

SAYDEL COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-13
Basic Financial Statements:	<u>Exhibit</u>	
Government-Wide Financial Statements:		
Statement of Net Assets	A	14
Statement of Activities	B	15-16
Governmental Fund Financial Statements:		
Balance Sheet	C	17
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	18
Statement of Revenues, Expenditures and Changes in Fund Balances	E	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	20
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	21
Statement of Revenues, Expenses and Changes in Net Assets	H	22
Statement of Cash Flows	I	23
Notes to Financial Statements		24-34
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund		35-36
Budgetary Comparison Schedule - Budget to GAAP Reconciliation		37
Notes to Required Supplementary Information - Budgetary Reporting		38
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Special Revenue Funds:		
Combining Balance Sheet	1	39
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	40
Schedule of Changes in Student Activity Accounts	3	41
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	4	42
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		43-44
Schedule of Findings		45-46

Saydel Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2003 Election)		
Joel Godwin	President	2004
Buddy Hicks	Vice President	2004
Susan Moon	Board Member	2003
Pete Vitiritto	Board Member	2003
Terry Shafer	Board Member	2004
Laura Mullin	Board Member	2005
Chris Snyder	Board Member	2005

Board of Education

(After September 2003 Election)

Joel Godwin	President	2004
Buddy Hicks	Vice President	2004
Terry Shafer	Board Member	2004
Chris Snyder	Board Member	2005
Laura Mullin	Board Member (Resigned)	2005
Kirk Hartung	Board Member (Appointed)	2004
Susan Moon	Board Member	2006
Jane Prange	Board Member	2006

School Officials

Chuck Knight	Superintendent	2004
Joyce Johnson	District Secretary/Treasurer and Business Manager	2004
Ahlers Law Firm	Attorney	2004

NOTLE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Saydel Community School District:

We have audited the accompanying financial statements of governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Saydel Community School District, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express an opinion 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

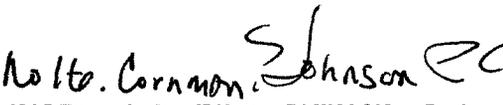
In accordance with Government Auditing Standards, we have also issued our report dated December 7, 2004 on our consideration of the Saydel Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 35 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and

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presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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


NOLTE, CORNMAN & JOHNSON, P.C.

December 7, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Saydel 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.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$10,770,546 in fiscal year 2003 to \$11,066,060 in fiscal year 2004, while General Fund expenditures increased from \$10,343,277 in fiscal 2003 to \$10,606,135 in fiscal 2004. This resulted in an increase in the District's General Fund balance from \$2,163,574 in fiscal 2003 to \$2,623,499 in fiscal 2004, a 21% increase from prior year.
- The increase in General Fund revenues was attributable to an increase in state and federal grant revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in negotiated salary and benefits. One reason the General Fund balance increased is because the District cut staffing in 2003 to cover budget shortfalls due to statewide reduction of funding for fiscal 2004. As a result, the District's financial position improved.
- Overall, the District increased in net assets in the governmental activities of \$1,995,106, and in the business-type activities of \$80,228, respectively.
- The District issued Revenue Bonds of \$6,725,000 during fiscal year 2003. These bonds are to be repaid with Local Option Sales and Services Tax monies. The bond proceeds will be used for capital improvements.

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 Saydel 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 Saydel 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 Saydel Community School District acts solely as an agent or custodial for the benefit of those outside of County government.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

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

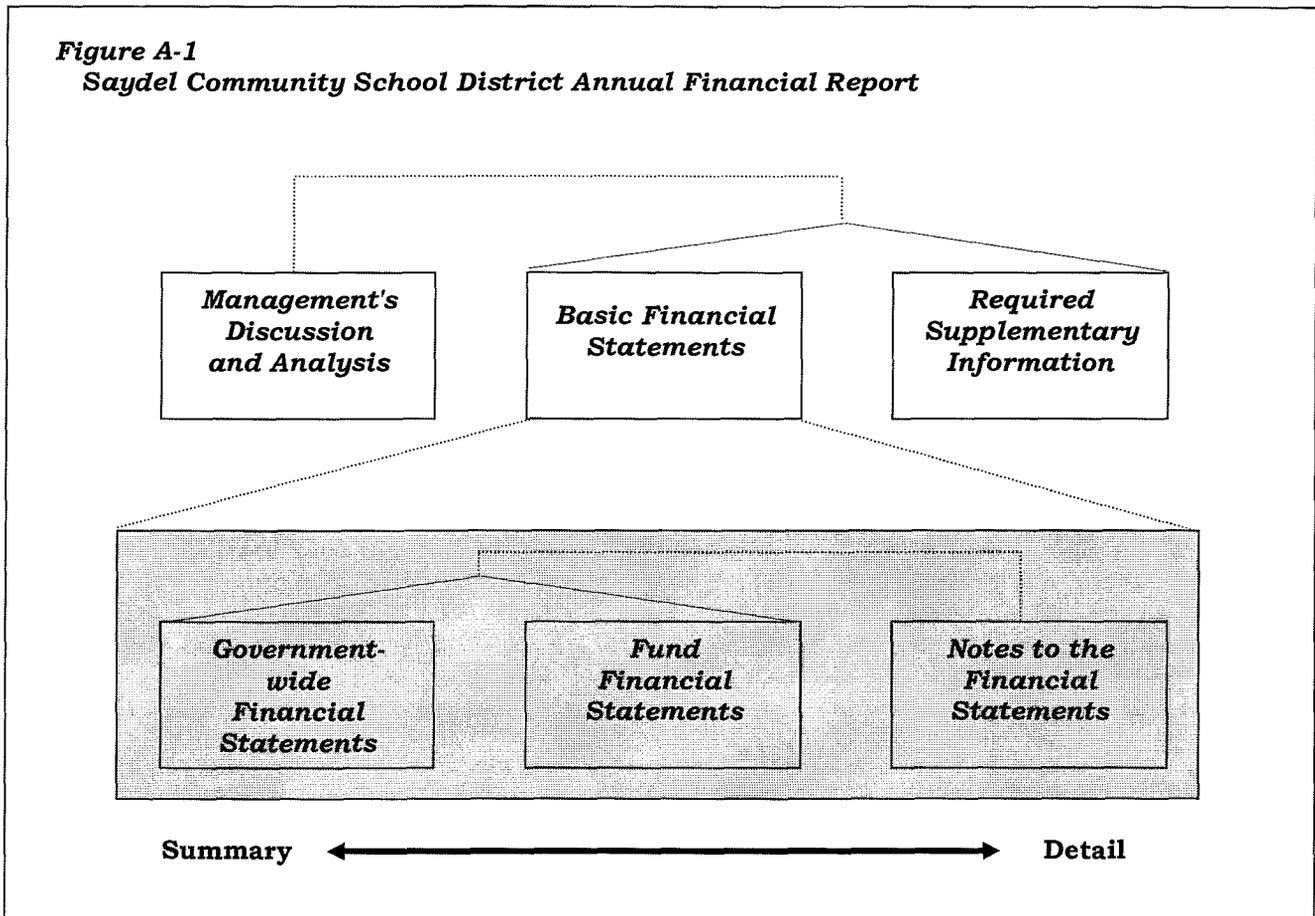


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Assets

	Governmental		Business-type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-04
Current and other assets	\$ 14,329,683	17,042,627	156,724	102,905	14,486,407	17,145,532	-15.51%
Capital assets	12,885,205	9,588,878	85,381	55,179	12,970,586	9,644,057	34.49%
Total assets	27,214,888	26,631,505	242,105	158,084	27,456,993	26,789,589	2.49%
Long-term obligations	11,590,000	12,870,000	0	0	11,590,000	12,870,000	-9.95%
Other liabilities	8,058,548	8,190,271	9,455	5,662	8,068,003	8,195,933	-1.56%
Total liabilities	19,648,548	21,060,271	9,455	5,662	19,658,003	21,065,933	-6.68%
Net assets:							
Invested in capital assets, net of related debt	3,594,827	(3,281,122)	85,381	55,179	3,680,208	(3,225,943)	214.08%
Restricted	1,453,458	1,118,408	0	0	1,453,458	1,118,408	29.96%
Unrestricted	2,518,055	7,733,948	147,269	97,243	2,665,324	7,831,191	-65.97%
Total net assets	\$ 7,566,340	5,571,234	232,650	152,422	7,798,990	5,723,656	36.26%

The District's combined net assets increased by 36.26%, or \$2,075,334, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents 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 \$335,050, or 29.96% over the prior year. The increase was primarily a result of the District in the increase in fund balances in the Special Revenue Funds.

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 \$5,165,867, or 65.97%. This decrease in unrestricted net assets was primarily a result of the District capital improvements made from the Capital Projects Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2004 compared to June 30, 2003.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-04
Revenues:							
Program revenues:							
Charges for services	\$ 1,100,793	883,265	379,645	391,750	1,480,438	1,275,015	16.11%
Operating grants and contributions and restricted interest	1,100,228	1,195,169	254,001	230,455	1,354,229	1,425,624	-5.01%
General revenues:							
Property tax	5,996,669	5,794,485	0	0	5,996,669	5,794,485	3.49%
Local option sales and services tax	1,325,164	1,275,206	0	0	1,325,164	1,275,206	3.92%
Unrestricted state grants	4,763,746	4,597,596	0	0	4,763,746	4,597,596	3.61%
Other	75,913	392,410	1,465	1,343	77,378	393,753	-80.35%
Total revenues	<u>14,362,513</u>	<u>14,138,131</u>	<u>635,111</u>	<u>623,548</u>	<u>14,997,624</u>	<u>14,761,679</u>	<u>1.60%</u>
Program expenses:							
Governmental activities:							
Instructional	7,106,583	6,894,743	0	0	7,106,583	6,894,743	3.07%
Support services	3,657,043	3,804,605	0	0	3,657,043	3,804,605	-3.88%
Non-instructional programs	30,253	0	593,697	573,249	623,950	573,249	8.84%
Other expenses	1,573,528	2,214,513	0	0	1,573,528	2,214,513	-28.94%
Total expenses	<u>12,367,407</u>	<u>12,913,861</u>	<u>593,697</u>	<u>573,249</u>	<u>12,961,104</u>	<u>13,487,110</u>	<u>-3.90%</u>
Excess of revenues over expenses before capital contributions	1,995,106	1,224,270	41,414	50,299	2,036,520	1,274,569	59.78%
Capital contributions	<u>0</u>	<u>0</u>	<u>38,814</u>	<u>11,729</u>	<u>38,814</u>	<u>11,729</u>	<u>230.92%</u>
Changes in net assets	1,995,106	1,224,270	80,228	62,028	2,075,334	1,286,298	61.34%
Beginning Net Assets	<u>5,571,234</u>	<u>4,346,964</u>	<u>152,422</u>	<u>90,394</u>	<u>5,723,656</u>	<u>4,437,358</u>	<u>28.99%</u>
Ending Net Assets	<u>\$ 7,566,340</u>	<u>5,571,234</u>	<u>232,650</u>	<u>152,422</u>	<u>7,798,990</u>	<u>5,723,656</u>	<u>36.26%</u>

Property tax, local option sales and services tax and unrestricted state grants account for 84% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 87% of the total expenses.

Changes in revenues will be as a result of changes in student participation, whether in the regular, special or extracurricular programs. Fluctuations in basic enrollment will significantly impact the state revenues, as well as property tax revenues, keeping in mind that neither source of funding will be ever fully realized with current law and funding structure as set by the legislature, and the mid-year reduction of funding on the part of the state.

The most significant fluctuation in expenditure levels will be caused by increased salary and benefit obligations, in large part resulting from collective bargaining agreements. With a declining enrollment comes lesser ability to fund various programs required by the state and constant evaluation of staffing needs becomes a priority. Even with certain staff reductions there may still be an increase in expenditures due to the salary and benefit requirements.

The District makes a continual effort to be a good steward of public funds and maintains a philosophy of providing the best education possible, exploring every avenue available to fund the programs, while making certain to keep watch for services that could be merged with other programs. The District saw a overall greater decrease in expenditures than the increase in revenues, demonstrating a declining position for the year while still maintaining a healthy overall financial position.

Governmental Activities

Revenues for governmental activities were \$14,362,513 and expenses were \$12,367,407.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 7,106,583	5,325,848
Support services	3,657,043	3,648,726
Non-instructional programs	30,253	30,253
Other expenses	1,573,528	1,161,559
Totals	<u>\$ 12,367,407</u>	<u>10,166,386</u>

- The cost financed by users of the District’s programs was \$1,100,793.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,100,228.
- The net cost of governmental activities was financed with \$5,996,669 in property tax, \$1,325,164 in local option sales and services tax, \$4,763,746 in state foundation aid and \$75,913 in interest income.

Business-Type Activities

Revenues of the District’s business-type activities were \$635,111 and expenses were \$593,697. The District’s business-type activities include the School Nutrition Fund, the Cornell Elementary Preschool, and the Eagles Nest Daycare. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income. The District also contributed capital from the PPEL and Capital Projects funds during the year of \$38,814.

During the year ended June 30, 2003, the District increased meal prices. This increase resulted in increased revenue to the School Nutrition Fund which the District has obligated for increased costs in future years.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$6,419,709, well below last year’s ending fund balances of \$9,017,569. However, the primary reason for the decrease in combined fund balances in fiscal 2004 is due to capital improvement expenditures.

Governmental Fund Highlights

- The District's growing General Fund financial position is the product of many factors. An increase during the year in state and federal grants resulted in an increase in revenues. However, the increase in revenues was less than offset by the District's increase in General Fund expenditures.
- The General Fund balance increased from \$2,163,574 to \$2,623,499.
- As previously noted, the Capital Projects Fund balance decreased due to the completion of capital improvements during fiscal 2004. The District ended fiscal 2003 with a balance of \$4,124,041. Fiscal 2004 ended with a balance of \$347,902, consisting primarily of excess local option sales and services tax proceeds which will be expended as projects are completed.

Proprietary Fund Highlights

The Proprietary Fund net assets increased from \$152,422 at June 30, 2003 to \$232,650 at June 30, 2004, representing an increase of 53%. As previously noted, the District increased meal prices, resulting in the increase in net assets. The District also revamped its school lunch program to provide students with the option of salad and/or pasta bars at lunch with little additional cost to the program. This change resulted in an increase in meals served and a related increase in revenue and net assets. The School Nutrition Fund received contributed capital of \$38,814 from the PPEL and Capital Projects Funds. The capital contributed increased capital assets and depreciation expense, as well as increased the net assets.

BUDGETARY HIGHLIGHTS

Over the course of the year, Saydel Community School District amended its annual budget one time to reflect additional expenditures associated with all functional areas except for the non-instructional programs.

The District's revenues were \$1,326,662 less than budgeted revenues, a variance of 7.97%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$13.0 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 34.49% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$865,941.

The original cost of the District's capital assets was \$32.7 million. Governmental funds account for \$32.5 million with the remainder of \$0.2 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$10,697,105 at June 30, 2004, compared to \$7,224,019 reported at June 30, 2004. This significant increase resulted from construction activity financed by the issuance of voter approved revenue bonds of \$6,725,000 in fiscal 2003 for remodeling.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-04
Land	\$ 7,500	7,500	0	0	7,500	7,500	0.00%
Buildings	10,697,105	7,224,019	0	0	10,697,105	7,224,019	48.08%
Land improvements	1,271,340	1,502,493	0	0	1,271,340	1,502,493	-15.38%
Machinery and equipment	909,260	854,866	85,381	55,179	994,641	910,045	9.30%
Total	\$ 12,885,205	9,588,878	85,381	55,179	12,970,586	9,644,057	34.49%

Long-Term Debt

At June 30, 2004, the District had \$11,590,000 in general obligation and other long-term debt outstanding. This represents a decrease of 9.9% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding general obligation bonds of \$5,635,000 at June 30, 2004.

The District had total outstanding revenue bonded indebtedness at June 30, 2004 of \$5,955,000.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2004	2003	2003-04
General obligation bonds	\$ 5,635,000	6,145,000	-8.3%
Revenue bonds	5,955,000	6,725,000	-11.4%
Totals	\$ 11,590,000	12,870,000	-9.9%

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:

- Although the District has experienced declining enrollment for the past three years, the District expects a slight increase in enrollment due to a new housing development in progress within the District.
- The District will negotiate new agreements with both the Saydel Education Association and the Public Professional and Maintenance Employees Local Union 2003 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 Joyce M. Johnson, District Secretary/Treasurer and Business Manager, Saydel Community School District, 5740 NE 14th St, Des Moines, Iowa, 50313.

BASIC FINANCIAL STATEMENTS

SAYDEL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 7,661,375	147,267	7,808,642
Receivables:			
Property tax:			
Delinquent	70,476	0	70,476
Succeeding year	6,449,607	0	6,449,607
Accounts	1,363	0	1,363
Due from other governments	146,862	0	146,862
Inventories	0	9,457	9,457
Capital assets, net of accumulated depreciation(note 4)	12,885,205	85,381	12,970,586
TOTAL ASSETS	27,214,888	242,105	27,456,993
LIABILITIES			
Accounts payable	466,751	1,390	468,141
Salaries and benefits payable	993,616	5,387	999,003
Accrued interest payable	148,574	0	148,574
Deferred revenue:			
Succeeding year property tax	6,449,607	0	6,449,607
Other	0	2,678	2,678
Long-term liabilities(note 5):			
Portion due within one year:			
Bonds payable	560,000	0	560,000
Revenue bonds payable	755,000	0	755,000
Portion due after one year:			
Bonds payable	5,075,000	0	5,075,000
Revenue bonds payable	5,200,000	0	5,200,000
TOTAL LIABILITIES	19,648,548	9,455	19,658,003
NET ASSETS			
Investment in capital assets, net of related debt	3,594,827	85,381	3,680,208
Restricted for:			
Phase III	39,496	0	39,496
Early intervention	21,973	0	21,973
Talented and gifted	43,561	0	43,561
Teacher compensation	414	0	414
Management levy	751,687	0	751,687
Physical plant and equipment levy	520,643	0	520,643
Other special revenue purposes	75,684	0	75,684
Unrestricted	2,518,055	147,269	2,665,324
TOTAL NET ASSETS	\$ 7,566,340	232,650	7,798,990

SEE NOTES TO FINANCIAL STATEMENTS.

SAYDEL COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
JUNE 30, 2004

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants, Contributions and Restricted Interest
Governmental activities:			
Instruction:			
Regular instruction	\$ 3,966,598	189,866	624,144
Special instruction	2,332,310	641,317	55,798
Other instruction	807,675	269,610	0
	<u>7,106,583</u>	<u>1,100,793</u>	<u>679,942</u>
Support services:			
Student services	421,302	0	0
Instructional staff services	373,818	0	0
Administration services	1,401,082	0	0
Operation and maintenance of plant services	1,089,049	0	0
Transportation services	371,792	0	8,317
	<u>3,657,043</u>	<u>0</u>	<u>8,317</u>
Non-instructional programs:			
Community service and education operations	30,253	0	0
Other expenditures:			
Long-term debt interest	528,361	0	0
AEA flowthrough	411,969	0	411,969
Depreciation (unallocated)*	633,198	0	0
	<u>1,573,528</u>	<u>0</u>	<u>411,969</u>
Total governmental activities	12,367,407	1,100,793	1,100,228
Business-Type activities:			
Non-instructional programs:			
Nutrition services	523,891	295,228	254,001
Preschool services	8,454	74,977	0
Daycare services	61,352	9,440	0
Total business-type activities	593,697	379,645	254,001
Total	\$ 12,961,104	1,480,438	1,354,229

General Revenues:

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

Total general revenues

Excess of revenues over expenses before capital contribution

Capital contributions

Changes in net assets

Net assets beginning of year

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(3,152,588)	0	(3,152,588)
(1,635,195)	0	(1,635,195)
(538,065)	0	(538,065)
(5,325,848)	0	(5,325,848)
(421,302)	0	(421,302)
(373,818)	0	(373,818)
(1,401,082)	0	(1,401,082)
(1,089,049)	0	(1,089,049)
(363,475)	0	(363,475)
(3,648,726)	0	(3,648,726)
(30,253)	0	(30,253)
(528,361)	0	(528,361)
0	0	0
(633,198)	0	(633,198)
(1,161,559)	0	(1,161,559)
(10,166,386)	0	(10,166,386)
0	25,338	25,338
0	66,523	66,523
0	(51,912)	(51,912)
0	39,949	39,949
(10,166,386)	39,949	(10,126,437)
\$ 4,743,562	0	4,743,562
847,880	0	847,880
405,227	0	405,227
1,325,164	0	1,325,164
4,763,746	0	4,763,746
75,913	1,465	77,378
12,161,492	1,465	12,162,957
1,995,106	41,414	2,036,520
0	38,814	38,814
1,995,106	80,228	2,075,334
5,571,234	152,422	5,723,656
\$ 7,566,340	232,650	7,798,990

SAYDEL COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Capital Projects	Debt Service	Nonmajor Special Revenue Funds	Total
ASSETS					
Cash and pooled investments	\$ 3,709,011	489,104	2,090,271	1,372,989	7,661,375
Receivables:					
Property tax					
Delinquent	50,124	0	10,023	10,329	70,476
Succeeding year	4,504,717	0	855,196	1,089,694	6,449,607
Accounts	1,346	0	0	17	1,363
Due from other governments	146,862	0	0	0	146,862
TOTAL ASSETS	\$ 8,412,060	489,104	2,955,490	2,473,029	14,329,683
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 290,228	141,202	0	35,321	466,751
Salaries and benefits payable	993,616	0	0	0	993,616
Deferred revenue - succeeding year					
property tax	4,504,717	0	855,196	1,089,694	6,449,607
Total liabilities	5,788,561	141,202	855,196	1,125,015	7,909,974
Fund balances:					
Reserved for:					
Phase III	39,496	0	0	0	39,496
Early intervention	21,973	0	0	0	21,973
Talented and gifted	43,561	0	0	0	43,561
Teacher compensation	414	0	0	0	414
Debt service	0	0	2,100,294	0	2,100,294
Unreserved:					
General	2,518,055	0	0	0	2,518,055
Capital projects	0	347,902	0	0	347,902
Management levy	0	0	0	751,687	751,687
Physical plant and equipment levy	0	0	0	520,643	520,643
Other special revenue purposes	0	0	0	75,684	75,684
Total fund balances	2,623,499	347,902	2,100,294	1,348,014	6,419,709
TOTAL LIABILITIES AND FUND BALANCES	\$ 8,412,060	489,104	2,955,490	2,473,029	14,329,683

SEE NOTES TO FINANCIAL STATEMENTS.

SAYDEL 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 17) \$ 6,419,709

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 report as assets in in the governmental funds. 12,885,205

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. (148,574)

Long-term liabilities, including bonds payable and revenue bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. (11,590,000)

Net assets of governmental activites (page 14) \$ 7,566,340

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Debt Service	Nonmajor Special Revenue Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 4,274,986	1,325,164	847,880	873,803	7,321,833
Tuition	831,183	0	0	0	831,183
Other	94,097	29,509	10,392	206,123	340,121
Intermediate sources	5,402	0	0	0	5,402
State sources	5,633,458	0	492	507	5,634,457
Federal sources	226,934	0	0	2,583	229,517
Total revenues	<u>11,066,060</u>	<u>1,354,673</u>	<u>858,764</u>	<u>1,083,016</u>	<u>14,362,513</u>
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	3,726,386	0	0	172,094	3,898,480
Special instruction	2,330,861	0	0	0	2,330,861
Other instruction	642,462	0	0	165,213	807,675
	<u>6,699,709</u>	<u>0</u>	<u>0</u>	<u>337,307</u>	<u>7,037,016</u>
Support services:					
Student services	374,929	0	0	8,067	382,996
Instructional staff services	375,832	0	0	1,346	377,178
Administration services	1,385,935	0	0	30,339	1,416,274
Operation and maintenance of plant services	897,182	0	0	305,897	1,203,079
Transportation services	460,579	0	0	10,381	470,960
	<u>3,494,457</u>	<u>0</u>	<u>0</u>	<u>356,030</u>	<u>3,850,487</u>
Non-instructional programs:					
Food service operations	0	0	0	30,253	30,253
Other expenditures:					
Facilities acquisitions	0	3,805,648	0	0	3,805,648
Long-term debt:					
Principal	0	0	1,280,000	0	1,280,000
Interest and fiscal charges	0	0	545,000	0	545,000
AEA flowthrough	411,969	0	0	0	411,969
	<u>411,969</u>	<u>3,805,648</u>	<u>1,825,000</u>	<u>0</u>	<u>6,042,617</u>
Total expenditures	<u>10,606,135</u>	<u>3,805,648</u>	<u>1,825,000</u>	<u>723,590</u>	<u>16,960,373</u>
Excess(deficiency) of revenues over(under) expenditures	459,925	(2,450,975)	(966,236)	359,426	(2,597,860)
Other financing sources(uses):					
Transfer in	0	0	1,325,164	0	1,325,164
Transfer out	0	(1,325,164)	0	0	(1,325,164)
Total other financing sources(uses)	<u>0</u>	<u>(1,325,164)</u>	<u>1,325,164</u>	<u>0</u>	<u>0</u>
Net change in fund balances	459,925	(3,776,139)	358,928	359,426	(2,597,860)
Fund balance beginning of year	2,163,574	4,124,041	1,741,366	988,588	9,017,569
Fund balance end of year	<u>\$ 2,623,499</u>	<u>347,902</u>	<u>2,100,294</u>	<u>1,348,014</u>	<u>6,419,709</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds (page 19) \$ (2,597,860)

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

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

Capital outlays	\$ 4,328,685	
Depreciation expense	(854,676)	
Loss on disposal of capital assets	<u>(177,682)</u>	3,296,327

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 1,280,000

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. 16,639

Changes in net assets of governmental activities (page 16) \$ 1,995,106

SEE NOTES TO FINANCIAL STATEMENTS.

SAYDEL COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 JUNE 30, 2004

	School Nutrition	Cornell Elem.	Eagles Nest	Total
ASSETS				
Current assets:				
Cash and pooled investments	\$ 108,818	5,446	33,003	147,267
Inventories	9,457	0	0	9,457
Capital assets, net of accumulated depreciation(note 6)	85,381	0	0	85,381
TOTAL ASSETS	203,656	5,446	33,003	242,105
LIABILITIES				
Accounts payable	1,390	0	0	1,390
Salaries and benefits payable	0	0	5,387	5,387
Deferred revenue:				
Other	2,678	0	0	2,678
TOTAL LIABILITIES	4,068	0	5,387	9,455
NET ASSETS				
Investment in capital assets, net of related debt	85,381	0	0	85,381
Unrestricted	114,207	5,446	27,616	147,269
Total net assets	\$ 199,588	5,446	27,616	232,650

SEE NOTES TO FINANCIAL STATEMENTS.

SAYDEL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2004

	School Nutrition	Cornell Elem.	Eagles Nest	Total
OPERATING REVENUE:				
Local sources:				
Charges for service	\$ 295,228	9,440	74,977	379,645
OPERATING EXPENSES:				
Non-instructional programs:				
Food service operations:				
Salaries	213,186	6,899	45,490	265,575
Benefits	55,998	1,555	5,465	63,018
Services	10,581	0	0	10,581
Supplies	232,861	0	10,397	243,258
Depreciation	11,265	0	0	11,265
TOTAL OPERATING EXPENSES	523,891	8,454	61,352	593,697
OPERATING INCOME (LOSS)	(228,663)	986	13,625	(214,052)
NON-OPERATING REVENUES:				
State sources	6,890	0	0	6,890
Federal sources	247,111	0	0	247,111
Interest income	1,146	42	277	1,465
TOTAL NON-OPERATING REVENUES	255,147	42	277	255,466
Income before contributions	26,484	1,028	13,902	41,414
Capital contributions	38,814	0	0	38,814
Changes in net assets	65,298	1,028	13,902	80,228
Net assets beginning of year	134,290	4,418	13,714	152,422
Net assets end of year	\$ 199,588	5,446	27,616	232,650

SEE NOTES TO FINANCIAL STATEMENTS.

SAYDEL COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2004

	School Nutrition	Cornell Elem.	Eagles Nest	Total
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 297,908	0	0	297,908
Cash received from miscellaneous operating activities	0	9,440	74,977	84,417
Cash payments to employees for services	(269,184)	(8,454)	(50,750)	(328,388)
Cash payments to suppliers for goods or services	(210,837)	0	(10,397)	(221,234)
Net cash provided by(used in) operating activities	(182,113)	986	13,830	(167,297)
Cash flows from non-capital financing activities:				
State grants received	6,890	0	0	6,890
Federal grants received	219,192	0	0	219,192
Net cash provided by non-capital financing activities	226,082	0	0	226,082
Cash flows from capital financing activities:				
Interfund loan repayment	924	0	(924)	0
Acquisition of capital assets	(2,653)	0	0	(2,653)
Net cash used in capital financing activities	(1,729)	0	(924)	(2,653)
Cash flows from investing activities:				
Interest on investment	1,146	42	277	1,465
Net cash provided by investing activities	1,146	42	277	1,465
Net increase in cash and cash equivalents	43,386	1,028	13,183	57,597
Cash and cash equivalents at beginning of year	65,432	4,418	19,820	89,670
Cash and cash equivalents at end of year	\$ 108,818	5,446	33,003	147,267
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:				
Operating income(loss)	\$ (228,663)	986	13,625	(214,052)
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:				
Commodities consumed	27,919	0	0	27,919
Depreciation	11,265	0	0	11,265
Decrease in inventories	3,776	0	0	3,776
Decrease in accounts receivable	2	0	0	2
Increase in accounts payable	910	0	0	910
Increase in salaries and benefits payable	0	0	205	205
Increase in deferred revenue	2,678	0	0	2,678
Net cash provided by(used in) operating activities	\$ (182,113)	986	13,830	(167,297)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:				
Current assets:				
Cash and investments	\$ 108,818	5,446	33,003	147,267
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:				
During the year ended June 30, 2004, the District received Federal commodities valued at \$27,919.				
During the year ended June 30, 2004, the District received contributed capital of \$3,527 from the Physical Plant and Equipment Levy Fund and \$35,287 from the Capital Projects Fund.				

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SAYDEL COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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

The Saydel 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 City of Des Moines, Iowa, and the predominate agricultural territory in Polk County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

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

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but 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 Polk 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 support.

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

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

The District's proprietary funds are the School Nutrition Fund, Cornell Elementary Preschool Fund, and Eagles Nest

Daycare Fund. The Nutrition fund is used to account for the food service operations of the District. The Cornell Elementary Preschool fund is used to account for the preschool operations of the District. The Eagles Nest Daycare fund is used to account for the daycare operations of the District.

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

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

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

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

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

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

Asset Class	Estimated Useful Life (In Years)
Buildings	50 years
Land improvements	20-50 years
Machinery 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 is payable in July and August, have been accrued as liabilities.

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

or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

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

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

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

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

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$44,473 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

(3) Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	<u>\$ 1,325,164</u>

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

(4) Capital Assets

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

	Balance Beginning of of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 7,500	0	0	7,500
Total capital assets not being depreciated	<u>7,500</u>	<u>0</u>	<u>0</u>	<u>7,500</u>
Capital assets being depreciated:				
Buildings	20,122,982	3,890,000	114,373	23,898,609
Land improvements	4,623,056	0	0	4,623,056
Machinery and equipment	4,835,792	438,685	1,324,752	3,949,725
Total capital assets being depreciated	<u>29,581,830</u>	<u>4,328,685</u>	<u>1,439,125</u>	<u>32,471,390</u>
Less accumulated depreciation for:				
Buildings	12,898,963	402,045	99,504	13,201,504
Land improvements	3,120,563	231,153	0	3,351,716
Machinery and equipment	3,980,926	221,478	1,161,939	3,040,465
Total accumulated depreciation	<u>20,000,452</u>	<u>854,676</u>	<u>1,261,443</u>	<u>19,593,685</u>
Total capital assets being depreciated, net	<u>9,581,378</u>	<u>3,474,009</u>	<u>177,682</u>	<u>12,877,705</u>
Governmental activities capital assets, net	<u>\$ 9,588,878</u>	<u>3,474,009</u>	<u>177,682</u>	<u>12,885,205</u>
Business-type activities:				
Furniture and equipment	\$ 149,055	41,467	3,658	186,864
Less accumulated depreciation	93,876	11,265	3,658	101,483
Business-type activities capital assets, net	<u>\$ 55,179</u>	<u>30,202</u>	<u>0</u>	<u>85,381</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 114,022
Special		5,099
Support services:		
Student		43,534
Instructional staff		6,050
Administration		29,968
Operation and maintenance of plant		7,602
Transportation		15,203
		<u>221,478</u>
Unallocated depreciation		<u>633,198</u>
Total governmental activities depreciation expense		<u>\$ 854,676</u>
Business-type activities:		
Food services		<u>\$ 11,265</u>

(5) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	6,145,000	0	510,000	5,635,000	560,000
Revenue bonds	6,725,000	0	770,000	5,955,000	755,000
Total	<u>\$ 12,870,000</u>	<u>0</u>	<u>1,280,000</u>	<u>11,590,000</u>	<u>1,315,000</u>

Bonds Payable

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

Year Ending June 30,	Bond Issue of May 1, 1995			Bond Issue of May 1, 1995		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2005	5.30%	\$ 235,000	174,275	5.25%	\$ 215,000	73,008
2006	5.40	245,000	27,530	5.30	175,000	14,628
2007	5.50	260,000	14,300	5.40	185,000	4,995
2008	-	-	-	-	-	-
2009	-	-	-	-	-	-
2010	-	-	-	-	-	-
2011	-	-	-	-	-	-
2012	-	-	-	-	-	-
2013	-	-	-	-	-	-
2014	-	-	-	-	-	-
Total		<u>\$ 740,000</u>	<u>216,105</u>		<u>\$ 575,000</u>	<u>92,631</u>

Year Ending June 30,	Bond Issue of May 15, 1996			Bond Issue of January 1, 1999				Total	
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	
2005	5.00% \$	90,000	11,386	4.00% \$	20,000	174,505	560,000	433,174	
2006	5.10	135,000	6,886	4.00	25,000	173,705	580,000	222,749	
2007	-	-	-	4.00	25,000	172,705	470,000	192,000	
2008	-	-	-	4.25	500,000	171,705	500,000	171,705	
2009	-	-	-	4.25	525,000	150,455	525,000	150,455	
2010	-	-	-	4.25	545,000	128,143	545,000	128,143	
2011	-	-	-	4.25	570,000	104,980	570,000	104,980	
2012	-	-	-	4.25	600,000	80,755	600,000	80,755	
2013	-	-	-	4.30	635,000	55,255	635,000	55,255	
2014	-	-	-	4.30	650,000	27,950	650,000	27,950	
Total		\$ 225,000	18,272		\$ 4,095,000	1,240,158	\$ 5,635,000	1,567,166	

Revenue Bonds Payable

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

Year Ending June 30,	Bond Issue of September 1, 2002			
	Interest Rates	Principal	Interest	Total
2005	3.00 % \$	755,000	181,688	181,688
2006	3.00	785,000	158,587	158,587
2007	3.00	815,000	134,587	134,587
2008	3.00	850,000	109,612	109,612
2009	3.30	875,000	82,425	957,425
2010	3.55	925,000	51,569	976,569
2011	3.70	950,000	17,575	967,575
Total		\$ 5,955,000	736,043	3,486,043

(6) Defeasance of Debt

In fiscal year 1996, the District refunded \$720,000 general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. The defeased bonds are callable in fiscal year ended 2005; the remaining balance of these bonds at June 30, 2004 is \$720,000. During the year ended June 30, 2004, \$0 of bonds and \$43,200 of interest outstanding were defeased.

In fiscal year 1999, the District refunded \$3,975,000 general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. The bonds are callable in fiscal year ended 2005; the remaining balance of these bonds at June 30, 2004 is \$3,975,000. During the year ended June 30, 2004, \$0 of bonds were defeased. During the year ended June 30, 2004, \$230,487 of interest was paid on these outstanding bonds. Interest on the 1999 Refunding Bonds for the year ended June 30, 2004 were paid from the escrow in the amount of \$174,505.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$369,326, \$354,740 and \$365,109 respectively, equal to the required contributions for each year.

(8) Risk Management

Saydel Community School District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed in July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following category: dental.

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

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$51,369.

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

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

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who

has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

Saydel 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. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$411,969 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

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

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 9,157,458	384,714
Intermediate sources	10,373	0
State sources	5,210,096	6,890
Federal sources	309,823	247,111
Total receipts	<u>14,687,750</u>	<u>638,715</u>
Disbursements:		
Instruction	6,764,028	0
Support services	4,020,949	0
Non-instructional programs	30,073	581,118
Other expenditures	6,124,686	0
Total disbursements	<u>16,939,736</u>	<u>581,118</u>
Excess(deficiency) of receipts over(under) disbursements	(2,251,986)	57,597
Balance beginning of year	<u>9,913,361</u>	<u>89,670</u>
Balance end of year	<u><u>\$ 7,661,375</u></u>	<u><u>147,267</u></u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
9,542,172	9,874,096	9,874,096	331,924
10,373	7,500	7,500	(2,873)
5,216,986	6,360,612	6,360,612	1,143,626
556,934	383,000	383,000	(173,934)
<u>15,326,465</u>	<u>16,625,208</u>	<u>16,625,208</u>	<u>1,298,743</u>
6,764,028	7,970,563	8,060,652	1,296,624
4,020,949	4,380,000	4,560,179	539,230
611,191	570,000	615,000	3,809
6,124,686	8,066,569	8,066,569	1,941,883
<u>17,520,854</u>	<u>20,987,132</u>	<u>21,302,400</u>	<u>3,781,546</u>
(2,194,389)	(4,361,924)	(4,677,192)	(2,482,803)
<u>10,003,031</u>	<u>6,784,060</u>	<u>6,784,060</u>	<u>3,218,971</u>
<u>7,808,642</u>	<u>2,422,136</u>	<u>2,106,868</u>	<u>736,168</u>

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

	Governmental Fund Types		
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 14,687,750	(325,237)	14,362,513
Expenditures	16,939,736	20,637	16,960,373
Net	(2,251,986)	(345,874)	(2,597,860)
Beginning fund balances	9,913,361	(895,792)	9,017,569
Ending fund balances	\$ 7,661,375	(1,241,666)	6,419,709

	Proprietary Fund Type		
	Enterprise		
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 610,796	24,315	635,111
Expenditures	553,199	40,498	593,697
Net	57,597	(16,183)	41,414
Capital contributions	0	0	38,814
Beginning net assets	89,670	62,752	152,422
Ending net assets	\$ 147,267	46,569	232,650

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$315,268.

OTHER SUPPLEMENTARY INFORMATION

SAYDEL COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2004

	Special Revenue Funds				
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Trust	Total Special Revenue Funds
ASSETS					
Cash and pooled investments	\$ 746,328	55,511	542,332	28,818	1,372,989
Receivables:					
Property tax					
Delinquent	5,539	0	4,790	0	10,329
Succeeding year	650,000	0	439,694	0	1,089,694
Accounts	0	0	0	17	17
TOTAL ASSETS	\$ 1,401,867	55,511	986,816	28,835	2,473,029
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable	\$ 180	8,012	26,479	650	35,321
Deferred revenue - succeeding year property tax	650,000	0	439,694	0	1,089,694
Total Liabilities	650,180	8,012	466,173	650	1,125,015
Fund Equity:					
Unreserved fund balances	751,687	47,499	520,643	28,185	1,348,014
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,401,867	55,511	986,816	28,835	2,473,029

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SAYDEL COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 YEAR ENDED JUNE 30, 2004

	Special Revenue Funds				Total Special Revenue Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Trust	
REVENUES:					
Local sources:					
Local tax	\$ 468,576	0	405,227	0	873,803
Other	22,523	180,045	3,178	377	206,123
State sources	272	0	235	0	507
Federal sources	0	0	2,583	0	2,583
TOTAL REVENUES	491,371	180,045	411,223	377	1,083,016
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	170,294	0	0	1,800	172,094
Other instruction	0	165,213	0	0	165,213
Support services:					
Student services	8,067	0	0	0	8,067
Instructional staff services	1,346	0	0	0	1,346
Administration services	30,339	0	0	0	30,339
Operation and maintenance of plant services	10,541	0	295,356	0	305,897
Transportation services	10,381	0	0	0	10,381
Non-instructional programs:					
Food service operations	30,253	0	0	0	30,253
TOTAL EXPENDITURES	261,221	165,213	295,356	1,800	723,590
Excess(deficiency) of revenues over(under) expenditures	230,150	14,832	115,867	(1,423)	359,426
FUND BALANCES BEGINNING OF YEAR	521,537	32,667	404,776	29,608	988,588
FUND BALANCES END OF YEAR	\$ 751,687	47,499	520,643	28,185	1,348,014

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
HS Drama	4,308	4,214	3,036	5,486
HS Debate	(300)	300	0	0
HS Band	(1,057)	1,300	0	243
HS Athletics	(24,619)	86,197	72,464	(10,886)
Class of 2001	(1,774)	1,774	0	0
Class of 2002	1,153	0	1,153	0
Class of 2003	2,809	0	269	2,540
Class of 2004	2,077	4,298	5,735	640
Class of 2005	2,380	4,543	2,450	4,473
Class of 2006	10	285	0	295
Class of 2007	0	1,028	0	1,028
Other HS Accounts	26,604	32,443	36,703	22,344
Woodside Accounts	19,115	42,257	42,136	19,236
Cornell Accounts	498	348	658	188
Norwoodville Accounts	276	939	609	606
Interest	1,187	119	0	1,306
Total	\$ 32,667	180,045	165,213	47,499

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 7,321,833	7,069,691	6,650,592	7,411,707
Tuition	831,183	634,092	789,101	489,486
Other	340,121	415,019	346,361	394,736
Intermediate sources	5,402	7,498	7,485	9,720
State sources	5,634,457	5,549,180	5,564,082	5,560,274
Federal sources	229,517	231,587	258,103	153,469
Total	<u>\$ 14,362,513</u>	<u>13,907,067</u>	<u>13,615,724</u>	<u>14,019,392</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 3,898,480	4,129,736	4,263,825	4,348,995
Special instruction	2,330,861	1,991,768	1,914,258	1,281,898
Other instruction	807,675	808,977	1,036,400	927,700
Support services:				
Student services	382,996	346,912	617,704	434,792
Instructional staff services	377,178	418,433	488,340	636,598
Administration services	1,416,274	1,237,231	1,186,100	1,305,039
Operation and maintenance of plant services	1,203,079	1,343,647	1,078,018	1,367,485
Transportation services	470,960	457,323	403,722	525,463
Non-instructional programs	30,253	0	215	0
Other expenditures:				
Facilities acquisition	3,805,648	2,174,936	1,473,231	1,117,433
Long-term debt:				
Principal	1,280,000	1,530,000	450,000	425,000
Interest and other charges	545,000	471,488	395,302	421,711
AEA flowthrough	411,969	419,018	421,526	436,259
Total	<u>\$ 16,960,373</u>	<u>15,329,469</u>	<u>13,728,641</u>	<u>13,228,373</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

To the Board of Education of the
Saydel Community School District:

We have audited the financial statements of Saydel Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated December 7, 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 Saydel 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.

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 on 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.

Internal Control Over Financial Reporting

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

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

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Saydel Community School District and other parties to whom Saydel 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 Saydel Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

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

December 7, 2004

SAYDEL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- I-A-04 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted in the Student Activity Fund that the cash receipts and bank deposits were done by the same person.

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

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

Conclusion - Response accepted.

- I-B-04 Student Activity Deficit Accounts - We noted during our audit that the district has large deficit accounts in the Student Activity fund.

Recommendation - The district should continue to monitor this fund and investigate alternatives to eliminate these deficits.

Response - We will make the necessary changes.

Conclusion - Response accepted.

- I-C-04 Supporting Documents for Payments to Officials - Payments made to officials from the Student Activity fund do not have supporting documentation.

Recommendation - The copy of the contract made for each official should be used as the support for payment.

Response - We will make the necessary changes.

Conclusion - Response accepted.

- I-D-04 Board Meeting Supplies - We noted during our audit that the Superintendent purchased and was reimbursed for board meeting supplies.

Recommendation - The District should establish a public purpose policy to ensure that the items purchased meet public purpose.

Response - We will create a public purpose policy and review purchases to ensure that they meet public purpose.

Conclusion - Response accepted.

SAYDEL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part II: Other Findings Related to Statutory Reporting

- II-A-04 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- II-B-04 Certified Budget - District disbursements for the year ended June 30, 2004, did not exceed the amount budgeted.
- II-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-D-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-E-04 Business Transactions - No business transactions between the District and District officials were noted.
- II-F-04 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-H-04 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students which were tuition enrolled out was understated by one student.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Iowa Department of Education and the Department of Management .

Conclusion - Response accepted.

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