

OSAGE COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

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Osage Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Jon Gisleson	President	2003
Herb Wright	Vice President	2003
Dennis Fannin	Board Member	2004
Rae Anne Havig	Board Member	2005
Angela Nasstrom	Board Member	2005
Board of Education (After September 2003 Election)		
Jon Gisleson	President	2006
Herb Wright	Vice President	2006
Dennis Fannin	Board Member	2004
Rae Anne Havig	Board Member	2005
Angela Nasstrom	Board Member	2005
School Officials		
Mr. Stephen Williams	Superintendent	2004
Sue Brandau	Board District Secretary	2004
Connie Jensen	District Treasurer	2004
Aaron Murphy	Attorney	2004

Independent Auditors' Report

To the Board of Education of
Osage Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, the aggregate remaining fund information and the aggregate discretely presented component unit of Osage Community School District, Osage Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. 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, the aggregate remaining fund information and the aggregate discretely presented component unit of Osage Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 12 to the financial statements, during the year ended June 30, 2004, Osage 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 reports dated August 12, 2004 on our consideration of Osage 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 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 12 and 38 through 41 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 Osage 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. Other supplementary 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.

Lines Murphy & Company, P.L.C.
Osage, Iowa
August 12, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$6,954,650 in fiscal 2003 to \$7,014,416 in fiscal 2004, while General Fund expenditures increased from \$6,955,404 in fiscal 2003 to \$7,135,699 in fiscal 2004. The District's General Fund balance decreased from \$176,353 in fiscal 2003 to \$62,913 in fiscal 2004, a 36% decrease.
- The increase in General Fund revenues was attributable to an increase in property tax and state aid in fiscal 2004. One reason the General Fund balance decreased is because the school had major repairs done on the roof during 2004.
- A decline in interest rates during the past three fiscal years, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone decreasing from \$33,417 in fiscal 2003 to \$25,471 in fiscal 2004.

USING THIS ANNUAL REPORT

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds.

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

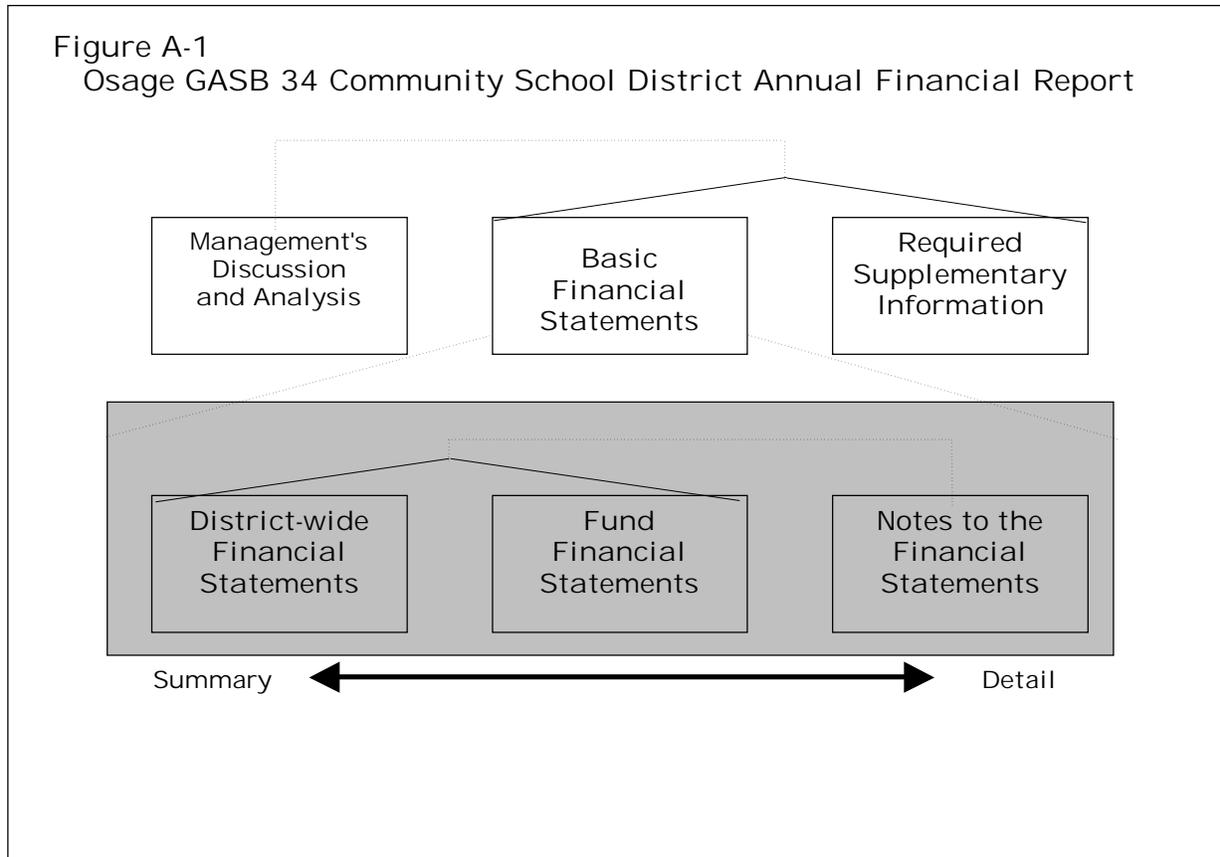


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one

way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

- Private-Purpose Trust Funds - The District accounts for outside donations for scholarships for individual students in these funds.

- Agency Fund - This is a fund through which the District administers and accounts for certain insurance reimbursements and withholdings collected for District employees.

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

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

Reconciliation's 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.

	Governmental Activities	Business type Activities	Total District
	June 30, 2004	June 30, 2004	June 30, 2004
Current and other assets	\$ 5,116	\$ 46	\$ 5,162
Capital assets	5,971	52	6,023
Total assets	<u>\$ 11,087</u>	<u>\$ 98</u>	<u>\$ 11,185</u>
Long-term liabilities	\$ 972	\$ -	\$ 972
Other liabilities	4,743	5	4,748
Total liabilities	<u>\$ 5,715</u>	<u>\$ 5</u>	<u>\$ 5,720</u>
Net assets:			
Invested in capital assets, net of related debt	\$ 5,141	\$ 52	\$ 5,193
Restricted	226	-	226
Unrestricted	5	41	46
Total net assets	<u>\$ 5,372</u>	<u>\$ 93</u>	<u>\$ 5,465</u>

The District's combined net assets increased by nearly 1.4%, or approximately \$80,000, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased to approximately \$226,000.

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 to approximately \$46,000.

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

	Governmental Activities	Business type Activities	Total District
Revenues:			
Program revenues:			
Charges for service	\$ 926	\$ 234	\$ 1,160
Operating grants, contributions and restricted interest	743	145	888
General revenues:			
Property tax	2,685	-	2,685
Local option sales and service tax	446	-	446
Unrestricted state grants	3,234	-	3,234
Unrestricted investment earnings	55	-	55
Other	58	-	58
Total revenues	<u>\$ 8,147</u>	<u>\$ 379</u>	<u>\$ 8,526</u>
Program expenses:			
Governmental activities:			
Instruction	\$ 5,424	\$ -	\$ 5,424
Support services	2,130	-	2,130
Non-instructional programs	10	384	394
Other expenses	496	-	496
Total expenses	<u>\$ 8,060</u>	<u>\$ 384</u>	<u>\$ 8,444</u>
Change in net assets	<u>\$ 87</u>	<u>\$ (5)</u>	<u>\$ 82</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 \$8,147,231 and expenses were \$8,059,447. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues. However, the District exceeded the budget in the other expenditures function.

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

	Total Cost of Services	Net Cost of Services
Instruction	\$ 5,424	\$ 4,529
Support services	2,130	1,646
Non-instructional program	10	10
Other expenses	496	205
Totals	<u>\$ 8,060</u>	<u>\$ 6,390</u>

- The cost financed by users of the District's programs was \$926,353.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$743,363.
- The net cost of governmental activities was financed with \$3,130,386 in property and other taxes and \$3,233,946 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$380,488 and expenses were \$383,583. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2004, the District did not increase meal prices and has not done so since fiscal year 2001. The District plans to increase meal prices for the next fiscal year. The increased revenue is expected to cover rising food costs only.

INDIVIDUAL FUND ANALYSIS

As previously noted, Osage 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 \$372,798, well below last year's ending fund balances of \$489,823. The primary reason for the decrease in combined fund balances in fiscal 2004 is due to less funding from the state.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the result of many factors. Growth during the year in tax and grants resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures requiring the District to use carryover fund balance to meet its financial obligations during the year.
- The General Fund balance decreased from \$176,353 to \$62,913, due in part to the negotiated salary and benefits settlement, the prior year reduction in state aid and existing expenditure commitments of the District.
- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$100,677 in fiscal 2003 to \$65,869 in fiscal 2004. While revenues increased by approximately \$19,000, the District spent more on capital assets, which contributed to the decrease in fund balance.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$98,046 at June 30, 2003 to \$93,371 at June 30, 2004, representing a decrease of approximately 4.7%. For fiscal 2004, the District closed the Daycare Fund and transferred the balance to the General Fund, which accounted for \$1,580 of the \$4,675 decrease in net assets.

BUDGETARY HIGHLIGHTS

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

The District's receipts were \$176,614 more than budgeted receipts, a variance of 2%. The most significant variance resulted from the District receiving more in local aid than originally anticipated.

Total expenditures were more than budgeted, due primarily to unexpected costs in the other expenditures function.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$6.02 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 represents a net increase of 17% from last year. More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$348,531.

The original cost of the District's capital assets was \$9.6 million. Governmental funds account for \$9.4 million, with the remainder of \$0.2 million accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the building category. The District's building category totaled \$6,649,135 at June 30, 2004, compared to \$6,391,757 reported at June 30, 2003. This significant increase resulted from the replacement of the middle school roof.

	Governmental Activities June 30, 2004	Business type Activities June 30, 2004	Total District June 30, 2004
Land	\$ 422	\$ -	\$ 422
Buildings	4,777	-	4,777
Furniture and equipment	772	52	824
Totals	\$ 5,971	\$ 52	\$ 6,023

Long-Term Debt

At June 30, 2004, the District had \$931,793 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 9% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations
(expressed in thousands)

	Total District		Total Change
	June 30,		June 30,
	2004	2003	2003-2004
General obligation bonds	\$ 830	\$ 945	-12.2%
Early retirement	142	116	22.4%
Totals	<u>\$ 972</u>	<u>\$ 1,061</u>	<u>-8.4%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District has evaluated the physical condition of the buildings and grounds and has prioritized facility upkeep needs. Most recently the District has placed a new roof on the Middle School and will continue making repairs with the funds raised by the Local Option Sales Tax.
- Although the District's enrollment stabilized during 2002-2003 and 2003-2004 school years, declining enrollment should continue in the future. Declining enrollment for the 2004-2005 school year and the future will have an adverse effect on the District's General Fund budget and the related fund balance.
- The District has evaluated the condition of its transportation vehicles and determined, due to safety precautions, one bus a year must be replaced at a cost of approximately \$56,000. To pay for the needed buses, the District will use the Physical Plant and Equipment Levy Fund.
- The technology needs of the District are reviewed annually. The District will spend approximately \$35,000 a year from the Physical Plant and Equipment Levy, Title V and General Fund to purchase the necessary equipment and software. Unfortunately this amount will be unable to keep up with the district needs.
- The District will negotiate new master contract agreements with the Osage Education Association and the Osage Educational Services Association during fiscal 2005. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sue Brandau, Board Secretary, Osage Community School District, 820 Sawyer Drive, Osage, Iowa 50461.

Osage Community School District

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business Type Activities	Total	Nonmajor Discretely Presented Component Unit
Assets				
Cash and cash equivalents:				
ISCAP	\$ 1,174,206	\$ -	\$ 1,174,206	\$ -
Other	1,136,416	26,575	1,162,991	45,202
Receivables:				
Property tax:				
Delinquent	37,441	-	37,441	-
Succeeding year	2,533,925	-	2,533,925	-
Other	155,334	-	155,334	-
Accrued interest:				
ISCAP	3,473	-	3,473	-
Other	19,715	-	19,715	-
Due from other governments	16,559	-	16,559	-
Inventories	29,686	19,197	48,883	-
Other current assets	9,026	-	9,026	-
Capital assets, net of accumulated depreciation	5,971,245	52,116	6,023,361	-
Total assets	\$ 11,087,026	\$ 97,888	\$ 11,184,914	\$ 45,202
Liabilities				
Excess of warrants issued over cash	\$ 21,460	\$ -	\$ 21,460	\$ -
Accounts payable	102,995	-	102,995	-
Accrued interest payable	3,132	-	3,132	-
Salaries and benefits payable	893,914	4,517	898,431	-
Deferred revenue - succeeding year property tax	2,533,925	-	2,533,925	-
ISCAP warrants payable	1,167,000	-	1,167,000	-
ISCAP accrued interest payable	5,266	-	5,266	-
Other current liabilities	15,291	-	15,291	-
Long-term liabilities:				
Portion due within one year:				
General obligation bonds payable	125,000	-	125,000	-
Early retirement	28,002	-	28,002	-
Portion due after one year:				
General obligation bonds payable	705,000	-	705,000	-
Early retirement	113,691	-	113,691	-
Total liabilities	\$ 5,714,676	\$ 4,517	\$ 5,719,193	\$ -
Net assets				
Invested in capital assets, net of related debt	\$ 5,141,245	\$ 52,116	\$ 5,193,361	\$ -
Restricted for:				
Management levy	(24,048)	-	(24,048)	-
Physical plant and equipment levy	65,869	-	65,869	-
Local option sales tax	23,587	-	23,587	-
Inventories	29,686	-	29,686	-
Phase III	587	-	587	-
Scholarships	28,130	-	28,130	-
Other special revenue purposes	92,441	-	92,441	45,202
Debt service	9,546	-	9,546	-
Unrestricted	5,307	41,255	46,562	-
Total net assets	\$ 5,372,350	\$ 93,371	\$ 5,465,721	\$ 45,202

See notes to financial statements

Osage Community School District

Statement of Activities

Year ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	\$ 3,282,792	\$ 142,971	\$ 408,498	\$ -
Special instruction	1,236,440	287,355	3,323	-
Other instruction	905,448	35,623	17,901	-
	<u>\$ 5,424,680</u>	<u>\$ 465,949</u>	<u>\$ 429,722</u>	<u>\$ -</u>
Support services:				
Student services	\$ 251,560	\$ 452,832	\$ 578	\$ -
Instructional staff services	303,819	-	-	-
Administration services	816,566	-	-	-
Operation and maintenance of plant services	482,532	-	-	-
Transportation services	275,544	7,572	22,773	-
	<u>\$ 2,130,021</u>	<u>\$ 460,404</u>	<u>\$ 23,351</u>	<u>\$ -</u>
Non-instructional programs				
Other expenditures:	\$ 9,607	\$ -	\$ -	\$ -
Facilities acquisition	\$ 155,650	\$ -	\$ -	\$ -
Long-term debt interest	49,199	-	-	-
AEA flowthrough	290,290	-	290,290	-
	<u>\$ 495,139</u>	<u>\$ -</u>	<u>\$ 290,290</u>	<u>\$ -</u>
Total governmental activities	\$ 8,059,447	\$ 926,353	\$ 743,363	\$ -
Business type activities:				
Non-instructional programs:				
Food service operations	\$ 383,583	\$ 234,897	\$ 145,356	\$ -
Total	<u>\$ 8,443,030</u>	<u>\$ 1,161,250</u>	<u>\$ 888,719</u>	<u>\$ -</u>
Osage Education Foundation	<u>\$ 12,878</u>	<u>\$ 1,130</u>	<u>\$ 27,073</u>	<u>\$ -</u>
General Revenues:				
Property tax levied for:				
General purposes				
Debt service				
Capital outlay				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Transfers				
Other				
Total general revenues				
Change in net assets				
Net assets beginning of year, as restated				
Net assets end of year				

See notes to financial statements.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets			Nonmajor Discretely Presented Component Unit
Governmental Activities	Business Type Activities	Total	
\$ (2,731,323)	\$ -	\$ (2,731,323)	\$ -
(945,762)	-	(945,762)	-
(851,924)	-	(851,924)	-
<u>\$ (4,529,009)</u>	<u>\$ -</u>	<u>\$ (4,529,009)</u>	<u>\$ -</u>
\$ 201,850	\$ -	\$ 201,850	\$ -
(303,819)	-	(303,819)	-
(816,566)	-	(816,566)	-
(482,532)	-	(482,532)	-
(245,199)	-	(245,199)	-
<u>\$ (1,646,266)</u>	<u>\$ -</u>	<u>\$ (1,646,266)</u>	<u>\$ -</u>
\$ (9,607)	\$ -	\$ (9,607)	\$ -
\$ (155,650)	\$ -	\$ (155,650)	\$ -
(49,199)	-	(49,199)	-
-	-	-	-
<u>\$ (204,849)</u>	<u>\$ -</u>	<u>\$ (204,849)</u>	<u>\$ -</u>
\$ (6,389,731)	\$ -	\$ (6,389,731)	\$ -
\$ -	\$ (3,330)	\$ (3,330)	\$ -
<u>\$ (6,389,731)</u>	<u>\$ (3,330)</u>	<u>\$ (6,393,061)</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,325</u>
\$ 2,419,466	\$ -	\$ 2,419,466	\$ -
163,683	-	163,683	-
101,224	-	101,224	-
445,857	-	445,857	-
3,234,102	-	3,234,102	-
55,940	235	56,175	339
7,843	(1,580)	6,263	(6,263)
49,400	-	49,400	10,760
<u>\$ 6,477,515</u>	<u>\$ (1,345)</u>	<u>\$ 6,476,170</u>	<u>\$ 4,836</u>
\$ 87,784	\$ (4,675)	\$ 83,109	\$ 20,161
<u>5,284,566</u>	<u>98,046</u>	<u>5,382,612</u>	<u>25,041</u>
<u>\$ 5,372,350</u>	<u>\$ 93,371</u>	<u>\$ 5,465,721</u>	<u>\$ 45,202</u>

Osage Community School District

Balance Sheet
Governmental Funds

June 30, 2004

	General	Nonmajor Funds	Total
Assets			
Cash and pooled investments:			
ISCAP	\$ 1,174,206	\$ -	\$ 1,174,206
Other	857,893	278,523	1,136,416
Receivables:			
Property tax:			
Delinquent	33,716	3,725	37,441
Succeeding year	2,378,652	155,273	2,533,925
Other	107,337	47,997	155,334
Accrued interest:			
ISCAP	3,473	-	3,473
Other	-	19,715	19,715
Due from other governments	16,559	-	16,559
Inventories	29,686	-	29,686
Other current assets	-	9,026	9,026
Total assets	\$ 4,601,522	\$ 514,259	\$ 5,115,781
Liabilities and Fund Balances			
Liabilities:			
Excess of warrants issued over cash	\$ 9,502	\$ 11,958	\$ 21,460
Accounts payable	80,299	22,696	102,995
Salaries and benefits payable	882,599	11,315	893,914
Deferred revenue:			
Succeeding year property tax	2,378,652	155,273	2,533,925
ISCAP warrants payable	1,167,000	-	1,167,000
ISCAP accrued interest payable	5,266	-	5,266
Other current liabilities	15,291	-	15,291
Total liabilities	\$ 4,538,609	\$ 201,242	\$ 4,739,851
Fund balances:			
Reserved for Inventories	\$ 29,686	\$ -	\$ 29,686
Reserved for phase III	587	-	587
Unreserved designated for scholarships	-	28,130	28,130
Unreserved	32,640	284,887	317,527
Total fund balances	\$ 62,913	\$ 313,017	\$ 375,930
Total liabilities and fund balances	\$ 4,601,522	\$ 514,259	\$ 5,115,781

See notes to financial statements.

Osage Community School District

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2004

Total fund balances of governmental funds (page 16)	\$	375,930
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		5,971,245
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.		(3,132)
Long-term liabilities, including bonds and notes payable and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.		<u>(971,693)</u>
Net assets of governmental activities (page 13)	\$	<u><u>5,372,350</u></u>

See notes to financial statements.

Osage Community School District

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

Year ended June 30, 2004

	General	Nonmajor funds	Total
Revenues:			
Local sources:			
Local tax	\$ 2,495,838	\$ 634,392	\$ 3,130,230
Tuition	351,671	-	351,671
Other	150,638	490,318	640,956
Intermediate sources	62,442	-	62,442
State sources	3,776,493	262	3,776,755
Federal sources	177,334	-	177,334
Total revenues	<u>\$ 7,014,416</u>	<u>\$ 1,124,972</u>	<u>\$ 8,139,388</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	\$ 3,126,225	\$ 98,735	\$ 3,224,960
Special instruction	1,236,387	-	1,236,387
Other instruction	520,362	393,568	913,930
	<u>\$ 4,882,974</u>	<u>\$ 492,303</u>	<u>\$ 5,375,277</u>
Support services:			
Student services	\$ 250,492	\$ -	\$ 250,492
Instructional staff services	303,819	-	303,819
Administration services	632,908	10,539	643,447
Operation and maintenance of plant services	488,591	33,521	522,112
Transportation services	277,018	11,881	288,899
	<u>\$ 1,952,828</u>	<u>\$ 55,941</u>	<u>\$ 2,008,769</u>
Non-instructional programs	<u>\$ 9,607</u>	<u>\$ -</u>	<u>\$ 9,607</u>
Other expenditures:			
Facilities acquisition	\$ -	\$ 412,623	\$ 412,623
Long-term debt:			
Principal	-	115,000	115,000
Interest and fiscal charges	-	49,558	49,558
AEA flowthrough	290,290	-	290,290
	<u>\$ 290,290</u>	<u>\$ 577,181</u>	<u>\$ 867,471</u>
Total expenditures	<u>\$ 7,135,699</u>	<u>\$ 1,125,425</u>	<u>\$ 8,261,124</u>
Deficiency of revenues under expenditures	<u>\$ (121,283)</u>	<u>\$ (453)</u>	<u>\$ (121,736)</u>
Other financing sources:			
Operating transfers in	<u>\$ 7,843</u>	<u>\$ -</u>	<u>\$ 7,843</u>
Net change in fund balances	\$ (113,440)	\$ (453)	\$ (113,893)
Fund balances beginning of year, as restated (note 12)	<u>176,353</u>	<u>313,470</u>	<u>489,823</u>
Fund balances end of year	<u>\$ 62,913</u>	<u>\$ 313,017</u>	<u>\$ 375,930</u>

See notes to financial statements.

Osage 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 18) \$ (113,893)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 459,293	
Depreciation expense	<u>(338,379)</u>	\$ 120,914

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

Issued	\$ -	
Repaid	<u>115,000</u>	\$ 115,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 359

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		<u>(34,596)</u>
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Change in net assets of governmental activities (page 15)		<u>\$ 87,784</u>
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See notes to financial statements.

Osage Community School District

Statement of Net Assets
Proprietary Funds

June 30, 2004

	School		
	Nutrition	Daycare	Total
Assets			
Cash and cash equivalents	\$ 26,575	\$ -	\$ 26,575
Inventories	19,197	-	19,197
Capital assets, net of accumulated depreciation	52,116	-	52,116
Total assets	\$ 97,888	\$ -	\$ 97,888
Liabilities			
Salaries and benefits payable	\$ 4,517	\$ -	\$ 4,517
Net Assets			
Invested in capital assets, net of related debt	\$ 52,116	\$ -	\$ 52,116
Unrestricted	41,255	-	41,255
Total net assets	\$ 93,371	\$ -	\$ 93,371

See notes to financial statements.

Osage Community School District

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds

Year ended June 30, 2004

	School		
	Nutrition	Daycare	Total
Operating revenues:			
Local sources:			
Charges for service	\$ 234,897	\$ -	\$ 234,897
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries and benefits	\$ 130,936	\$ -	\$ 130,936
Benefits	58,079	-	58,079
Purchased services	4,532	-	4,532
Supplies	169,928	-	169,928
Depreciation	10,152	-	10,152
Other	9,956	-	9,956
Total operating expenses	\$ 383,583	\$ -	\$ 383,583
Operating loss	\$ (148,686)	\$ -	\$ (148,686)
Non-operating revenues:			
State sources	\$ 5,492	\$ -	\$ 5,492
Federal sources	139,864	-	139,864
Interest income	235	-	235
Transfers out	-	(1,580)	(1,580)
Total non-operating revenues	\$ 145,591	\$ (1,580)	\$ 144,011
Change in net assets	\$ (3,095)	\$ (1,580)	\$ (4,675)
Net assets beginning of year	96,466	1,580	98,046
Net assets end of year	\$ 93,371	\$ -	\$ 93,371

See notes to financial statements.

Osage Community School District

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2004

	School Nutrition	Daycare	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 234,897	\$ -	\$ 234,897
Cash paid to employees for services	(188,672)	-	(188,672)
Cash paid to suppliers for goods or services	(152,155)	-	(152,155)
Other	-	(1,580)	(1,580)
Net cash used by operating activities	<u>\$ (105,930)</u>	<u>\$ (1,580)</u>	<u>\$ (107,510)</u>
Cash flows from non-capital financing activities:			
State grants received	\$ 5,492	\$ -	\$ 5,492
Federal grants received	106,930	-	106,930
Net cash provided by non-capital financing activities	<u>\$ 112,422</u>	<u>\$ -</u>	<u>\$ 112,422</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	<u>\$ (23,409)</u>	<u>\$ -</u>	<u>\$ (23,409)</u>
Cash flows from investing activities:			
Interest on investments	<u>\$ 235</u>	<u>\$ -</u>	<u>\$ 235</u>
Net decrease in cash and cash equivalents	(16,682)	(1,580)	(18,262)
Cash and cash equivalents beginning of year	<u>43,257</u>	<u>1,580</u>	<u>44,837</u>
Cash and cash equivalents end of year	<u>\$ 26,575</u>	<u>\$ -</u>	<u>\$ 26,575</u>

Osage Community School District

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2004

	School		
	Nutrition	Daycare	Total
Reconciliation of operating loss to net cash used by operating activities:			
Operating loss	\$ (148,686)	\$ -	\$ (148,686)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Commodities used	32,934	-	32,934
Depreciation	10,152	-	10,152
(Increase) in inventories	(673)	-	(673)
Increase in salaries and benefits payable	343	-	343
Transfers out	-	(1,580)	(1,580)
Net cash used by operating activities	\$ (105,930)	\$ (1,580)	\$ (107,510)

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$33,922 of federal commodities.

See notes to financial statements.

Osage Community School District

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2004

Agency Fund	Private Purpose Trusts					Total Private Purpose Trusts
	Raub Ed Enhancement	Raub Scholarship	Alchon Scholarship	Averda Neuwahmer Scholarship		
Assets						
Cash and pooled investments	\$ 10,756	\$ 274,300	\$ 500,000	\$ 35,000	\$ 2,000	\$ 811,300
Total assets	<u>\$ 10,756</u>	<u>\$ 274,300</u>	<u>\$ 500,000</u>	<u>\$ 35,000</u>	<u>\$ 2,000</u>	<u>\$ 811,300</u>
Net assets						
Unreserved	\$ 10,756	\$ -	\$ -	\$ -	\$ -	\$ -
Designated for scholarships	-	274,300	500,000	35,000	2,000	811,300
Total net assets	<u>\$ 10,756</u>	<u>\$ 274,300</u>	<u>\$ 500,000</u>	<u>\$ 35,000</u>	<u>\$ 2,000</u>	<u>\$ 811,300</u>

See notes to financial statements.

Osage Community School District

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2004

	Private Purpose Trusts					Total Private Purpose Trusts
	Agency Fund	Raub Ed Enhancement	Raub Scholarship	Alchon Scholarship	Alverda Neuwohner Scholarship	
Additions:						
Local sources:						
Other sales of services	\$ 66,635	\$ -	\$ -	\$ -	\$ -	\$ -
Deductions:						
Support services:						
Other operations	\$ 64,737	\$ -	\$ -	\$ -	\$ -	\$ -
Change in net assets	\$ 1,898	\$ -	\$ -	\$ -	\$ -	\$ -
Net assets beginning of year	8,858	274,300	500,000	35,000	2,000	811,300
Net assets end of year	\$ 10,756	\$ 274,300	\$ 500,000	\$ 35,000	\$ 2,000	\$ 811,300

See notes to financial statements.

Osage Community School District

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

Osage 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 Osage, Orchard, and Mitchell, Iowa, and the predominate agricultural territory in Mitchell and Floyd 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, Osage 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. Osage Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organization - 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 Mitchell 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 attributable to the acquisition, construction or improvement of those assets.

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

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

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

Fund Financial Statements - Separate financial statements are provided for governmental, 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 fund:

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

The District reports the following major proprietary fund:

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

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

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

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

Asset Class	Amount
Land	\$ 500
Buildings	500
Improvements other than buildings	500
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	500

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

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

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

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

well as property tax receivable and other receivables not collected within sixty days after year end.

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

Compensated Absences - District employees must use vacation time by fiscal year end and accumulate a limited amount of earned but unused sick leave hours. Sick leave is accrued at 15 days per year to a maximum of 120 days. Sick leave time is cancelled if an employee leaves his or her employment with the district. Therefore, there is no accrual at June 30, 2004.

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

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

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

E. Budgets and Budgetary Accounting

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

(2) Cash and Pooled Investments

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

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

The District's investments consisted of certificates of deposit during the year ended June 30, 2004.

(4) Interfund Transfers

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

Transfer to	Transfer from	Amount
General	School Nutrition	\$ 1,580
	Osage Education Foundation	<u>6,263</u>
Total		<u>\$ 7,843</u>

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. NA 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	\$ 638,317	\$ 3,473	\$ 634,000	\$ -
2004-05A	6/30/04	6/30/05	535,889	-	533,000	5,266
Total			\$ 1,174,206	\$ 3,473	\$ 1,167,000	\$ 5,266

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 25th 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	\$ -	\$ 250,000	\$ 250,000	\$ -
Total	\$ -	\$ 250,000	\$ 250,000	\$ -

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
2003-04B	2.000%	1.310%
2004-05A	3.000%	2.463%

(6) Capital Assets

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

	Balance Beginning of Year, as restated (note 12)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 422,000	\$ -	\$ -	\$ 422,000
Total capital assets not being depreciated	\$ 422,000	\$ -	\$ -	\$ 422,000
Capital assets being depreciated:				
Buildings	\$ 6,391,757	\$ 257,378	\$ -	\$ 6,649,135
Furniture and equipment	2,345,624	201,915	(185,933)	2,361,606
Total capital assets being depreciated	\$ 8,737,381	\$ 459,293	\$ (185,933)	\$ 9,010,741
Less accumulated depreciation for:				
Buildings	\$ 1,705,647	\$ 166,360	\$ -	\$ 1,872,007
Furniture and equipment	1,594,181	172,019	(176,711)	1,589,489
Total accumulated depreciation	\$ 3,299,828	\$ 338,379	\$ (176,711)	\$ 3,461,496
Total capital assets being depreciated, net	\$ 5,437,553	\$ 120,914	\$ (9,222)	\$ 5,549,245
Governmental activities capital assets, net	\$ 5,859,553	\$ 120,914	\$ (9,222)	\$ 5,971,245

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Furniture and equipment	\$ 109,049	\$ 23,409	\$ -	\$ 132,458
Less accumulated depreciation	70,190	10,152	-	80,342
Business type activities capital assets, net	<u>\$ 38,859</u>	<u>\$ 13,257</u>	<u>\$ -</u>	<u>\$ 52,116</u>

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction:

Regular	\$ 32,236
Special	53
Other	11,544

Support services:

Pupil	57,758
Administration	175,877
Operation and maintenance of plant	10,905
Transportation	50,006

Total depreciation expense - governmental activities	<u>\$ 338,379</u>
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Business type activities:

Food service operations	<u>\$ 10,152</u>
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(7) 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	\$ 945,000	\$ -	\$ 115,000	\$ 830,000	\$ 125,000
Early retirement	116,319	46,485	21,111	141,693	28,002
Total	<u>\$ 1,061,319</u>	<u>\$ 46,485</u>	<u>\$ 136,111</u>	<u>\$ 971,693</u>	<u>\$ 153,002</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed fifteen years of continuous service to the District, except for administrators who must have completed ten years. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives are equal to a cash payment equal to the employee's accumulated sick leave plus 40% of the employee's annual salary. Early retirement expenditures for the year ended June 30, 2004 totaled \$21,111.

General Obligation Bonds Payable

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

Year Ending June 30,	Interest Rates	Bond Issue of April 1, 1996	
		Principal	Interest
2005	4.75%	\$ 125,000	\$ 43,680
2006	4.85%	130,000	37,493
2007	4.95%	135,000	30,863
2008	5.05%	140,000	23,775
2009	5.15%	145,000	16,335
2010-2014	5.25%	155,000	8,525
Total		<u>\$ 830,000</u>	<u>\$ 160,671</u>

(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 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 \$234,354, \$263,359 and \$265,414, respectively, equal to the required contributions for each year.

(9) Risk Management

Osage 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 \$290,290 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) Contractual Commitments

As of June 30, 2004, the school had the following commitments with respect to the following projects.

Modern Builders Inc.	Remaining construction commitment	\$	27,925
Hoglund Bus Co. Inc.	Remaining contractual commitment	\$	56,030

(12) Accounting Change and Restatements

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

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

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

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

	<u>Funds</u>		<u>Total</u>
	<u>General</u>	<u>Nonmajor</u>	
Net assets June 30, 2003, as previously reported	\$ 176,353	\$ 280,164	\$ 456,517
GASB Interpretation 6 adjustments	-	33,306	33,306
Net assets July 1, 2003, as restated for governmental funds	<u>\$ 176,353</u>	<u>\$ 313,470</u>	\$ 489,823
GASB 34 adjustments:			
Capital assets, net of accumulated depreciation of \$3,299,828			5,859,553
Long-term liabilities:			
Bonds and notes		\$ 945,000	
Early retirement		<u>116,319</u>	(1,061,319)
Accrued interest payable			<u>(3,491)</u>
Net assets July 1, 2003, as restated			<u>\$ 5,284,566</u>

Osage Community School District

Budgetary Comparison Schedule 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 Funds Actual	Proprietary Funds Actual
Receipts:		
Local sources	\$ 4,057,993	\$ 268,066
Intermediate sources	62,442	-
State sources	3,771,354	5,492
Federal sources	177,334	106,930
Total receipts	<u>\$ 8,069,123</u>	<u>\$ 380,488</u>
Disbursements:		
Instruction	\$ 5,174,160	\$ -
Support services	2,065,674	-
Non-instructional programs	9,607	397,170
Other expenditures	872,344	-
Total disbursements	<u>\$ 8,121,785</u>	<u>\$ 397,170</u>
Deficiency of receipts under disbursements	\$ (52,662)	\$ (16,682)
Other financing sources, net	<u>7,843</u>	<u>(1,580)</u>
Deficiency of receipts and other financing sources under disbursements and other financing uses	\$ (44,819)	\$ (18,262)
Balances beginning of year	<u>1,126,469</u>	<u>44,837</u>
Balances end of year	<u>\$ 1,081,650</u>	<u>\$ 26,575</u>

See accompanying independent auditors' report.

Total Actual	Budgeted Amounts		Final to Actual Variance
	Original	Final	
\$ 4,326,059	\$ 4,002,660	\$ 4,002,660	\$ 323,399
62,442	-	-	62,442
3,776,846	3,981,476	3,981,476	(204,630)
284,264	288,861	288,861	(4,597)
<u>\$ 8,449,611</u>	<u>\$ 8,272,997</u>	<u>\$ 8,272,997</u>	<u>\$ 176,614</u>
\$ 5,174,160	\$ 5,180,370	\$ 5,180,370	\$ 6,210
2,065,674	2,128,000	2,128,000	62,326
406,777	496,489	496,489	89,712
872,344	575,405	575,405	(296,939)
<u>\$ 8,518,955</u>	<u>\$ 8,380,264</u>	<u>\$ 8,380,264</u>	<u>\$ (138,691)</u>
\$ (69,344)	\$ (107,267)	\$ (107,267)	\$ 37,923
6,263	-	-	6,263
\$ (63,081)	\$ (107,267)	\$ (107,267)	\$ 44,186
1,171,306	62,901	62,901	1,108,405
<u>\$ 1,108,225</u>	<u>\$ (44,366)</u>	<u>\$ (44,366)</u>	<u>\$ 1,152,591</u>

Osage Community School District

Budgetary Comparison Schedule - Budget to GAAP Reconciliation
Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds		
	Cash	Accrual	Modified
	Basis	Adjust- ments	Accrual Basis
Revenues	\$ 8,069,123	\$ 70,265	\$ 8,139,388
Expenditures	8,121,785	139,339	8,261,124
Net	\$ (52,662)	\$ (69,074)	\$ (121,736)
Other financing sources, net	7,843	-	7,843
Beginning fund balances	1,126,469	(669,952)	489,823
Ending fund balances	<u>\$ 1,081,650</u>	<u>\$ (739,026)</u>	<u>\$ 375,930</u>
	Proprietary Fund		
	Enterprise		
	Cash	Accrual	Accrual
	Basis	Adjust- ments	Basis
Revenues	\$ 380,488	\$ -	\$ 380,488
Expenses	397,170	(13,587)	383,583
Net	\$ (16,682)	\$ 13,587	\$ (3,095)
Other financing sources, net	(1,580)	-	(1,580)
Beginning net assets	44,837	53,209	98,046
Ending net assets	<u>\$ 26,575</u>	<u>\$ 66,796</u>	<u>\$ 93,371</u>

See accompanying independent auditors' report.

Osage 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 District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District did not amend the budget.

During the year ended June 30, 2004, disbursements in other expenditures function exceeded the amounts budgeted.

Osage Community School District

Combining Balance Sheet
Nonmajor Funds

June 30, 2004

	Manage- ment Levy	Student Activity	Local Option Sales Tax	Physical Plant and Equipment Levy	Special Raub Ed Enhance- ment
Assets					
Cash and pooled investments	\$ 53,932	\$ 92,560	\$ -	\$ 66,658	\$ 45,354
Receivables:					
Property tax:					
Delinquent	1,237	-	-	310	-
Succeeding year	120,522	-	-	15,938	-
Other	-	-	47,997	-	-
Accrued interest	-	150	-	-	4,236
Other current assets	-	8,876	-	-	-
Total assets	<u>\$ 175,691</u>	<u>\$ 101,586</u>	<u>\$ 47,997</u>	<u>\$ 82,906</u>	<u>\$ 49,590</u>
Liabilities and Fund Equity					
Liabilities:					
Excess of warrants issued over cash	\$ -	\$ 7,080	\$ 4,878	\$ -	\$ -
Accounts payable	-	2,065	19,532	1,099	-
Salaries and benefits payable	11,315	-	-	-	-
Deferred revenue:					
Succeeding year property tax	120,522	-	-	15,938	-
Total liabilities	<u>\$ 131,837</u>	<u>\$ 9,145</u>	<u>\$ 24,410</u>	<u>\$ 17,037</u>	<u>\$ -</u>
Fund equity:					
Designated for scholarships	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved fund balances	43,854	92,441	23,587	65,869	49,590
Total liabilities and fund equity	<u>\$ 175,691</u>	<u>\$ 101,586</u>	<u>\$ 47,997</u>	<u>\$ 82,906</u>	<u>\$ 49,590</u>

See accompanying independent auditors' report.

Schedule 1

Revenue							
Raub Scholar- ship	Alchon Scholar- ship	Alverda Neuwohner Scholar- ship	Cindy Werner Weigant Scholarship	Heiden Scholar- ship	Debt Service	Total	
\$ 3,275	\$ -	\$ 109	\$ 1,122	\$ 8,145	\$ 7,368	\$ 278,523	
-	-	-	-	-	2,178	3,725	
-	-	-	-	-	18,813	155,273	
-	-	-	-	-	-	47,997	
15,467	-	4	-	8	-	19,865	
-	-	-	-	-	-	8,876	
<u>\$ 18,742</u>	<u>\$ -</u>	<u>\$ 113</u>	<u>\$ 1,122</u>	<u>\$ 8,153</u>	<u>\$ 28,359</u>	<u>\$ 514,259</u>	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,958	
-	-	-	-	-	-	22,696	
-	-	-	-	-	-	11,315	
-	-	-	-	-	18,813	155,273	
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,813</u>	<u>\$ 201,242</u>	
\$ 18,742	\$ -	\$ 113	\$ 1,122	\$ 8,153	\$ -	\$ 28,130	
-	-	-	-	-	9,546	284,887	
<u>\$ 18,742</u>	<u>\$ -</u>	<u>\$ 113</u>	<u>\$ 1,122</u>	<u>\$ 8,153</u>	<u>\$ 28,359</u>	<u>\$ 514,259</u>	

Osage Community School District
Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Funds

Year ended June 30, 2004

	Management Levy	Student Activity	Local Option Sales Tax	Physical Plant and Equipment Levy	Special Raub Ed Enhance- ment
Revenues:					
Local sources:					
Local tax	\$ 89,420	\$ -	\$ 299,856	\$ 81,430	\$ -
Other	460	437,644	322	19,772	14,345
State sources	87	-	-	22	-
Total revenues	<u>\$ 89,967</u>	<u>\$ 437,644</u>	<u>\$ 300,178</u>	<u>\$ 101,224</u>	<u>\$ 14,345</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$ 60,233	\$ -	\$ -	\$ -	\$ 7,779
Other instruction	-	393,568	-	-	-
Support services:					
Administration services	10,539	-	-	-	-
Operation and maintenance of plant services	33,521	-	-	-	-
Transportation	11,881	-	-	-	-
Other expenditures:					
Facilities acquisition	-	-	276,591	136,032	-
Long-term debt:					
Principal	-	-	-	-	-
Interest and other charges	-	-	-	-	-
Total expenditures	<u>\$ 116,174</u>	<u>\$ 393,568</u>	<u>\$ 276,591</u>	<u>\$ 136,032</u>	<u>\$ 7,779</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	\$ (26,207)	\$ 44,076	\$ 23,587	\$ (34,808)	\$ 6,566
Fund balances beginning of year, as restated	<u>70,061</u>	<u>48,365</u>	<u>-</u>	<u>100,677</u>	<u>43,024</u>
Fund balances end of year	<u>\$ 43,854</u>	<u>\$ 92,441</u>	<u>\$ 23,587</u>	<u>\$ 65,869</u>	<u>\$ 49,590</u>

See accompanying independent auditors' report.

Schedule 2

Revenue						
Raub Scholar- ship	Alchon Scholar- ship	Alverda Neuwohner Scholar- ship	Cindy Werner Weigant Scholarship	Heiden Scholar- ship	Debt Service	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 163,686	\$ 634,392
17,599	-	31	14	131	-	490,318
-	-	-	-	-	153	262
<u>\$ 17,599</u>	<u>\$ -</u>	<u>\$ 31</u>	<u>\$ 14</u>	<u>\$ 131</u>	<u>\$ 163,839</u>	<u>\$ 1,124,972</u>
\$ 29,923	\$ -	\$ 100	\$ 200	\$ 500	\$ -	\$ 98,735
-	-	-	-	-	-	393,568
-	-	-	-	-	-	10,539
-	-	-	-	-	-	33,521
-	-	-	-	-	-	11,881
-	-	-	-	-	-	412,623
-	-	-	-	-	115,000	115,000
-	-	-	-	-	49,558	49,558
<u>\$ 29,923</u>	<u>\$ -</u>	<u>\$ 100</u>	<u>\$ 200</u>	<u>\$ 500</u>	<u>\$ 164,558</u>	<u>\$ 1,125,425</u>
\$ (12,324)	\$ -	\$ (69)	\$ (186)	\$ (369)	\$ (719)	\$ (453)
31,066	-	182	1,308	8,522	10,265	313,470
<u>\$ 18,742</u>	<u>\$ -</u>	<u>\$ 113</u>	<u>\$ 1,122</u>	<u>\$ 8,153</u>	<u>\$ 9,546</u>	<u>\$ 313,017</u>

Osage Community School District

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues and Interfund Transfers	Expend- itures	Intra- Fund Transfers	Balance End of Year
ELEMENTARY - LINCOLN					
Pop	\$ 690	\$ 1,261	\$ 968	\$ -	\$ 983
ELEMENTARY - WASHINGTON					
Pop	\$ 1,264	\$ 727	\$ 514	\$ -	\$ 1,477
MIDDLE SCHOOL					
Book Club	\$ -	\$ 1,570	\$ 1,570	\$ -	\$ -
Student Council	4,369	13,382	13,027	-	4,724
Special Olympics	1,528	5,173	3,359	-	3,342
Family and Consumer Science Club	110	-	-	-	110
Totals	\$ 6,007	\$ 20,125	\$ 17,956	\$ -	\$ 8,176

Osage Community School District

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues and Interfund Transfers	Expend- itures	Intra- Fund Transfers	Balance End of Year
SENIOR HIGH					
S.A.D.D	\$ 311	\$ -	\$ -	\$ -	\$ 311
Dramatics	-	5,872	5,872	-	-
Track Booster	545	-	-	-	545
Speech	240	552	245	-	547
Band Mothers	-	15,023	15,023	-	-
Pop Machine	322	12,116	12,259	-	179
Project Prom	4,126	8,320	6,163	-	6,283
Band Trip	7,595	99,571	102,967	-	4,199
Chorus Trip	8,380	18,012	19,089	-	7,303
Teachers Pop Fund	84	(70)	14	-	-
Bionics	1,348	-	18	-	1,330
Cheerleaders	93	17,276	9,313	-	8,056
Magazine Sales	-	17,087	17,087	-	-
Class of 2004	731	2,121	2,405	-	447
Class of 2005	-	6,652	6,475	-	177
FFA	(241)	68,218	68,619	-	(642)
Future Teachers	341	-	100	-	241
German Club	62	-	-	-	62
Annual	(495)	7,853	7,358	-	-
Spanish	2,286	7,542	5,784	-	4,044
Student Council	1,182	3,715	4,630	-	267
Boys Basketball Camp	1,640	4,872	5,654	-	858
Football Camp	1,242	6,601	7,430	-	413
Baseball Camp	3,657	1,334	2,478	-	2,513
Wrestling Camp	467	7,238	7,705	-	-
Girls Basketball Camp	2,450	2,483	1,793	-	3,140
Volleyball Camp	2,445	6,440	8,300	-	585
Softball Camp	930	9,068	10,131	-	(133)
Basketball - Boys	1,466	5,650	6,548	-	568
Football	336	7,964	6,104	-	2,196
Baseball	(124)	6,778	(2,103)	-	8,757
Track - Boys	186	4,710	4,522	-	374
Golf	30	848	782	-	96
Wrestling	-	4,556	4,138	-	418
Basketball - Girls	1,082	3,589	3,589	-	1,082
Volleyball	(551)	4,875	4,336	-	(12)

Osage Community School District

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues and Interfund Transfers	Expend- itures	Intra- Fund Transfers	Balance End of Year
Track - Girls	\$ (876)	\$ 2,719	\$ 1,843	\$ -	\$ -
Softball - Girls	(1,154)	2,624	1,682	-	(212)
Tennis	265	500	244	-	521
Booster Club	(269)	6,653	6,384	-	-
Cross Country - Girls	272	-	272	-	-
Computer	-	202	-	-	202
Track Camp - Girls	-	3,623	3,343	-	280
Track Camp - Boys	-	1,069	1,069	-	-
Football - ACT Ticket	-	2,165	2,327	-	(162)
Strengthen Our Future (Weight Room)	-	29,110	2,138	-	26,972
Total	<u>\$ 40,404</u>	<u>\$ 415,531</u>	<u>\$ 374,130</u>	<u>\$ -</u>	<u>\$ 81,805</u>
Grand Totals	<u>\$ 48,365</u>	<u>\$ 437,644</u>	<u>\$ 393,568</u>	<u>\$ -</u>	<u>\$ 92,441</u>

See accompanying independent auditors' report.

Osage Community School District

Schedule of Changes in Fiduciary Assets and Liabilities -
Agency Fund

Year ended June 30, 2004

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash	\$ 8,858	\$ 66,635	\$ 64,737	\$ 10,756
Total assets	<u>\$ 8,858</u>	<u>\$ 66,635</u>	<u>\$ 64,737</u>	<u>\$ 10,756</u>
Liabilities				
Accounts payable	\$ 8,858	\$ 66,635	\$ 64,737	\$ 10,756
Total liabilities	<u>\$ 8,858</u>	<u>\$ 66,635</u>	<u>\$ 64,737</u>	<u>\$ 10,756</u>

See accompanying independent auditors' report.

Osage Community School District

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

Year ended June 30, 2004

	<u>Modified Accrual Basis</u>
	<u>2004</u>
Revenues:	
Local sources:	
Local tax	\$ 3,130,230
Tuition	351,671
Other	640,956
Intermediate sources	62,442
State sources	3,776,755
Federal sources	177,334
Total	<u>\$ 8,139,388</u>
Expenditures:	
Instruction:	
Regular instruction	\$ 3,224,960
Special instruction	1,236,387
Other instruction	913,930
Support services:	
Student services	250,492
Instructional staff services	303,819
Administration services	643,447
Operation and maintenance of plant services	522,112
Transportation services	288,899
Non-instructional programs	9,607
Other expenditures:	
Facilities acquisition	412,623
Long-term debt:	
Principal	115,000
Interest and other charges	49,558
AEA flowthrough	290,290
Total	<u>\$ 8,261,124</u>

See accompanying independent auditors' report.

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

To the Board of Education of
Osage Community School District:

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

Compliance

As part of obtaining reasonable assurance about whether Osage 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 such 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 Part III 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 III-B-04, III-G-04 and III-K-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Osage Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions 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 Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 II-A-04 and II-B-04 are material weaknesses. Prior year reportable conditions have been resolved except for items II-A-04 and II-B-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Osage Community School District and other parties to whom Osage 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 Osage 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.

Lines Murphy & Company, P.L.C.
Osage, Iowa
August 12, 2004

Osage Community School District

Schedule of Findings

Year ended June 30, 2004

Part I: Summary of the Independent Auditors' Results:

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including two material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Osage Community School District

Schedule of Findings

Year ended June 30, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-04 Segregation of Duties - One important aspect of internal control 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 listing 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 segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

II-B-04 Disbursement Approval - The Board approved several disbursements after the actual disbursements were made.

Recommendation - The District should ensure that all expenditures are properly approved. For payments made in advance of Board meetings, the District should maintain documentation of the Board President's approval of claims for payment, such as the President's initials and date of approval. The District should also review the list of bills presented to the Board at regular meetings to ensure that all claims are included.

Response - We will ensure all expenditures are properly approved and maintain documentation of the approval of disbursements made in advance of Board approval by having the Board President initial and date the claims.

Conclusion - Response accepted.

Osage Community School District

Schedule of Findings

Year ended June 30, 2004

Other Findings Related To Statutory Reporting:

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

III-B-04 Certified Budget - Disbursements for the year ended June 30, 2004 exceeded the certified budget amounts in the other expenditures function.

Recommendation - The certified 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 - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

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

III-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.

III-E-04 Business Transactions - No business transactions between the District and District officials or employees were noted.

III-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 the coverage is adequate for current operations.

III-G-04 Board Minutes - As previously noted, several transactions requiring Board approval were not approved by the Board prior to the actual disbursement.

Recommendation - All expenditures should be approved by the Board, with sufficient documentation maintained to evidence proper approval.

Response - All expenditures will be approved by the Board prior to payment and procedures have been revised to ensure this is adequately documented.

Conclusion - Response accepted.

Osage Community School District

Schedule of Findings

Year ended June 30, 2004

- III-H-04 Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.
- III-I-04 Deposits and Investments - 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 were noted.
- III-J-04 Certified Annual Report - The Certified Annual Report was filed with the Iowa Department of Education timely and we noted no significant deficiencies in the amounts reported.
- III-K-04 Deficit Balances - Several student activity accounts had deficit balances at June 30, 2004.

Recommendation - The District should continue to investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial condition.

Response - The District is continuing to investigate alternatives to eliminate deficits in the student activity accounts at the end of the fiscal year.

Conclusion - Response accepted.