

ORIENT-MACKSBURG COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

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Orient-Macksburg Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2003 Election)</b>		
Roger Roberts	President	2005
Evonne Lents	Vice President	2003
Roseanne Sychra	Board Member	2004
Dave Collings	Board Member	2003
Doug Skellenger	Board Member	2005
<b>Board of Education (After September 2003 Election)</b>		
Roger Roberts	President	2005
Evonne Lents	Vice President	2006
Roseanne Sychra	Board Member	2004
Dave Collings	Board Member	2006
Doug Skellenger	Board Member	2005
<b>School Officials</b>		
Mike R. Hardy	Superintendent	2004
Sharon Cox	District Secretary/Treasurer and Business Manager	2004
Ahlers Law Office	Attorney	2004
Reynoldson Law Office	Attorney	2004
Gruhn Law Office	Attorney	2004

**NOLTE, CORNMAN & JOHNSON P.C.**

**Certified Public Accountants**

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Orient-Macksburg Community School District:

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

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

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

As described in Note 11 to the financial statements, during the year ended June 30, 2004, Orient-Macksburg Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments; Statement No. 37, Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule- Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated September 16, 2004 on our consideration of the Orient-Macksburg Community School District's internal control over financial reporting and our tests of its compliance with certain

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

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 36 through 39 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

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

September 16, 2004

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

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

### **2004 FINANCIAL HIGHLIGHTS**

- General Fund revenues decreased from \$2,741,378 in fiscal 2003 to \$2,734,129 in fiscal 2004, while General Fund expenditures decreased from \$2,615,489 in fiscal 2003 to \$2,600,666 in fiscal 2004. This resulted in an increase in the District's General Fund balance from a deficit balance of \$64,450 in fiscal 2003 to a positive balance of \$89,574 in fiscal 2004, a 239% increase from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in tuition and federal grant revenue in fiscal 2004. The decrease in expenditures was due primarily to a decrease in the other expenditures functional area. One reason the General Fund balance increased is because the revenues were large enough to offset the expenditures, in spite of the decrease.
- A decline in interest rates during the past fiscal year, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone to decrease from \$17,493 in fiscal year 2003 to \$1,524 in fiscal year 2004.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

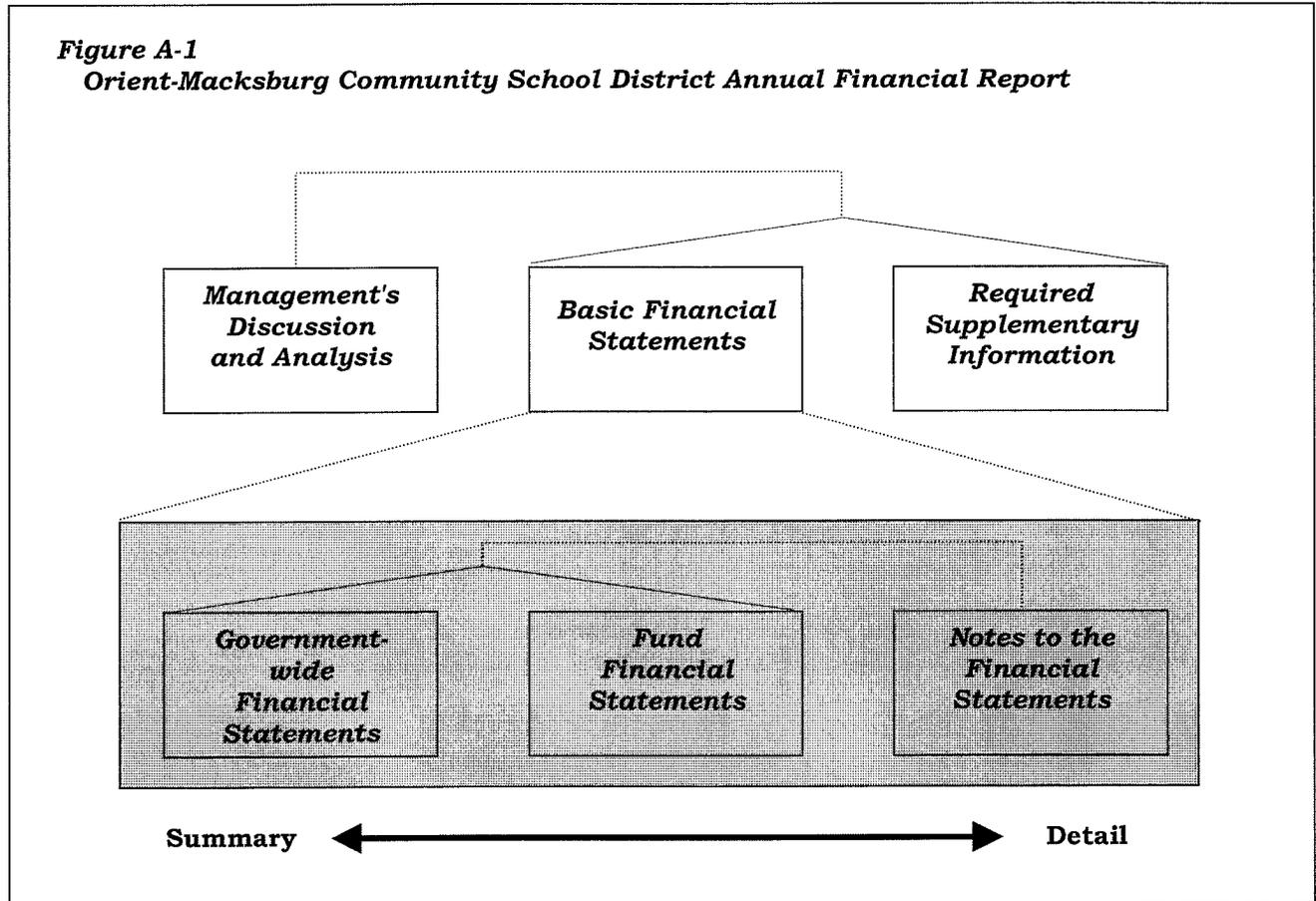


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

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## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

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

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

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

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

### Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

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

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

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

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

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 for the year ended June 30, 2004.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Current and other assets	\$ 2,444,650	20,173	2,464,823
Capital assets	1,366,994	20,895	1,387,889
Total assets	<u>3,811,644</u>	<u>41,068</u>	<u>3,852,712</u>
Long-term obligations	667,751	0	667,751
Other liabilities	2,132,292	7,416	2,139,708
Total liabilities	<u>2,800,043</u>	<u>7,416</u>	<u>2,807,459</u>
Net assets:			
Invested in capital assets, net of related debt	743,033	20,895	763,928
Restricted	121,838	0	121,838
Unrestricted	146,730	12,757	159,487
Total net assets	<u>\$ 1,011,601</u>	<u>33,652</u>	<u>1,045,253</u>

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

Figure A-4  
Changes of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Revenues:			
Program revenues:			
Charges for services	\$ 456,754	59,739	516,493
Operating grants and contributions and restricted interest	374,399	58,630	433,029
General revenues:			
Local tax	1,441,290	0	1,441,290
Unrestricted state grants	823,067	0	823,067
Other	2,710	87	2,797
Total revenues	<u>3,098,220</u>	<u>118,456</u>	<u>3,216,676</u>
Program expenses:			
Governmental activities:			
Instructional	2,020,647	0	2,020,647
Support services	751,993	0	751,993
Non-instructional programs	1,724	114,846	116,570
Other expenses	186,333	0	186,333
Total expenses	<u>2,960,697</u>	<u>114,846</u>	<u>3,075,543</u>
Changes in net assets	137,523	3,610	141,133
Net assets beginning of year	<u>874,078</u>	<u>30,042</u>	<u>904,120</u>
Net assets end of year	<u>\$ 1,011,601</u>	<u>33,652</u>	<u>1,045,253</u>

Property tax and unrestricted state grants account for 73% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 94% of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$3,098,220 and expenses were \$2,960,697.

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

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 2,020,647	1,275,903
Support services	751,993	751,993
Non-instructional	1,724	1,724
Other expenses	186,333	99,924
Totals	<u>\$ 2,960,697</u>	<u>2,129,544</u>

- The cost financed by users of the District's programs was \$456,754.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$374,399.

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- The net cost of governmental activities was financed with \$1,441,290 in local tax, \$823,067 in unrestricted state grants, and \$2,710 in interest income.

### **Business-Type Activities**

Revenues of the District's business-type activities were \$118,456 and expenses were \$114,846. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

### **INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$215,730, compared to last year's ending fund balances of a \$71,097. However, the primary reason for the increase was the controlled spending in the General Fund.

### **Governmental Fund Highlights**

- The District's improving General Fund financial position is the product of many factors. Reduction in tax levy during the year in tax and grants resulted in a decrease in revenues. However, the decrease in revenues was more than offset by the District's decrease in General Fund expenditures ensuring the financial position of the District increase.
- The Management, and Activity Fund combined balance decreased from \$121,397 in 2003, to \$84,323 in 2004, due to the increase in expenditures in both funds.
- The Physical Plant and Equipment Levy (PPEL) fund balance increased from \$12,490 to \$37,625, due to an increase in property tax and a decrease in total expenditures for the year.
- The District started a Capital Projects fund during the current year, at year end it had a balance of \$2,445.

### **Proprietary Fund Highlights**

The School Nutrition Fund net assets increased from \$30,042 at June 30, 2003 to \$33,652 at June 30, 2004, representing an increase of approximately 12%.

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## BUDGETARY HIGHLIGHTS

The District's revenues were \$34,871 more than budgeted revenues, a variance of 1%. The most significant variance resulted from the District receiving less in federal sources than originally anticipated.

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

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

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2004, the District had invested \$1.4 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 3.2% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$106,359.

The original cost of the District's capital assets was \$2,933,803. Governmental funds account for \$2,885,565 with the remainder of \$48,238 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the building category. The District's buildings totaled \$1,050,200 at June 30, 2004, compared to \$1,084,900 reported at June 30, 2003. This decrease resulted from the current year depreciation expense.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Land	\$ 31,728	0	31,728
Buildings	1,050,200	0	1,050,200
Improvements other than buildings	126,282	0	126,282
Machinery and equipment	158,784	20,895	179,679
Total	\$ 1,366,994	20,895	1,387,889

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## Long-Term Debt

At June 30, 2004, the District had long-term debt outstanding of \$667,751 in general obligation bonds, early retirement, and loans. This represents a decrease of approximately 6.6% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had total outstanding general obligation bonds payable of \$620,000 at June 30, 2004.

During June 2004, the District obtained financing for a vehicle purchased at a cost of \$25,500, which is payable out of the General Fund.

The District also had total outstanding early retirement payable of \$22,251 at June 30, 2004.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
General obligation bonds	\$ 620,000	655,000	-5.3%
Vehicle loans	25,500	4,837	427.2%
Early retirement	22,251	54,749	-59.4%
Total	\$ 667,751	714,586	-6.6%

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

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

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## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sharon Cox, District Board Secretary, Orient-Mackesburg Community School District, P.O. Box 129, Orient, Iowa, 50858.

BASIC FINANCIAL STATEMENTS

ORIENT-MACKSBURG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments			
ISCAP (Note 5)	\$ 431,325	0	431,325
Other	392,009	18,270	410,279
Receivables:			
Property tax:			
Delinquent	23,038	0	23,038
Succeeding year	1,433,830	0	1,433,830
Income surtax	102,352	0	102,352
Interfund	5,468	0	5,468
Accounts	594	8	602
Accrued interest			
ISCAP (Note 5)	712	0	712
Other	80	0	80
Due from other governments	55,242	0	55,242
Inventories	0	1,895	1,895
Capital assets, net of accumulated depreciation (Note 6)	1,366,994	20,895	1,387,889
<b>TOTAL ASSETS</b>	<b>3,811,644</b>	<b>41,068</b>	<b>3,852,712</b>
<b>LIABILITIES</b>			
Interfund payable	0	5,468	5,468
Accounts payable	14,190	0	14,190
Interest payable	5,724	0	5,724
Salaries and benefits payable	243,842	0	243,842
ISCAP warrants payable (Note 5)	433,000	0	433,000
ISCAP accrued interest payable (Note 5)	1,080	0	1,080
ISCAP premiums payable	626	0	626
Deferred revenue:			
Succeeding year property tax	1,433,830	0	1,433,830
Other	0	1,948	1,948
Long-term liabilities (Note 7):			
Portion due within one year:			
General obligation bonds	35,000	0	35,000
Vehicle loan	8,164	0	8,164
Early retirement	22,251	0	22,251
Portion due after one year:			
General obligation bonds	585,000	0	585,000
Vehicle loan	17,336	0	17,336
<b>TOTAL LIABILITIES</b>	<b>2,800,043</b>	<b>7,416</b>	<b>2,807,459</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	743,033	20,895	763,928
Restricted for:			
Early intervention	14,287	0	14,287
Phase III	5,409	0	5,409
Physical plant & equipment levy	37,625	0	37,625
Management levy	29,157	0	29,157
Capital projects	2,445	0	2,445
Other special revenue purposes	32,915	0	32,915
Unrestricted	146,730	12,757	159,487
<b>TOTAL NET ASSETS</b>	<b>\$ 1,011,601</b>	<b>33,652</b>	<b>1,045,253</b>

SEE NOTES TO FINANCIAL STATEMENTS.

ORIENT-MACKSBURG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2004

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
<b>Governmental activities:</b>			
Instruction:			
Regular instruction	\$ 1,151,941	217,378	287,990
Special instruction	488,633	84,260	0
Other instruction	380,073	155,116	0
	<u>2,020,647</u>	<u>456,754</u>	<u>287,990</u>
Support services:			
Student services	4,748	0	0
Instructional staff services	36,949	0	0
Administration services	386,679	0	0
Operation and maintenance of plant services	204,788	0	0
Transportation services	91,091	0	0
Other	27,738	0	0
	<u>751,993</u>	<u>0</u>	<u>0</u>
Non-instructional:			
Food service	1,724	0	0
Other expenditures:			
Facilities acquisitions	20,136	0	0
Long-term debt interest	35,933	0	0
AEA flowthrough	86,409	0	86,409
Depreciation (unallocated)*	43,855	0	0
	<u>186,333</u>	<u>0</u>	<u>86,409</u>
<b>Total governmental activities</b>	<b>2,960,697</b>	<b>456,754</b>	<b>374,399</b>
<b>Business-Type activities:</b>			
Non-instructional programs:			
Nutrition services	114,846	59,739	58,630
<b>Total business-type activities</b>	<b>114,846</b>	<b>59,739</b>	<b>58,630</b>
<b>Total</b>	<b>\$ 3,075,543</b>	<b>516,493</b>	<b>433,029</b>

**General Revenues:**

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

Total general revenues

Changes in net assets

Net assets beginning of year, as restated Note 11

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(646,573)	0	(646,573)
(404,373)	0	(404,373)
(224,957)	0	(224,957)
(1,275,903)	0	(1,275,903)
(4,748)	0	(4,748)
(36,949)	0	(36,949)
(386,679)	0	(386,679)
(204,788)	0	(204,788)
(91,091)	0	(91,091)
(27,738)	0	(27,738)
(751,993)	0	(751,993)
(1,724)	0	(1,724)
(20,136)	0	(20,136)
(35,933)	0	(35,933)
0	0	0
(43,855)	0	(43,855)
(99,924)	0	(99,924)
(2,129,544)	0	(2,129,544)
0	3,523	3,523
0	3,523	3,523
(2,129,544)	3,523	(2,126,021)
\$ 1,274,974	0	1,274,974
71,136	0	71,136
92,735	0	92,735
2,445	0	2,445
823,067	0	823,067
2,710	87	2,797
2,267,067	87	2,267,154
137,523	3,610	141,133
874,078	30,042	904,120
\$ 1,011,601	33,652	1,045,253

ORIENT-MACKSBURG COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004

	General	Other Governmental Funds	Total
<b>ASSETS</b>			
Cash and pooled investments			
ISCAP (Note 5)	\$ 431,325	0	431,325
Other	269,699	122,310	392,009
Receivables:			
Property tax			
Delinquent	19,109	3,929	23,038
Succeeding year	1,210,723	223,107	1,433,830
Income surtax	76,764	25,588	102,352
Interfund	5,468	0	5,468
Accounts	256	338	594
Accrued interest			
ISCAP (Note 5)	712	0	712
Other	0	80	80
Due from other governments	55,242	0	55,242
<b>TOTAL ASSETS</b>	<b>\$ 2,069,298</b>	<b>375,352</b>	<b>2,444,650</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 13,689	501	14,190
Salaries and benefits payable	243,842	0	243,842
ISCAP warrants payable (Note 5)	433,000	0	433,000
ISCAP accrued interest payable (Note 5)	1,080	0	1,080
ISCAP premiums payable	626	0	626
Deferred revenue:			
Succeeding year property tax	1,210,723	223,107	1,433,830
Income surtax	76,764	25,588	102,352
<b>Total liabilities</b>	<b>1,979,724</b>	<b>249,196</b>	<b>2,228,920</b>
Fund balances:			
Reserved for:			
Debt service	0	1,763	1,763
Early intervention	14,287	0	14,287
Phase III	5,409	0	5,409
Unreserved:			
Undesignated	69,878	124,393	194,271
<b>Total fund balances</b>	<b>89,574</b>	<b>126,156</b>	<b>215,730</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,069,298</b>	<b>375,352</b>	<b>2,444,650</b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

<b>Total fund balances of governmental funds (page 17)</b>	\$	215,730
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.		1,366,994
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(5,724)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		102,352
Long-term liabilities, including bonds payable, bus lease payable, and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(667,751)
<b>Net assets of governmental activites (page 14)</b>	<b>\$</b>	<b><u>1,011,601</u></b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Other Governmental Funds	Total
<b>REVENUES:</b>			
Local sources:			
Local tax	\$ 1,214,193	233,881	1,448,074
LOSST	0	2,445	2,445
Tuition	301,638	0	301,638
Other	20,832	136,994	157,826
State sources	1,082,862	0	1,082,862
Federal sources	114,604	0	114,604
Total revenues	<u>2,734,129</u>	<u>373,320</u>	<u>3,107,449</u>
<b>EXPENDITURES:</b>			
Current:			
Instruction:			
Regular instruction	1,124,188	41,284	1,165,472
Special instruction	488,633	0	488,633
Other instruction	237,889	138,499	376,388
	<u>1,850,710</u>	<u>179,783</u>	<u>2,030,493</u>
Support services:			
Student services	27,840	0	27,840
Instructional staff services	36,089	0	36,089
Administration services	372,789	8,352	381,141
Operation and maintenance of plant services	148,349	54,679	203,028
Transportation services	78,480	19,171	97,651
Other	0	27,738	27,738
	<u>663,547</u>	<u>109,940</u>	<u>773,487</u>
Non-instructional:			
Food service	0	1,724	1,724
Other expenditures:			
Facilities acquisitions	0	20,136	20,136
Long-term debt:			
Principal	0	39,837	39,837
Interest and fiscal charges	0	36,230	36,230
AEA flowthrough	86,409	0	86,409
	<u>86,409</u>	<u>96,203</u>	<u>182,612</u>
Total expenditures	<u>2,600,666</u>	<u>387,650</u>	<u>2,988,316</u>
Excess(deficiency) of revenues over(under) expenditures	133,463	(14,330)	119,133
Other financing sources(uses):			
Transfers in	0	4,939	4,939
Transfers out	(4,939)	0	(4,939)
Proceeds on loans	25,500	0	25,500
Total other financing sources	<u>20,561</u>	<u>4,939</u>	<u>25,500</u>
Net change in fund balances	154,024	(9,391)	144,633
Fund balance beginning of year	(64,450)	135,547	71,097
Fund balance end of year	<u>\$ 89,574</u>	<u>126,156</u>	<u>215,730</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds (page 19) \$ 144,633

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

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

Capital outlays	\$ 58,470	
Depreciation expense	(103,483)	(45,013)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 39,837

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. 297

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.  
 Early retirement 32,498

Proceeds of long-term debt provide current financial resources to governmental funds but increase long-term liabilities in the Statement of Net Assets. (25,500)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. (9,229)

**Changes in net assets of governmental activities (page 16) \$ 137,523**

SEE NOTES TO FINANCIAL STATEMENTS.

ORIENT-MACKSBURG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2004

	School Nutrition
<b>ASSETS</b>	
Cash and cash equivalents	\$ 18,270
Accounts receivable	8
Inventories	1,895
Capital assets, net of accumulated depreciation	20,895
<b>TOTAL ASSETS</b>	<b>41,068</b>
 <b>LIABILITIES</b>	
Interfund payable	5,468
Deferred revenues	1,948
<b>TOTAL LIABILITES</b>	<b>7,416</b>
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	20,895
Unrestricted	12,757
<b>TOTAL NET ASSETS</b>	<b>\$ 33,652</b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Other local sources:	
Sale of lunches and breakfasts:	
Students	\$ 52,709
Adults	6,798
Miscellaneous	232
TOTAL OPERATING REVENUES	59,739
OPERATING EXPENSES:	
Food service operations:	
Salaries	41,690
Benefits	5,918
Services	3,135
Supplies	61,227
Depreciation	2,876
TOTAL OPERATING EXPENSES	114,846
OPERATING LOSS	(55,107)
NON-OPERATING REVENUES:	
Interest	87
State sources	2,127
Federal sources	56,503
TOTAL NON-OPERATING REVENUES	58,717
Net income	3,610
Retained earnings at beginning of year	30,042
Retained earnings end of year	\$ 33,652

SEE NOTES TO FINANCIAL STATEMENTS.

ORIENT-MACKSBURG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2004

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 59,529
Cash received from miscellaneous operating activities	232
Cash payments to employees for services	(54,301)
Cash payments to suppliers for goods or services	(57,566)
Net cash used in operating activities	(52,106)
Cash flows from non-capital financing activities:	
State grants received	2,127
Federal grants received	49,141
Net cash provided by non-capital financing activities	51,268
Cash flows from investing activities:	
Borrowings from General Fund	5,468
Interest on investments	87
Net cash provided by investing activities	5,555
Cash flows from capital financing activities:	
Purchase of assets	(2,261)
Net cash used in financing activities	(2,261)
Net increase in cash and cash equivalents	2,456
Cash and cash equivalents at beginning of year	15,814
Cash and cash equivalents at end of year	\$ 18,270
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (55,107)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	7,362
Depreciation	2,876
Increase in inventories	(566)
Decrease in salaries and benefits payable	(6,693)
Increase in deferred revenue	22
Net cash used in operating activities	\$ (52,106)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 18,270
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	

During the year ended June 30, 2004, the District received Federal commodities valued at \$7,362.

SEE NOTES TO FINANCIAL STATEMENTS.

ORIENT-MACKSBURG COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

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

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

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

**A. Reporting Entity**

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

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

**B. Basis of Presentation**

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

#### C. Measurement Focus and Basis of Accounting

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

all eligibility requirements imposed by the provider have been satisfied.

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

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

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

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of

donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

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

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

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

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

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

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

Long-term obligations - 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 and the other expenditures functional areas exceeded the amount budgeted.

**(2) Cash and Pooled Investments**

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

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

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$393,116 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

**(3) Interfund Receivables and Payables**

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

Receivable Fund	Payable Fund	Amount
General	Nutrition	\$ 5,468

The Nutrition Fund is repaying the General Fund for salaries that the General Fund paid at end of year. The balance will be repaid by June 30, 2005.

**(4) Transfers**

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

Transfer to	Transfer from	Amount
Debt Service	General	\$ 4,939

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

**(5) Iowa School Cash Anticipation Program (ISCAP)**

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

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2003-04B	1/30/04	1/28/05	130,885	712	130,000	1,080
2004-05A	6/30/04	6/30/05	300,440	0	303,000	0
Total			\$ 431,325	712	433,000	1,080

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

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2003-04A	\$ 0	350,000	350,000	0

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

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

**(6) Capital Assets**

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

	Balance Beginning of Year, as restated (Note 11)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 31,728	0	0	31,728
Total capital assets not being depreciated	31,728	0	0	31,728
Capital assets being depreciated:				
Buildings	1,885,000	0	0	1,885,000
Land improvements	225,747	0	0	225,747
Furniture and equipment	684,620	58,470	0	743,090
Total capital assets being depreciated	2,795,367	58,470	0	2,853,837
Less accumulated depreciation for:				
Buildings	800,100	34,700	0	834,800
Land improvements	90,310	9,155	0	99,465
Furniture and equipment	524,678	59,628	0	584,306
Total accumulated depreciation	1,415,088	103,483	0	1,518,571
Total capital assets being depreciated, net	1,380,279	(45,013)	0	1,335,266
Governmental activities capital assets, net \$	1,412,007	(45,013)	0	1,366,994

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	\$ 45,977	2,261	0	48,238
Less accumulated depreciation	24,467	2,876	0	27,343
Business-type activities capital assets, net \$	21,510	(615)	0	20,895

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 18,967
Other		3,685
Support services:		
Instructional staff services		860
Administration services		6,916
Operation and maintenance of plant services		1,760
Transportation		27,440
		59,628
Unallocated depreciation		43,855
Total governmental activities depreciation expense		\$ 103,483
Business-type activities:		
Food services		\$ 2,876

(7) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation	\$ 655,000	0	35,000	620,000	35,000
Loan payable	4,837	0	4,837	0	0
Vehicle loan	0	25,500	0	25,500	8,164
Early retirement	54,749	0	32,498	22,251	22,251
Total	\$ 714,586	25,500	72,335	667,751	65,415

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed fifteen years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives are equal to a cash payment of 22% of the basic yearly salary and one daily rate of pay for each two days of unused accumulated sick leave days. Early retirement expenditures for the year ended June 30, 2004 totaled \$32,498.

Vehicle Loan Payable

During the year ended June 30, 2004, the District obtained financing for a Ford Excursion. The following is a schedule of payments under the agreement in effect at June 30, 2004.

Year Ending June 30,	Interest Rate	Loans dated June 30, 2004		
		Principal	Interest	Total
2005	4.00 %	\$ 8,164	871	9,035
2006	4.00	8,496	539	9,035
2007	4.00	8,840	193	9,033
Total		\$ 25,500	1,603	27,103

General Obligation

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

Year Ending June 30,	Interest Rate	Bond issue May 27, 1997		
		Principal	Interest	Total
2005	5.15 %	\$ 35,000	34,343	69,343
2006	5.20	35,000	32,540	67,540
2007	5.25	40,000	30,720	70,720
2008	5.30	40,000	28,620	68,620
2009	5.40	40,000	26,500	66,500
2010	5.50	45,000	24,340	69,340
2011	5.55	45,000	21,865	66,865
2012	5.60	50,000	19,367	69,367
2013	5.65	50,000	16,567	66,567
2014	5.70	55,000	13,743	68,743
2015	5.70	60,000	10,607	70,607
2016	5.75	60,000	7,188	67,188
2017	5.75	65,000	3,738	68,738
Subtotal		\$ 620,000	270,138	890,138

Loan Payable

During the year ended June 30, 1999, the District obtained financing for a suburban. The loan was repaid during the year ended June 30, 2004.

**(8) Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$90,142, \$94,178, and \$93,183 respectively, equal to the required contributions for each year.

**(9) Risk Management**

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

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

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$3,943.

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

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

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

Orient-Macksburg 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.

**(10) 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 \$86,409 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.

**(11) Accounting Change and Restatements**

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

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

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

Beginning capital assets for governmental activities of \$4,451,582 were restated to \$2,827,095. The restatement primarily removed assets below the District's capitalization threshold.

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

	Fund		Total
	General	Other Governmental Funds	
Net assets, June 30, 2003, as previously reported \$	(64,450)	135,547	71,097
GASB Interpretation 6 adjustments	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	\$ (64,450)	135,547	71,097
GASB 34 adjustments:			
Capital assets, net of accumulated depreciation of \$1,415,088			1,412,007
Income surtax			111,581
Long-term liabilities:			
General obligation bonds		655,000	
Vehicle loan		4,837	
Early retirement		54,749	(714,586)
Accrued interest			(6,021)
Net assets July 1, 2003, as restated			\$ 874,078

REQUIRED SUPPLEMENTAL INFORMATION

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

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 1,914,606	59,848
State sources	1,074,031	2,127
Federal sources	143,357	56,503
Total receipts	<u>3,131,994</u>	<u>118,478</u>
Disbursements:		
Instruction	2,016,845	0
Support services	769,824	0
Non-instructional programs	1,724	121,490
Other expenditures	182,612	0
Total disbursements	<u>2,971,005</u>	<u>121,490</u>
Excess(deficiency) of receipts over(under) disbursements	160,989	(3,012)
Other financing sources, net	<u>25,500</u>	<u>0</u>
Excess(deficiency) of receipts and other financing sources over(under) disbursements	186,489	(3,012)
Balance beginning of year	<u>210,988</u>	<u>15,814</u>
Balance end of year	<u>\$ 397,477</u>	<u>12,802</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
1,974,454	1,915,192	1,915,192	59,262
1,076,158	1,134,409	1,134,409	(58,251)
199,860	166,000	166,000	33,860
<u>3,250,472</u>	<u>3,215,601</u>	<u>3,215,601</u>	<u>34,871</u>
2,016,845	1,943,580	1,943,580	(73,265)
769,824	912,891	912,891	143,067
123,214	144,789	144,789	21,575
182,612	169,806	169,806	(12,806)
<u>3,092,495</u>	<u>3,171,066</u>	<u>3,171,066</u>	<u>78,571</u>
157,977	44,535	44,535	113,442
25,500	0	0	25,500
183,477	44,535	44,535	138,942
226,802	298,949	298,949	(72,147)
<u>410,279</u>	<u>343,484</u>	<u>343,484</u>	<u>66,795</u>

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

	Governmental Fund Types		
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 3,131,994	(24,545)	3,107,449
Expenses	2,971,005	17,311	2,988,316
Net	160,989	(41,856)	119,133
Other financing sources, net	25,500	0	25,500
Beginning fund balances	210,988	(139,891)	71,097
Ending fund balances	\$ 397,477	(181,747)	215,730

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 118,478	(22)	118,456
Expenses	121,490	(6,644)	114,846
Net	(3,012)	6,622	3,610
Beginning retained earnings	15,814	14,228	30,042
Ending retained earnings	\$ 12,802	20,850	33,652

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

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

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

During the year ended June 30, 2004, disbursements in the instruction and other expenditures functional areas exceeded the amounts budgeted.

OTHER SUPPLEMENTAL INFORMATION

ORIENT-MACKSBURG COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2004

	Special Revenue Funds						
	Physical Manage- ment	Plant & Equipment Levy	Student Activity	Total Special Revenue	Capital Projects	Debt Service	Total Nonmajor Governmental Funds
<b>ASSETS</b>							
Cash and pooled investments	\$ 50,192	36,462	33,078	119,732	2,012	566	122,310
Receivables:							
Property tax:							
Current year delinquent	1,177	1,123	0	2,300	432	1,197	3,929
Succeeding year	90,000	63,764	0	153,764	0	69,343	223,107
Income surtax	0	25,588	0	25,588	0	0	25,588
Accounts	0	0	338	338	0	0	338
Accrued interest	39	40	0	79	1	0	80
<b>TOTAL ASSETS</b>	<b>\$ 141,408</b>	<b>126,977</b>	<b>33,416</b>	<b>301,801</b>	<b>2,445</b>	<b>71,106</b>	<b>375,352</b>
<b>LIABILITIES AND FUND EQUITY</b>							
<b>Liabilities:</b>							
Accounts payable	\$ 0	0	501	501	0	0	501
Deferred revenue:							
Succeeding year property tax	90,000	63,764	0	153,764	0	69,343	223,107
Income surtax	0	25,588	0	25,588	0	0	25,588
	90,000	89,352	501	179,853	0	69,343	249,196
<b>Fund equity:</b>							
<b>Fund balances:</b>							
<b>Unreserved:</b>							
Debt service	0	0	0	0	0	1,763	1,763
<b>Unreserved:</b>							
Undesignated	51,408	37,625	32,915	121,948	2,445	0	124,393
Total fund balances	51,408	37,625	32,915	121,948	2,445	1,763	126,156
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 141,408</b>	<b>126,977</b>	<b>33,416</b>	<b>301,801</b>	<b>2,445</b>	<b>71,106</b>	<b>375,352</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue						Total Normajor Governmental Funds
	Manage- ment	Physical Plant & Equipment Levy	Student Activity	Total Special Revenue	Capital Projects	Debt Service	
<b>REVENUES:</b>							
Local sources:							
Local tax	\$ 70,010	92,735	0	162,745	0	71,136	233,881
LCOST	0	0	0	0	2,445	0	2,445
Other	1,856	4,052	130,991	136,899	0	95	136,994
<b>TOTAL REVENUES</b>	<b>71,866</b>	<b>96,787</b>	<b>130,991</b>	<b>299,644</b>	<b>2,445</b>	<b>71,231</b>	<b>373,320</b>
<b>EXPENDITURES:</b>							
Current:							
Instruction:							
Regular instruction	37,337	3,947	0	41,284	0	0	41,284
Other instruction	3,215	0	135,284	138,499	0	0	138,499
	40,552	3,947	135,284	179,783	0	0	179,783
Support services:							
Administration services	8,352	0	0	8,352	0	0	8,352
Operation and maintenance of plant services	18,685	35,994	0	54,679	0	0	54,679
Transportation services	7,596	11,575	0	19,171	0	0	19,171
Other	27,738	0	0	27,738	0	0	27,738
	62,371	47,569	0	109,940	0	0	109,940
Non-instructional:							
Food service	1,724	0	0	1,724	0	0	1,724
Other expenditures:							
Facility acquisition	0	20,136	0	20,136	0	0	20,136
Long-term debt:							
Principle	0	0	0	0	0	39,837	39,837
Interest and fiscal charges	0	0	0	0	0	36,230	36,230
	0	20,136	0	20,136	0	76,067	96,203
<b>TOTAL EXPENDITURES</b>	<b>104,647</b>	<b>71,652</b>	<b>135,284</b>	<b>311,583</b>	<b>0</b>	<b>76,067</b>	<b>387,650</b>
Other financing sources:							
Operating transfers in	0	0	0	0	0	4,939	4,939
<b>Net change in fund balances</b>	<b>(32,781)</b>	<b>25,135</b>	<b>(4,293)</b>	<b>(11,939)</b>	<b>2,445</b>	<b>103</b>	<b>(9,391)</b>
Fund balance beginning of year	84,189	12,490	37,208	133,887	0	1,660	135,547
<b>Fund balance end of year</b>	<b>\$ 51,408</b>	<b>37,625</b>	<b>32,915</b>	<b>121,948</b>	<b>2,445</b>	<b>1,763</b>	<b>126,156</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Annual	\$ 2,700	6,132	6,459	2,373
Athletics	1,688	37,873	37,001	2,560
Band student club	57	25	11	71
Bank interest	(27)	440	413	0
HS reading club	23	318	144	197
Cheerleaders	54	0	(1)	55
Drill team	3,544	4,574	6,416	1,702
Class of 02	582	3	585	0
Class of 03	949	3	952	0
Class of 04	6,816	757	6,605	968
Class of 05	4	26,862	20,618	6,248
Class of 06	0	2,676	1,443	1,233
Class of 07	0	155	49	106
FFA	5,853	31,540	37,289	104
Ind tech club	37	212	149	100
MS reading club	927	5,833	5,884	876
Musical	889	935	783	1,041
NHS	(100)	259	221	(62)
Plays	1,583	375	86	1,872
Secondary Pepsi	104	2,156	29	2,231
Student council	1,110	209	792	527
Teen leadership	192	1	0	193
Carnival	359	1	209	151
Elem reading club	9,790	8,963	8,677	10,076
Snack shack	0	597	410	187
Dance club	74	92	60	106
Total	\$ 37,208	130,991	135,284	32,915

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
<b>Revenues:</b>				
Local sources:				
Local tax	\$ 1,450,519	1,328,459	1,192,508	1,159,353
Tuition	301,638	369,101	260,125	254,277
Other	157,826	175,163	151,558	138,092
State sources	1,082,862	1,068,478	1,062,801	1,126,007
Federal sources	114,604	137,784	105,389	123,946
<b>Total</b>	<b>\$ 3,107,449</b>	<b>3,078,985</b>	<b>2,772,381</b>	<b>2,801,675</b>
<b>Expenditures:</b>				
Instruction:				
Regular instruction	\$ 1,165,472	1,179,966	1,062,856	996,540
Special instruction	488,633	443,886	415,555	494,437
Other instruction	376,388	361,738	311,707	316,113
Support services:				
Student services	27,840	29,550	21,927	59,143
Instructional staff services	36,089	33,628	51,862	69,357
Administration services	381,141	377,840	369,227	474,271
Operation and maintenance of plant services	203,028	175,645	227,377	246,806
Transportation services	97,651	189,366	117,839	109,853
Other	27,738	38,553	9,838	5,372
Non-instructional:				
Food service	1,724	0	0	0
Other expenditures:				
Facilities acquisitions	20,136	0	0	0
Long Term Debt:				
Principal	39,837	41,183	43,197	45,027
Interest	36,230	38,234	40,432	42,782
AEA flow-through	86,409	92,208	92,583	97,530
<b>Total</b>	<b>\$ 2,988,316</b>	<b>3,001,797</b>	<b>2,764,400</b>	<b>2,957,231</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

To the Board of Education of the  
Orient-Macksburg Community School District:

We have audited the financial statements of Orient-Macksburg Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated September 16, 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 Orient-Macksburg Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

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 II-B-04 .

Internal Control Over Financial Reporting

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

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

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

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

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

  
NOLTE, CORNMAN & JOHNSON, P.C.

September 16, 2004

ORIENT-MACKSBURG COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004

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

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

I-B-04 Drug-free Grant - Quarterly reports for Drug Free were not filed timely. As a result, subsequent funding was not received.

Recommendation - The district should file the reports by the due date. The district should monitor timelines for grants to ensure that quarterly reports are filed timely and therefore grant revenues are received for the programs.

Response - We will comply.

Conclusion - Response accepted.

I-C-04 Grants - We noted during our audit, that when expenditures for specific projects were posted; it appeared that the expenses were not always properly posted to those projects.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting for Iowa LEAs and AEAs. The proper coding also allows the district to maintain accountability of the grants by matching the revenues to the expenditures.

Response - We will comply.

Conclusion - Response accepted.

ORIENT-MACKSBURG COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF FINDINGS  
 YEAR ENDED JUNE 30, 2004

Part II: Other Findings Related to Statutory Reporting

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

II-B-04 Certified Budget - District disbursements for the year ended June 30, 2004, exceeded the amount budgeted in the instruction 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.

Response - We will amend the budget if necessary in the future.

Conclusion - Response accepted.

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

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

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

Name, Title and Business Connection	Transaction Description	Amount
Roseanne Sychra, Board Member Owner of Computers For Less	Computer reformat	\$150

In accordance with Chapter 279.7A of the Code of Iowa, the transactions with the Board Member does not appear to be a conflict of interest as the computer was bid competitively.

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

II-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

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

- II-I-04 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.