
<u>(2,242,559)</u>	<u>-</u>	<u>(2,242,559)</u>
(128,773)	-	(128,773)
(123,543)	-	(123,543)
(427,141)	-	(427,141)
(327,315)	-	(327,315)
(162,450)	-	(162,450)
<u>(1,169,222)</u>	<u>-</u>	<u>(1,169,222)</u>
(25,845)	-	(25,845)
(155,010)	-	(155,010)
-	-	-
(138,500)	-	(138,500)
<u>(319,355)</u>	<u>-</u>	<u>(319,355)</u>
(3,731,136)	-	(3,731,136)
-	(25,100)	(25,100)
<u>(3,731,136)</u>	<u>(25,100)</u>	<u>(3,756,236)</u>
1,615,067	-	1,615,067
306,243	-	306,243
154,627	-	154,627
75,926	-	75,926
1,608,100	-	1,608,100
14,026	78	14,104
1,368	(738)	630
<u>3,775,357</u>	<u>(660)</u>	<u>3,774,697</u>
44,221	(25,760)	18,461
<u>1,903,940</u>	<u>48,335</u>	<u>1,952,275</u>
<u>1,948,161</u>	<u>22,575</u>	<u>1,970,736</u>

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2004

	General Fund	Debt Service	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments	199,502	19,961	134,678	111,549	465,690
Receivables:					
Property tax:					
Delinquent	41,778	7,973	4,078	2,131	55,960
Succeeding year	1,489,347	307,250	140,827	75,000	2,012,424
Accrued interest	500	-	-	41	541
Interfund receivable/payable	(1,005)	-	-	-	(1,005)
Due from Agency Fund	1,764	-	-	-	1,764
Due from other governments	110,432	-	-	-	110,432
Total assets	1,842,318	335,184	279,583	188,721	2,645,806
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	40,431	-	-	-	40,431
Deferred revenue:					
Succeeding year property tax	1,489,347	307,250	140,827	75,000	2,012,424
Other	85,538	-	-	-	85,538
Total liabilities	1,615,316	307,250	140,827	75,000	2,138,393
Fund balances:					
Reserved for:					
Iowa early intervention block grant	8,828	-	-	-	8,828
Debt service	-	27,934	-	-	27,934
Unreserved	218,174	-	138,756	113,721	470,651
Total fund balances	227,002	27,934	138,756	113,721	507,413
Total liabilities and fund balances	1,842,318	335,184	279,583	188,721	2,645,806

NORTHWOOD-KENSETT 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)	507,413
<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.	4,587,107
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	85,538
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	(13,232)
Long-term liabilities, including bonds payable, notes payable, early retirement benefits and compensated absences are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(3,218,665)</u>
Net assets of governmental activities (Exhibit A)	<u><u>1,948,161</u></u>

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	General Fund	Debt Service	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	1,619,751	306,428	154,720	73,381	2,154,280
Tuition	64,500	-	-	-	64,500
Other	68,762	1,133	1,845	154,826	226,566
State sources	1,884,672	241	122	52	1,885,087
Federal sources	148,958	-	51,250	2,272	202,480
Total revenues	<u>3,786,643</u>	<u>307,802</u>	<u>207,937</u>	<u>230,531</u>	<u>4,532,913</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	1,708,983	-	-	173,719	1,882,702
Special instruction	642,003	-	-	-	642,003
Other instruction	293,389	-	-	115,991	409,380
	<u>2,644,375</u>	<u>-</u>	<u>-</u>	<u>289,710</u>	<u>2,934,085</u>
Support services:					
Student services	128,773	-	-	-	128,773
Instructional staff services	123,543	-	-	-	123,543
Administration services	416,141	-	-	11,000	427,141
Operation and maintenance of plant services	322,859	-	-	800	323,659
Transportation services	135,151	-	-	2,127	137,278
	<u>1,126,467</u>	<u>-</u>	<u>-</u>	<u>13,927</u>	<u>1,140,394</u>
Other expenditures:					
Facilities acquisition	-	-	361,474	-	361,474
Long-term debt:					
Principal	-	219,167	-	-	219,167
Interest and fiscal charges	-	157,512	-	-	157,512
AEA flowthrough	151,485	-	-	-	151,485
	<u>151,485</u>	<u>376,679</u>	<u>361,474</u>	<u>-</u>	<u>889,638</u>
Total expenditures	<u>3,922,327</u>	<u>376,679</u>	<u>361,474</u>	<u>303,637</u>	<u>4,964,117</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(135,684)</u>	<u>(68,877)</u>	<u>(153,537)</u>	<u>(73,106)</u>	<u>(431,204)</u>
Other financing sources (uses):					
Proceeds from long-term loans	-	-	135,000	-	135,000
Sales of materials and equipment	25	-	-	-	25
Operating transfers in	-	66,749	-	-	66,749
Operating transfers out	-	-	(66,749)	-	(66,749)
Total other financing sources (uses)	<u>25</u>	<u>66,749</u>	<u>68,251</u>	<u>-</u>	<u>135,025</u>
Net change in fund balances	(135,659)	(2,128)	(85,286)	(73,106)	(296,179)
Fund balances beginning of year, as restated	362,661	30,062	224,042	186,827	803,592
Fund balances end of year	<u>227,002</u>	<u>27,934</u>	<u>138,756</u>	<u>113,721</u>	<u>507,413</u>

See notes to financial statements.

NORTHWOOD-KENSETT 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)		(296,179)
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
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	431,566	
Depreciation expense	<u>(200,133)</u>	231,433
A revenue is recorded in the Statement of Activities for the value of donated equipment, a revenue is not recognized in the fund financial statements		3,500
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.		(1,074)
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.		219,167
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.		1,369
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	\$ 21,033	
Compensated absences	<u>(28)</u>	21,005
Proceeds from issuing long-term liabilities are included in the governmental funds but increase long-term liabilities in the Statement of Net Assets.		<u>(135,000)</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>44,221</u></u>

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2004

	Nonmajor School Nutrition
	<u> </u>
	\$
Assets	
Interfund receivable	1,005
Inventories	3,145
Capital assets, net of accumulated depreciation	<u>23,468</u>
Total assets	<u>27,618</u>
Liabilities	
Accounts payable	200
Warrants issued in excess of bank balance	3,033
Deferred revenue	<u>1,810</u>
Total liabilities	<u>5,043</u>
Net assets	
Invested in capital assets, net of related debt	23,468
Unrestricted	<u>(893)</u>
Total net assets	<u><u>22,575</u></u>

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Fund

Year ended June 30, 2004

	<u>Nonmajor School Nutrition</u> \$
Operating revenue:	
Local sources:	
Charges for service	<u>128,932</u>
Operating expenses:	
Non-instructional programs:	
Salaries	78,009
Benefits	29,942
Purchased services	4,692
Supplies	122,680
Depreciation	5,071
Other	<u>1,484</u>
	<u>241,878</u>
Operating gain (loss)	<u>(112,946)</u>
Non-operating revenue:	
State sources	3,537
Federal sources	84,309
Loss on sale of equipment	(738)
Interest income	78
Total non-operating revenue	<u>87,186</u>
Change in net assets	(25,760)
Net assets beginning of year	<u>48,335</u>
Net assets end of year	<u><u>22,575</u></u>

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2004

	Nonmajor School Nutrition \$
Cash flows form operating activities:	
Cash received from sale of lunches and breakfasts	129,803
Cash payments to employees for services	(107,951)
Cash payments to suppliers for goods or services	(113,900)
Net cash used by operating activities	<u>(92,048)</u>
Cash flows from non-capital financing activities:	
State grants received	3,537
Federal grants received	70,448
Net cash provided by non-capital financing activities	<u>73,985</u>
Cash flows from capital and related financing activities:	
Loans to other funds	(1,005)
Sale of capital assets	1,005
Acquisition of capital assets	(5,228)
Net cash used by capital and related financing activities	<u>(5,228)</u>
Cash flows from investing activities:	
Interest on investments	<u>78</u>
Net increase (decrease) in cash and cash equivalents	(23,213)
Cash and cash equivalents at beginning of year	<u>20,180</u>
Cash and cash equivalents at end of year	<u><u>(3,033)</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(112,946)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	13,861
Depreciation	5,071
Decrease (increase) in inventories	1,763
Decrease (increase) in accounts receivable	779
(Decrease) increase in accounts payable	(668)
(Decrease) increase in deferred revenue	92
Net cash used in operating activities	<u><u>(92,048)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$13,861 of federal commodities.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2004

	Private Purpose Trust Scholarship	Agency
	<u>\$</u>	<u>\$</u>
Assets		
Cash and pooled investments	375,739	-
Accrued interest receivable	1,327	-
Due from other governments	-	1,764
	<u>377,066</u>	<u>1,764</u>
Total Assets		
Liabilities		
Due to General Fund	-	1,764
	<u>-</u>	<u>1,764</u>
Net Assets		
Reserved for scholarships	<u>377,066</u>	<u>-</u>

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Fund

Year ended June 30, 2004

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	1,000
Investment revenue	<u>7,616</u>
Total additions	8,616
Deductions:	
Support services:	
Scholarships awarded	<u>17,000</u>
Change in net assets	(8,384)
Net assets beginning of year	<u>385,450</u>
Net assets end of year	<u><u>377,066</u></u>

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2004

1. Summary of Significant Accounting Policies

Northwood-Kensett 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 Northwood and Kensett, Iowa and the predominately agricultural territory in a portion of Worth 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, Northwood-Kensett 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 Northwood-Kensett 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 Debt Service Fund is utilized to account for the payment of interest and principal on the District's long-term debt.

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

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

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations, and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and 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	30,000
Improvements other than buildings	30,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,500

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	20 years
Furniture and equipment	5-12 years

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

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements 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, who have been with the District for five years may accumulate a limited amount of earned but unused sick leave days for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General fund.

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

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

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

E. 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 instruction, support services, non-instructional programs and other expenditures functions exceeded the amounts 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's investments are categorized to give an indication of the level of risk assumed by the District at year end. The District's investments are all category 1 which means that the investments are insured or registered or the securities are held by the District or its agent in the District's name.

Investments are stated at fair market value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates.

The District's investments at [June 30, 2004](#), are as follows:

<u>Type</u>	<u>Fair Value</u>
	\$
Corporate bonds	286,780

3. Interfund Receivables and Payables

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 Fund	Agency Fund	1,764
Enterprise: School Nutrition Fund	General Fund	1,005

The interfund receivable/payable balances represent transactions between the funds that will be reimbursed within the next year.

4. Interfund Transfers

The detail of interfund transfers for the year ended June 30, [2004](#) is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
		\$
Debt Service Fund	Special Revenue: Physical Plant and Equipment Levy Fund	66,749

This transfer moved revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

5. 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	189,275	88,144	189,275	88,144
Land	36,425	-	-	36,425
Total capital assets not being depr.	<u>225,700</u>	<u>88,144</u>	<u>189,275</u>	<u>124,569</u>
Capital assets being depreciated:				
Buildings	5,620,952	255,383	-	5,876,335
Improvements other than buildings	76,381	3,456	-	79,837
Furniture and equipment	774,351	277,358	56,815	994,894
Total capital assets being deprec.	<u>6,471,684</u>	<u>536,197</u>	<u>56,815</u>	<u>6,951,066</u>
Less accumulated depreciation for:				
Buildings	1,692,125	134,702	-	1,826,827
Improvements other than buildings	19,539	3,798	-	23,337
Furniture and equipment	633,546	61,633	56,815	638,364
Total accumulated depreciation	<u>2,345,210</u>	<u>200,133</u>	<u>56,815</u>	<u>2,488,528</u>
Total capital assets being depreciated, net	<u>4,126,474</u>	<u>336,064</u>	<u>-</u>	<u>4,462,538</u>
Governmental activities capital assets, net	<u>4,352,174</u>	<u>424,208</u>	<u>189,275</u>	<u>4,587,107</u>
Business type activities:				
Furniture and equipment	69,600	744	3,463	66,861
Less accumulated depreciation	<u>40,062</u>	<u>5,071</u>	<u>1,740</u>	<u>43,393</u>
Business type activities capital assets, net	<u>29,538</u>	<u>(4,327)</u>	<u>1,723</u>	<u>23,468</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	21,465
Special	929
Other	1,350
Support Services:	
Operation and maintenance of plant services	5,927
Transportation	31,962
	<u>61,633</u>
Unallocated depreciation	<u>138,500</u>
Total depreciation expense – governmental activities	<u>200,133</u>
Business type activities:	
Food services	<u>5,071</u>

6. 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	3,075,000	-	160,000	2,915,000	165,000
Energy capital loan notes	77,418	135,000	28,958	183,460	28,506
Capital leases	61,781	-	30,209	31,572	31,572
Early retirement	94,138	-	21,033	73,105	19,506
Compensated absences	15,500	28	-	15,528	1,050
Total	3,323,837	135,028	240,200	3,218,665	245,634

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 are based on [the difference between the employee's current base salary and the starting base salary](#). Early retirement expenditures for the year ended June 30, 2004 totaled \$21,033.

General Obligation Bonds Payable

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

Year Ending June 30,	Bond Issue of May, 1998			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2005	5.00	165,000	141,950	306,950
2006	5.10	175,000	134,030	309,030
2007	5.15	185,000	125,630	310,630
2008	5.25	190,000	116,750	306,750
2009	5.35	200,000	107,630	307,630
2010-2014	5.45-5.65	1,160,000	383,835	1,543,835
2015-2017	5.70-5.80	840,000	85,235	925,235
		<u>2,915,000</u>	<u>1,095,060</u>	<u>4,010,060</u>

Energy Capital Loan Notes

The District issued \$90,000 and \$135,000 of Energy Management Capital Loan Notes during the year ended June 30, 2003 and 2004. The proceeds from the loan were used to implement an energy conservation program and purchase a wind turbine. The first \$90,000 of notes bear interest at 3.96%, the second \$67,500 of notes bear interest at 4.38 % and the third \$67,500 of notes are interest free. The final payment on all of the notes is in 2010. The notes and interest will be paid from the Special Revenue, Physical Plant and Equipment Levy Fund. The notes are payable as follows:

Year ended June 30,	Series 1		Series 2		Series 3		Total
	Principal \$	Interest \$	Principal \$	Interest \$	Principal \$	Interest \$	
2005	10,202	2,677	8,661	2,540	9,643	-	33,723
2006	10,606	2,273	9,040	2,161	9,643	-	33,723
2007	11,027	1,853	9,436	1,765	9,643	-	33,724
2008	11,463	1,416	9,850	1,352	9,643	-	33,724
2009	11,917	963	10,281	920	9,643	-	33,724
2010	12,389	491	10,731	470	9,642	-	33,723
	<u>67,604</u>	<u>9,673</u>	<u>57,999</u>	<u>9,208</u>	<u>57,857</u>	<u>-</u>	<u>202,341</u>

Capital Leases

The District has leased buses under a capital lease. The following is a schedule of future minimum lease payments under the capital lease, together with the net present value of the minimum lease payments as of June 30, 2004.

	<u>Year Ending June 30,</u>	<u>Amount</u>
		\$
	2005	33,025
Less amount representing interest		<u>1,453</u>
Present value of minimum lease Payments		<u><u>31,572</u></u>

7. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, 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 \$139,502, \$130,256, and \$133,254 respectively, equal to the required contributions for each year.

8. Risk Management

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

9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$151,485 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

10. Construction Commitment

During the year ended June 30, 2004 the District purchased a wind turbine. The turbine will be moved and placed on school property during fiscal year 2005. The District has issued energy capital loan notes to finance the project.

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:

	General	Debt Service	PPEL	Nonmajor	Total
	\$	\$	\$	\$	\$
Net assets, June 30, 2003					
As previously reported	362,661	30,062	224,042	91,320	708,085
Reclassification of District Support Trusts	-	-	-	93,307	93,307
GASB Interpretation 6 adjustments	-	-	-	2,200	2,200
Net assets, July 1, 2003, as restated for Governmental funds	<u>362,661</u>	<u>30,062</u>	<u>224,042</u>	<u>186,827</u>	<u>803,592</u>
GASB 34 adjustments:					
Capital assets net of accumulated Depreciation of \$2,345,210					4,352,174
Long-term liabilities:					
Bonds				3,075,000	
Energy capital loan notes				77,418	
Capital leases				61,781	
Compensated absences				15,500	
Early retirement				<u>94,138</u>	(3,323,837)
Accrued interest payable					(14,601)
Deferred revenue					<u>86,612</u>
Net assets, July 1, 2003 as restated					<u>1,903,940</u>

REQUIRED SUPPLEMENTARY INFORMATION

NORTHWOOD-KENSETT 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	2,428,297	129,881	2,558,178	2,517,245	2,517,245	40,933
State sources	1,881,961	3,537	1,885,498	1,987,031	1,987,031	(101,533)
Federal sources	308,374	84,309	392,683	186,988	186,988	205,695
Total receipts	<u>4,618,632</u>	<u>217,727</u>	<u>4,836,359</u>	<u>4,691,264</u>	<u>4,691,264</u>	<u>145,095</u>
Disbursements:						
Instruction	2,911,891	-	2,911,891	2,695,000	2,695,000	(216,891)
Support services	1,141,172	-	1,141,172	1,133,000	1,133,000	(8,172)
Non-instructional programs	-	240,940	240,940	216,117	216,117	(24,823)
Other expenditures	958,661	-	958,661	572,299	572,299	(386,362)
Total disbursements	<u>5,011,724</u>	<u>240,940</u>	<u>5,252,664</u>	<u>4,616,416</u>	<u>4,616,416</u>	<u>(636,248)</u>
Excess (deficiency) of receipts over (under) disbursements	(393,092)	(23,213)	(416,305)	74,848	74,848	(491,153)
Other financing sources (uses) net	<u>134,266</u>	<u>-</u>	<u>134,266</u>	<u>-</u>	<u>-</u>	<u>134,266</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements	(258,826)	(23,213)	(282,039)	74,848	74,848	(356,887)
Balance beginning of year	<u>724,516</u>	<u>20,180</u>	<u>744,696</u>	<u>1,066,413</u>	<u>1,066,413</u>	<u>(321,717)</u>
Balance end of year	<u><u>465,690</u></u>	<u><u>(3,033)</u></u>	<u><u>462,657</u></u>	<u><u>1,141,261</u></u>	<u><u>1,141,261</u></u>	<u><u>(678,604)</u></u>

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2004

	<u>Governmental Funds</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Modified Accrual Basis</u>
	\$	\$	\$
Revenues	4,618,632	(85,719)	4,532,913
Expenditures	5,011,724	(47,607)	4,964,117
Net	(393,092)	(38,112)	(431,204)
Other financing sources (uses) net	134,266	759	135,025
Beginning fund balances	724,516	79,076	803,592
Ending fund balances	<u>465,690</u>	<u>41,723</u>	<u>507,413</u>
	<u>Proprietary Fund</u>		
	<u>Enterprise</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
	\$	\$	\$
Revenues	217,727	(871)	216,856
Expenditures	240,940	1,676	242,616
Net	(23,213)	(2,547)	(25,760)
Other financing sources (uses) net	-	-	-
Beginning fund balances	20,180	28,155	48,335
Ending fund balances	<u>(3,033)</u>	<u>25,608</u>	<u>22,575</u>

NORTHWOOD-KENSETT 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 [instruction, support services, non-instructional programs and other expenditures](#) functions exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2004

	Special Revenue Funds			Total
	Management Levy	Student Activity Fund	District Support Trust Funds	
Assets	\$	\$	\$	\$
Cash and pooled investments	36,711	53,677	21,161	111,549
Receivables:				
Property tax:				
Delinquent	2,131	-	-	2,131
Succeeding year	75,000	-	-	75,000
Accrued interest	-	-	41	41
Total assets	<u>113,842</u>	<u>53,677</u>	<u>21,202</u>	<u>188,721</u>
Liabilities & Fund Balances				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	75,000	-	-	75,000
Fund balances:				
Unreserved fund balance	<u>38,842</u>	<u>53,677</u>	<u>21,202</u>	<u>113,721</u>
Total liabilities and fund balances	<u>113,842</u>	<u>53,677</u>	<u>21,202</u>	<u>188,721</u>

NORTHWOOD-KENSETT 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	
	Levy	Activity	Support	
	\$	Fund	Trust	\$
	\$	\$	Funds	\$
Revenues:				
Local sources:				
Local tax	73,381	-	-	73,381
Other	19,068	113,460	22,298	154,826
State sources	52	-	-	52
Federal sources	-	2,272	-	2,272
Total revenues	<u>92,501</u>	<u>115,732</u>	<u>22,298</u>	<u>230,531</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	79,316	-	94,403	173,719
Other instruction	-	115,991	-	115,991
Support services:				
Administration services	11,000	-	-	11,000
Operation and maintenance of plant services	800	-	-	800
Transportation services	2,127	-	-	2,127
Total expenditures	<u>93,243</u>	<u>115,991</u>	<u>94,403</u>	<u>303,637</u>
Excess (deficiency) of revenues over (under) expenditures	(742)	(259)	(72,105)	(73,106)
Fund balances beginning of year, as restated	<u>39,584</u>	<u>53,936</u>	<u>93,307</u>	<u>186,827</u>
Fund balances end of year	<u><u>38,842</u></u>	<u><u>53,677</u></u>	<u><u>21,202</u></u>	<u><u>113,721</u></u>

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Intra- Fund Transfers</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$	\$
Drama	2,139	511	729	(1,229)	692
Speech	-	4,196	3,010	-	1,186
Vocal music	1,978	917	1,409	-	1,486
Vocal candy sales	5,629	-	-	-	5,629
Choir robe fund	764	20	46	-	738
High school band	-	86	65	-	21
JH band	-	239	104	-	135
Elementary band	36	440	202	(101)	173
High school band uniforms	2,240	503	258	-	2,485
JH band uniforms	379	321	355	-	345
High school horn rent/repair	783	96	569	-	310
Stage band	427	637	825	-	239
Band-pizza sales	1,308	5,740	6,536	-	512
Band candy sales	1,121	-	-	-	1,121
Gen. athletics	49	363	131	-	281
Athletic passes	-	1,821	205	(1,616)	-
Boys basketball	151	5,924	2,274	(3,801)	-
Football	-	10,813	7,688	(2,355)	770
District football	-	75	-	-	75
Baseball	-	2,326	5,051	2,725	-
Boys track	-	1,291	4,173	2,882	-
Boys golf	-	8	140	132	-
Coop wrestling	2,441	7,050	4,874	-	4,617
Jr. high wrestling	-	-	835	835	-
Girls basketball	911	3,878	3,470	(1,319)	-
Volleyball	-	3,806	4,635	829	-
Softball	761	2,247	6,536	3,528	-
Girls track	716	2,209	2,083	(842)	-
Cross country	25	-	-	(25)	-
Girls golf	-	-	140	140	-
FFA	4,760	32,091	30,941	-	5,910
Honor society	11	228	230	-	9
High school student council	3,496	2,651	3,181	427	3,393
Cheerleaders	-	3,222	3,203	637	656
Junior high cheerleaders	47	-	-	-	47
NCNK cheerleaders	-	964	327	(637)	-
Spanish club	138	-	233	95	-
Guidance	-	379	132	(247)	-
Class of 2004	801	468	1,060	-	209
Class of 2005	320	2,456	1,413	205	1,568
Class of 2006	172	615	26	(205)	556

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Intra- Fund Transfers</u>	<u>Balance End of Year</u>
Class of 2007	127	60	-	-	187
Class of 2008	82	100	-	-	182
Class of 2009	-	85	57	-	28
Student council magazine sales	85	135	-	(220)	-
Library	-	175	-	-	175
Stevens technology lab	-	936	-	-	936
Chip	139	155	159	-	135
Science projects	262	-	104	-	158
Student planner	-	2,355	1,583	-	772
JH book fines	-	-	7	7	-
Elementary yearbook	-	629	212	(417)	-
Drug free school	1,599	2,272	1,018	-	2,853
HS activities	2,319	92	200	-	2,211
Athletic misc.	288	-	179	60	169
Beverage machine athletics	939	605	578	(96)	870
Yearbook	-	4,985	8,101	-	(3,116)
Pepsi donations	8,305	250	3,698	-	4,857
Interest on checking	-	148	-	-	148
Interest on CD's	-	343	-	-	343
Junior high horn rent/repair	1,379	-	452	-	927
Student leadership academy	350	12	-	-	362
Elementary horn rent	21	-	122	101	-
Elem. activities	1,291	3,667	4,161	507	1,304
Band CD	6,876	137	-	-	7,013
June 30, 2003 payables	(1,729)	-	(1,729)	-	-
Total	53,936	115,732	115,991	-	53,677

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund

Year ended June 30, 2004

	<u>DCAT/ Empowerment</u> \$
Balance beginning of year	2,262
Additions:	
Collections	16,009
Deductions:	
Miscellaneous	<u>20,035</u>
Balance end of year	<u><u>(1,764)</u></u>

NORTHWOOD-KENSETT 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	2,154,280	2,105,539	1,957,808	1,781,881
Tuition	64,500	22,003	21,913	37,691
Other	226,566	278,709	286,822	253,754
Intermediate sources	-	-	-	6,919
State sources	1,887,359	2,019,082	2,030,676	2,052,709
Federal sources	200,208	236,537	76,088	68,064
Total revenues	<u>4,532,913</u>	<u>4,661,870</u>	<u>4,373,307</u>	<u>4,201,018</u>
Expenditures:				
Instruction:				
Regular instruction	1,882,702	1,665,032	1,659,291	1,611,494
Special instruction	642,003	585,274	612,359	539,377
Other instruction	409,380	403,591	391,550	422,705
Support services:				
Student services	128,773	126,112	122,409	120,117
Instructional staff services	123,543	61,779	79,689	95,233
Administration services	427,141	395,175	386,335	394,390
Operation and maintenances of plant services	323,659	313,450	260,106	365,282
Transportation services	137,278	130,885	177,539	228,617
Other expenditures:				
Facilities acquisition	361,474	295,756	325,763	123,903
Long-term debt:				
Principal	219,167	191,510	163,595	140,000
Interest and other charges	157,512	161,524	169,389	170,810
AEA flowthrough	151,485	162,891	164,598	170,137
Total expenditures	<u>4,964,117</u>	<u>4,492,979</u>	<u>4,512,623</u>	<u>4,382,065</u>

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

To the Board of Education of the
[Northwood-Kensett](#) Community School District:

We have audited the financial statements of the [Northwood-Kensett](#) Community School District as of and for the year ended June 30, [2004](#), and have issued our report thereon dated [November 18, 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 [Northwood-Kensett](#) 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-I](#).

Internal Control over Financial Reporting

In planning and performing our audit, we considered [Northwood-Kensett](#) 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 [Northwood-Kensett](#) 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 [Northwood-Kensett](#) 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 18, 2004](#)

NORTHWOOD-KENSETT 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 procedures 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 Completeness of Accounting Records: We noted that Trust Fund investments and certificates of deposit are not part of the District's computerized financial accounting and reporting system. Therefore the revenues, gains and losses from the investments and certificates of deposit are not recorded in the District's accounting records. Transactions within the investment accounts have not been subjected to the control system the District has for all other financial transactions.

Recommendation: All District funds are the legal responsibility of the board, board secretary and board treasurer. All public funds have the same legal requirements for accounting, reporting, auditing and allowing, dual signatures, publishing and investing. All District monies, bank accounts and investments should become part of the District's fund accounting system and should be subject to the same controls as all other District funds.

District Response: We will review our procedures for handling Trust Fund certificates of deposit and investments.

Conclusion: Response accepted.

NORTHWOOD-KENSETT 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 amounts budgeted in the instruction, support services, non-instructional programs and other expenditures functional areas.

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: Except as explained in comment 04-II-K we noted no transactions requiring Board approval that had not been approved by the Board.

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

04-II-I Deposits and Investments: During the year ended June 30, 2003 the District purchased corporate bonds with Trust Fund monies that had previously been invested in certificates of deposit. A local broker is handling the investment accounts and making decisions about the investments to purchase.

The type of investments that a school may have is limited by the Code of Iowa and the District's investment policy. The Code of Iowa also requires a public funds custodial agreement with entities that are investing the District's monies. The District does not have a public funds custodial agreement with the broker that is handling the investments.

Recommendation: The District should consult with its attorney to determine if the District is in compliance with the Code of Iowa in regard to the types of investments being purchased and with regard to the requirements for public fund custodial agreements.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting (continued):

District Response: We reinvested the Trust Fund monies with the goal of maintaining low risk investments, while still increasing the rate of return. We will consult with our attorney to ensure that we are in compliance with the Code of Iowa as to the types of investments and public fund custodial agreements.

Conclusion: Response accepted.

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 Private Purpose Trust Fund Expenditure Procedures: All public funds are the legal responsibility of the board, board secretary and board treasurer. All public funds have the same legal requirements for accounting, reporting, auditing and allowing, dual signatures, publishing and investing. We noted that the Private Purpose Trust Fund was not following the statutory requirements for board approval prior to disbursement, publication of bills paid and dual signatures for certain scholarship payments.

Recommendation: The District should implement procedures to ensure compliance with statutory requirements for disbursements in the Private Purpose Trust Fund.

District Response: The District will pursue the auditor's recommendation.

Conclusion: Response accepted.

04-II-L Student Activity Fund Transactions: The Student Activity Fund is to be used to account for the District's extra-curricular student activities. We noted transactions in the Student Activity Fund for the federal Safe and Drug Free Schools Grant, the guidance program, the library, the technology lab, science projects, student planners and for miscellaneous elementary and high school items.

Recommendation: The District should review the types of transactions in the Student Activity Fund. Any transactions for programs other than extra-curricular student activities should be accounted for in the General Fund.

District Response: We will review the types of transactions being recorded in the Student Activity Fund.

Conclusion: Response accepted.

04-II-M Deficit Balances: The Yearbook account in the Student Activity Fund has a deficit balance at June 30, 2004.

Recommendation: The District should continue to monitor this account and investigate alternatives to eliminate the deficit.

District Response: We are working on ways to eliminate these deficits.

Conclusion: Response accepted.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting (continued):

04-II-N Use of Credit Cards: We noted that the District has credit cards for two major retailers. Chapter 279.8 of the Code of Iowa requires written guidelines for the use of District credit cards. We did not locate a board policy that covered the use of credit cards.

Recommendation: The District should adopt a board policy that covers what cards the District may obtain, who may use the cards, when the cards may be used, what types of items may be charged to the cards and the supporting documentation that must be obtained for any purchases.

District Response: We will adopt a board policy.

Conclusion: Response accepted.