

SHENANDOAH COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2004

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Shenandoah Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 election)		
Ken Lee	President	2003
Margaret Brady	Vice President	2003
Marla Hart	Board Member	2005
Martin Maher	Board Member	2005
Roger Jones	Board Member	2004
Board of Education (After September 2003 election)		
Ken Lee	President	2006
Margaret Brady	Vice President	2006
Marla Hart	Board Member	2005
Martin Maher	Board Member	2005
Roger Jones	Board Member	2004
School Officials		
Dick Profit	Superintendent	2004
Shirley Lundgren	District Secretary/Treasurer and Business Manager	2004
Jeffery A. Krausman	Attorney	2004

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

As described in Note 9 to the financial statements, during the year ended June 30, 2004, Shenandoah 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 - State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation Number 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated August 18, 2004 on our consideration of the Shenandoah Community School District's internal control over financial

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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 16 and 40 through 42 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Shenandoah 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 two years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for year ended June 30, 2001 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, 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.

August 18, 2004

Management Discussion and Analysis

The discussion and analysis of Shenandoah Community School District's financial performance provides an overall review of the School District's financial activities, identifies changes in financial position and focuses on significant financial issues for the fiscal year ending June 30, 2004.

The District is implementing new reporting standards this fiscal year. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the School District's revenues and expenditures by program for the General Fund, Management Fund, Capital Projects Fund, Debt Service Fund, Internal Services Fund, PPEL Fund, Activity Fund, Trust Fund and Nutrition Fund.

This reporting model offers a narrative overview and analysis of the school district's financial performance during the fiscal year. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Since the MD&A provides summary level financial information, readers are encouraged to consider this information with the basic financial statements to understand the School District's financial performance.

Since this is the first year that requires all activities to be reported on a full accrual basis, a comprehensive comparison to the prior year is not possible. Efforts have been made to provide comparison to prior year data when such data is available. In subsequent years, comparison to prior year data will be provided for all key financial information.

FINANCIAL HIGHLIGHTS

- ◆ The district applied to the SBRC for allowable growth of \$605,161 to convert from cash basis budgeting to GAAP budgeting.
 - ◆ General Fund revenues decreased from \$7,374,299 in fiscal year 2003 to \$7,131,276 in fiscal year 2004, while General Fund expenditures increased from \$6,796,280 in fiscal year 2003 to \$7,246,481 in fiscal year 2004. This resulted in a decrease in the District's General Fund balance from \$1,445,987 in fiscal year 2003 to \$1,330,782 fiscal year 2004.
 - ◆ The decrease in general fund revenues was due to a decrease in state aid and property tax monies received. The general fund expenditures increased on a cash basis as fourteen months of salaries and benefits are included in the expenditures due to the conversion from cash based budgeting to GAAP budgeting. This only affects the budgeting process.
 - ◆ We received \$3,441,632 in state aid which is a decrease of \$71,415 from the previous year. The State of Iowa reduced state revenues by an across-the-board 2.5% reduction. Since the reduction occurred mid year, the District had already obligated the resources to fund fiscal 2004 salaries and programs. The District responded to the reduction by using a portion of the District's unreserved, undesignated fund balance.
 - ◆ Our overall tax levy was 14.38, compared to 14.61 the previous year. The decrease is due to Local Option Sales & Service tax money that is applied to the bond payment and a decrease in the cash reserve levy.
-

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This annual report consists of a series of financial statements and notes to those statements. The financial statements provide insights into the results of this year's operations. This annual report includes this management's discussion and analysis report, the independent auditor's report, and the basic financial statements of the District as a financial whole, an entire operating entity.

The Statement of Net Assets provides information about the activities of the School District as a whole, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the school district's most significant funds with all other non-major funds presented in total in one column. For Shenandoah Community School District, the general fund is the most significant fund. The PPEL and Debt Service funds are also significant funds.

The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the district, reporting the district's operations in more detail than the government-wide statements

The statements for governmental fund statements explain how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.

The statements for proprietary fund statements offer short-term and long-term financial information about the activities the district operates like businesses, such as food service.

The statements for fiduciary fund statements provide information about the financial relationships in which the district acts solely as a trustee or agent for the benefit of others.

A government-wide financial statement is the statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statement of net assets presents the financial condition of the governmental activities of the district at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the financial statements with a comparison of the District's budget for the year.

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

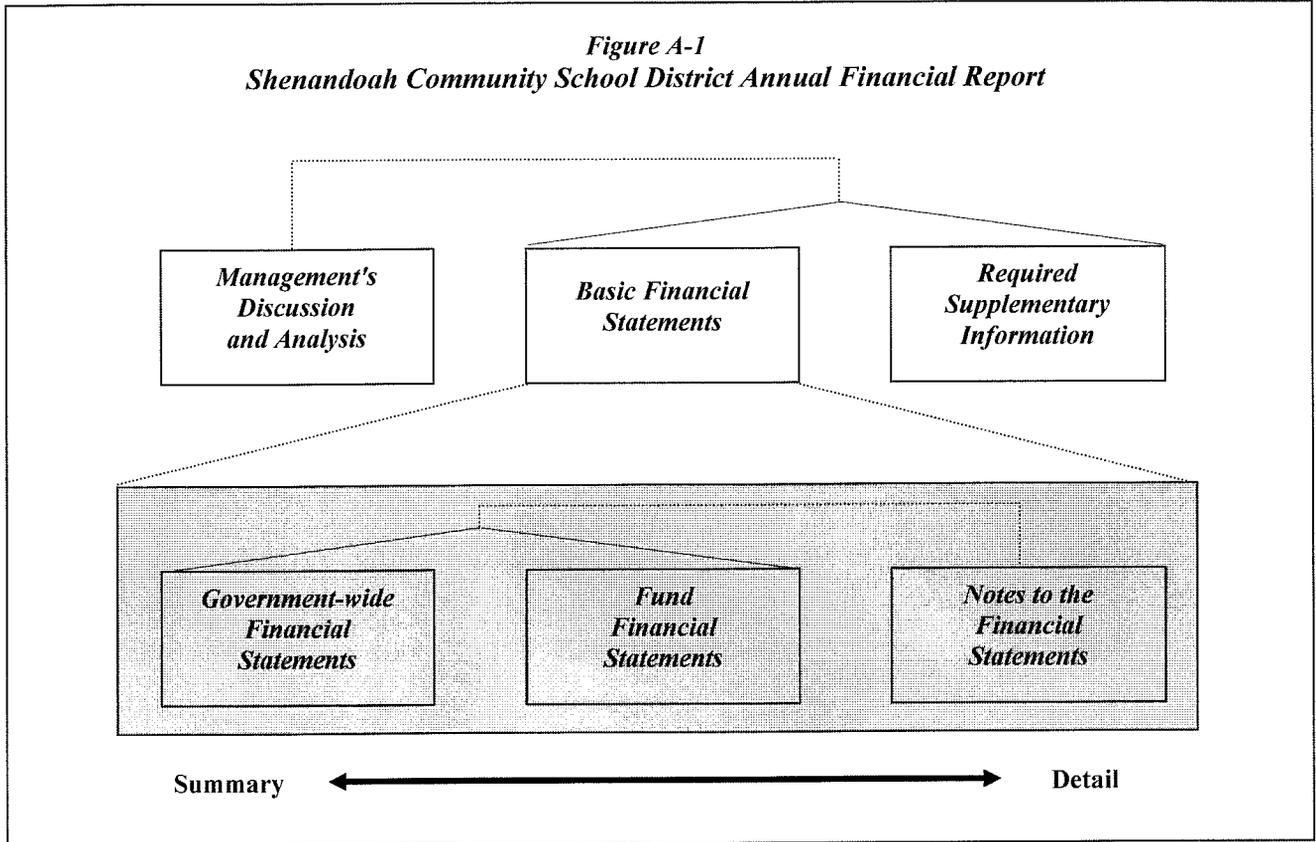


Figure A-2 on the next page summarizes the major features of the government-wide and fund financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and content of each of the statements.

Figure A-2: Major Features of the District Wide and Fund Financial Statements

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

GOVERNMENT-WIDE STATEMENTS -- REPORTING THE DISTRICT AS A WHOLE

One of the most important questions that can be asked about the school district is if it is better off or worse off financially than it was a year ago. The government-wide statements report information on the school district as a whole and include all assets and liabilities using the accrual basis of accounting. This basis of accounting takes into account all of the current year's revenues and expenditures regardless of when the cash is received or paid.

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 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 School District's financial health or position. The change in net assets is important because it tells the reader that, for the School District as a whole, if the financial position has improved or diminished. Over time, increases or decreases in the School District's net assets are one indicator of whether its financial health is improving or deteriorating. The causes of this change may be the result of many factors, some financial and some not. The School District's goal is to provide services to our students, not to generate profits as commercial entities do. Therefore, to assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base, the condition of school buildings and other facilities, the quality of the education provided and the safety of the schools. All of these factors are used to assess the overall health of the School District.

Governmental Activities – Most of the school district's services are reported here, including regular and special education instruction, support, plant and transportation services. Property taxes, state foundation, categorical grants, and state and federal grants finance most these activities.

Business Type Activities – These funds are used to account for services provided to school districts where all or most of the costs are recovered through services charged to the users of such services, or from transfers from other funds. The district's food service program would be included here.

FUND FINANCIAL STATEMENTS -- REPORTING THE DISTRICT BY FUNDS

The School District's fund financial statements provide more detailed information about the School District's most significant or "major" funds – not the school district as a whole. The School District uses many funds to account for a multitude of financial transactions. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. The funds are established 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. Some funds are required by State law and some by bond covenants. The School District's major governmental funds are the General Fund, the Debt Service Fund and the Physical Plant and Equipment Fund.

The District has three types of funds – Governmental funds, Proprietary funds and Fiduciary funds.

Governmental funds: Most of the district’s basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental funds statements provide a detailed short-term view of the School District’s general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements. The District’s governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Funds.

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 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 has one enterprise fund, the School Nutrition Fund. The District also has one Internal Service Fund used to account for employee flex benefit activities. The Internal Service Fund is blended in the government-wide statements in the Governmental Activities.

Fiduciary funds: The district is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust. Private-Purpose Trust funds accounts for outside donations to a school district for a specific purpose. The district is responsible for ensuring that the assets reported in these 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.

NET ASSETS

The Statement of Net Assets provides the summary of the School District as a whole. Since this is the first year of implementation there is no comparison data.

Figure A-3 on the following page provides a summary of the District’s net assets for the year ended June 30, 2004 totaling over \$8.6 million government-wide.

Unrestricted net assets of \$1,320,677 represent the accumulated results of all past year’s operations. It means that if we had to pay off all of our bills today, including all of our liabilities, we would have \$1,320,677 left.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Current and other assets	\$ 7,371,961	90,708	7,462,669
Capital assets	14,001,874	65,228	14,067,102
Total assets	<u>21,373,835</u>	<u>155,936</u>	<u>21,529,771</u>
Long-term obligations	9,134,300	0	9,134,300
Other liabilities	3,754,631	2,613	3,757,244
Total liabilities	<u>12,888,931</u>	<u>2,613</u>	<u>12,891,544</u>
Net assets:			
Invested in capital assets, net of related debt	5,947,809	65,228	6,013,037
Restricted	1,304,513	0	1,304,513
Unrestricted	1,232,582	88,095	1,320,677
Total net assets	<u>\$ 8,484,904</u>	<u>153,323</u>	<u>8,638,227</u>

CHANGES IN NET ASSETS

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

In Figure A-4 property tax, local option sales and services tax and unrestricted state grants account for 79% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 86% of the total expenses.

The total cost of our general fund activities this year was \$7.25 million. The amount that our taxpayers ultimately financed for general fund activities through school district taxes was \$2.28 million or 31.5% of our total program costs. Some of the costs were paid by those who benefited from the programs, and by subsidizing certain programs with grants and contributions and other miscellaneous sources.

Revenues dropped because of the 2.5% state across-the-board cut, Phase III was cut, we received less property taxes and more students are on free and reduced lunch which reduces the amount of school fees collected.

Figure A-4
Changes of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Revenues:			
Program revenues:			
Charges for services	\$ 833,013	186,761	1,019,774
Operating grants and contributions and restricted interest	997,953	198,030	1,195,983
Capital grants and contributions and restricted interest	3,534	0	3,534
General revenues:			
Property tax	3,213,911	0	3,213,911
Local option sales and services tax	511,728	0	511,728
Unrestricted state grants	3,444,697	0	3,444,697
Other	24,537	338	24,875
Total revenues	9,029,373	385,129	9,414,502
Program expenses:			
Governmental activities:			
Instructional	5,383,494	0	5,383,494
Support services	1,850,460	0	1,850,460
Non-instructional programs	15,310	351,176	366,486
Other expenses	1,124,752	0	1,124,752
Total expenses	8,374,016	351,176	8,725,192
Changes in net assets	\$ 655,357	33,953	689,310

GOVERNMENTAL ACTIVITIES

Revenues for governmental activities were \$9,029,373 while expenditures were \$8,374,016. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues. Total expenditures increased due to the increase in salaries and benefits.

Figure A-5 on the next page 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	\$ 5,383,494	3,890,778
Support services	1,850,460	1,796,417
Non-instructional programs	15,310	15,310
Other expenses	1,124,752	837,011
Totals	\$ 8,374,016	6,539,516

Figure A-4 on the previous page and Figure A-5 above shows:

- ◆ The cost financed by users of the District’s programs was \$833,013.
- ◆ Federal and state governments subsidized certain programs with grants and contributions totaling \$1,001,487.
- ◆ The net cost of governmental activities was financed with \$3,213,911 in property tax, \$511,728 in local option sales and services tax, \$3,444,697 in unrestricted state grants and \$24,537 in interest income.
- ◆ The flex education center was started this year. This involved hiring a teacher and an associate.
- ◆ The number of special education students increased which increased special education costs as we hired two additional teachers’ associates.
- ◆ The high school restrooms were remodeled and half of the high school windows around the courtyard were replaced.

BUSINESS-TYPE ACTIVITIES

Revenues of the District’s business-type activities were \$385,129 while expenditures were \$351,176. The District’s business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of service, federal and state reimbursements and investment income.

During the year ended June 30, 2004, the school nutrition program installed AccuScan, a meal tracking system at the high school. By using AccuScan, the a la carte sales decreased and meal reimbursements increased at the high school. Breakfast participation increased at the PK-8 building. Both of these factors increased revenues for the school nutrition fund.

GOVERNMENTAL AND PROPRIETARY FUND HIGHLIGHTS

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

The strong financial performance of the District as a whole is reflected in the governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$3,510,269, above last year’s ending fund balance of \$3,145,621. The primary reason

for the increase in combined fund balance is due to the local option sales and services taxes as an additional revenue source.

Governmental Fund Highlights:

The District's general fund financial position is a product of many factors.

- ◆ The General Fund balance decreased from \$1,445,987 to \$1,330,782 due in part to the 2.5% across-the-board state budget cut and less property taxes received.
- ◆ Other factors that affected the fund balance were: Summer school; start of the Flex Ed Center; gasoline prices increased; hired additional Special Education teacher associates; and the addition of bus routes for breakfast, Pre School and to the Alpha School.

Proprietary Fund Highlights:

The School Nutrition Fund net assets increased from \$119,370 at June 30, 2003 to \$153,323 at June 30, 2004 or 28.4%. The District revamped the lunch program at the high school to track meals using AccuScan. Breakfast participation increased this year. These changes resulted in an increased in meals served and a related increase in revenue and net assets.

BUDGETARY HIGHLIGHTS

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 its private-purpose trust funds. 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 budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget for all funds is prepared according on a GAAP basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 41 and 42.

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

The most significant budgeted fund is the General Fund.

- ◆ For the General Fund, the GAAP revenues were \$7,131,276 and the GAAP expenditures were \$7,246,481. The General Fund had an ending fund balance of \$1,330,782.
- ◆ The most significant change resulted in the District receiving less in various components of state aid than originally anticipated and less in property taxes.

Another significant fund is the Physical Plant and Equipment Levy.

- ◆ For the PPEL fund, the GAAP revenues were \$362,411 and the GAAP expenditures were \$162,798. The PPEL fund had an ending fund balance of \$911,803.
- ◆ This year, out of the PPEL fund, some of the things the District purchased were a school bus; remodeled the High School restrooms; put new windows in at the high school; repaired roof on the auditorium; installed air conditioning, carpet and a phone system at the administration office; and paid the debt payments for the street project and the bus lease.

Another significant fund is the Debt Service.

- ◆ For the Debt Service fund, the GAAP revenues were \$429,340 and the GAAP expenditures were \$804,397. The Debt Service fund had an ending fund balance of \$909,216.
- ◆ This year, out of the Debt Service fund, the school district paid debt interest and principal payments for the street project, the bus lease and the general obligation bond.

During fiscal year 2004, the School District had to amend the budget in the non-instructional programs and other expenditures functional budget areas due to changes in expenditures.

CAPITAL ASSETS

At June 30, 2004, the District had invested \$14,067,102, net of accumulated depreciation in a broad range of capital assets, including land, buildings, athletic facilities, computers and transportation equipment. Governmental funds account for \$14,001,874 of the capital assets with the remainder of \$65,228 in the Proprietary, School Nutrition Fund. Depreciation expense for the year was \$499,690.

The primary increase in capital assets for governmental activities is a result of the completion of the new PK-8 building. The primary increase in capital assets for the business-type activity was due to the purchase of new equipment for the PK-8 building.

Figure A-6 presents the capital assets for the district.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Land	\$ 183,000	0	183,000
Buildings	13,050,171	0	13,050,171
Improvements other than buildings	358,271	0	358,271
Machinery and equipment	410,432	65,228	475,660
Total	<u>\$ 14,001,874</u>	<u>65,228</u>	<u>14,067,102</u>

LONG –TERM DEBT

As of June 30, 2004, the School District had \$9,134,300 in general obligation bonds and other long-term debt outstanding. This represents a decrease of 3.9% from last year.

There was \$7,455,000 in outstanding debt for the PK-8 building. The bonds are paid from property taxes and from Local Option Sales & Service tax monies. The debt will be paid over 30 years with the final payment due in fiscal year 2021.

The School District had \$505,000 in outstanding debt for the street project for the PK-8 building. The assessment is paid from income surtax monies. The debt will be paid over 10 years with the last payment due in fiscal year 2012.

The School District had \$1,000,000 in outstanding debt for the Quality Zone Academy Bonds. The bonds are paid from the QZAB principal and interest and are backed by the income surtax monies. The debt is paid over 9 years with the last payment due in fiscal year 2011.

The School District had \$43,084 in an outstanding lease for a 2002 school bus. The lease is paid for from the PPEL Fund. The lease is paid in arrears with the last payment due in fiscal year 2008.

The School District had \$43,826 in outstanding debt for early retirements from past years. The early retirements are paid for from the Management Fund.

The School District had \$87,390 in outstanding debt for compensated absences from the current year. The compensated absences are paid for from the General Fund.

Figure A-7 presents the outstanding long-term debt for the district.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
General Obligation Bonds	\$ 7,455,000	7,730,000	-3.6%
Quality Zone Academy Bonds	1,000,000	1,000,000	0.0%
Street Assessment	505,000	565,000	-10.6%
Bus Lease	43,084	52,398	-17.8%
Early Retirement	43,826	68,754	-36.3%
Compensated Absences	87,390	99,420	-12.1%
Totals	<u>\$ 9,134,300</u>	<u>9,515,572</u>	<u>-4.0%</u>

FACTORS THAT IMPACT THE DISTRICT'S FUTURE

The Shenandoah Community School District is proud of the generous community support of the public schools.

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 Board of Directors approved a 5 year Instructional Support Levy starting with the FY 05 school year. The enrollment increased for the first time in eight years and the number of students opened enrolled in is slightly higher than the number of students opened enrolled out.

Concerns that remain in the forefront of the minds of the administration and Board of Directors are the escalating health insurance costs. State cuts in the budget guarantee will impact the school district as well as the cost to fund the state mandate No Child is Left Behind. If the income surtax continues to decrease, the amount of money available for vehicles, building repairs and improvements in the PPEL fund will decrease.

CONTACTING THE SCHOOL DISTRICT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Shenandoah Community School District's finances and to demonstrate the School District's accountability for the monies it receives. If you have questions about this report or should desire additional detailed financial program audits they can be obtained by contacting: Shirley Lundgren, Business Manager, Shenandoah Community School District, 304 W. Nishna Road, Shenandoah, IA 51601.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:	\$ 4,058,539	87,352	4,145,891
Receivables:			
Property tax:			
Delinquent	41,975	0	41,975
Succeeding year	2,864,393	0	2,864,393
Income surtax	219,078	0	219,078
Accounts	16,137	0	16,137
Due from other governments	170,109	0	170,109
Inventories	1,730	3,356	5,086
Capital assets, net of accumulated depreciation (Note 4)	14,001,874	65,228	14,067,102
TOTAL ASSETS	21,373,835	155,936	21,529,771
LIABILITIES			
Accounts payable	12,416	36	12,452
Salaries and benefits payable	683,011	0	683,011
Accrued interest payable	113,096	0	113,096
Deferred revenue:			
Succeeding year property tax	2,864,393	0	2,864,393
Other	81,715	2,577	84,292
Long-term liabilities (Note 5):			
Portion due within one year:			
Bonds payable	295,000	0	295,000
Street assessment payable	60,000	0	60,000
Bus lease payable	9,863	0	9,863
Early retirement	27,981	0	27,981
Compensated absences	87,390	0	87,390
Portion due after one year:			
Bonds payable	7,160,000	0	7,160,000
QZAB payable	1,000,000	0	1,000,000
Street assessment payable	445,000	0	445,000
Bus lease payable	33,221	0	33,221
Early retirement	15,845	0	15,845
TOTAL LIABILITIES	12,888,931	2,613	12,891,544
NET ASSETS			
Investment in capital assets, net of related debt	5,947,809	65,228	6,013,037
Restricted for:			
Talented and gifted	5,806	0	5,806
Teacher compensation	1,703	0	1,703
Phase III	4,380	0	4,380
Physical plant and equipment levy	1,087,797	0	1,087,797
Management levy	123,912	0	123,912
Other special revenue purposes	80,915	0	80,915
Unrestricted	1,232,582	88,095	1,320,677
TOTAL NET ASSETS	\$ 8,484,904	153,323	8,638,227

SEE NOTES TO FINANCIAL STATEMENTS.

SHENANDOAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	\$ 3,249,177	240,531	448,260	0
Special instruction	1,462,044	104,809	202,043	0
Other instruction	672,273	474,901	22,172	0
	<u>5,383,494</u>	<u>820,241</u>	<u>672,475</u>	<u>0</u>
Support services:				
Student services	169,012	886	36,106	0
Instructional staff services	258,928	0	0	0
Administration services	663,212	24	0	0
Operation and maintenance of plant services	534,511	2,191	0	3,534
Transportation services	224,797	9,671	1,631	0
Central support services	0	0	0	0
	<u>1,850,460</u>	<u>12,772</u>	<u>37,737</u>	<u>3,534</u>
Non-instructional programs:				
Food service operations	15,310	0	0	0
	<u>15,310</u>	<u>0</u>	<u>0</u>	<u>0</u>
Other expenditures:				
Long-term debt interest	453,950	0	0	0
AEA flowthrough	287,741	0	287,741	0
Depreciation(unallocated)*	383,061	0	0	0
	<u>1,124,752</u>	<u>0</u>	<u>287,741</u>	<u>0</u>
Total governmental activities	8,374,016	833,013	997,953	3,534
Business-Type activities:				
Non-instructional programs:				
Nutrition services	351,176	186,761	198,030	0
Total business-type activities	<u>351,176</u>	<u>186,761</u>	<u>198,030</u>	<u>0</u>
Total	\$ 8,725,192	1,019,774	1,195,983	3,534

General Revenues:

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

Total general revenues

Changes in net assets

Net assets beginning of year, as restated(Note 9)

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(2,560,386)	0	(2,560,386)
(1,155,192)	0	(1,155,192)
(175,200)	0	(175,200)
<u>(3,890,778)</u>	<u>0</u>	<u>(3,890,778)</u>
(132,020)	0	(132,020)
(258,928)	0	(258,928)
(663,188)	0	(663,188)
(528,786)	0	(528,786)
(213,495)	0	(213,495)
0	0	0
<u>(1,796,417)</u>	<u>0</u>	<u>(1,796,417)</u>
(15,310)	0	(15,310)
<u>(15,310)</u>	<u>0</u>	<u>(15,310)</u>
(453,950)	0	(453,950)
0	0	0
(383,061)	0	(383,061)
<u>(837,011)</u>	<u>0</u>	<u>(837,011)</u>
(6,539,516)	0	(6,539,516)
0	33,615	33,615
0	33,615	33,615
<u>(6,539,516)</u>	<u>33,615</u>	<u>(6,505,901)</u>
\$ 2,477,536	0	2,477,536
419,985	0	419,985
316,390	0	316,390
511,728	0	511,728
3,444,697	0	3,444,697
24,537	338	24,875
<u>7,194,873</u>	<u>338</u>	<u>7,195,211</u>
655,357	33,953	689,310
<u>7,829,547</u>	<u>119,370</u>	<u>7,948,917</u>
<u>\$ 8,484,904</u>	<u>153,323</u>	<u>8,638,227</u>

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

	General	Physical Plant and Equipment Levy	Debt Service	Other Nonmajor Governmental Funds	Total
ASSETS					
Cash and pooled investments:	\$ 1,944,457	910,096	902,773	300,134	4,057,460
Receivables:					
Property tax:					
Delinquent	31,152	1,707	6,443	2,673	41,975
Succeeding year	2,229,998	113,661	360,734	160,000	2,864,393
Income surtax	0	219,078	0	0	219,078
Accounts	11,273	0	0	4,864	16,137
Due from other governments	118,719	0	0	51,390	170,109
Inventories	1,523	0	0	207	1,730
TOTAL ASSETS	\$ 4,337,122	1,244,542	1,269,950	519,268	7,370,882
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 11,616	0	0	800	12,416
Salaries and benefits payable	683,011	0	0	0	683,011
Deferred revenue:					
Succeeding year property tax	2,229,998	113,661	360,734	160,000	2,864,393
Income surtax	0	219,078	0	0	219,078
Other	81,715	0	0	0	81,715
Total liabilities	3,006,340	332,739	360,734	160,800	3,860,613
Fund balances:					
Reserved for:					
Debt service	0	0	909,216	0	909,216
Talented and gifted	5,806	0	0	0	5,806
Teacher compensation	1,703	0	0	0	1,703
Phase III	4,380	0	0	0	4,380
Unreserved:					
Undesignated:					
General	1,318,893	0	0	0	1,318,893
Physical plant and equipment levy	0	911,803	0	0	911,803
Management levy	0	0	0	167,738	167,738
Other special revenue purposes	0	0	0	80,915	80,915
Capital projects	0	0	0	109,815	109,815
Total fund balances	1,330,782	911,803	909,216	358,468	3,510,269
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,337,122	1,244,542	1,269,950	519,268	7,370,882

SEE NOTES TO FINANCIAL STATEMENTS.

SHENANDOAH 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 20)	\$	3,510,269
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		14,001,874
Blending of the Internal Service Funds to be reflected on an entity-wide basis.		1,079
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		219,078
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.		(113,096)
Long-term liabilities, including bonds payable, QZAB payable, street assessment payable, bus lease payable, early retirement payable, and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(9,134,300)</u>
Net assets of governmental activities (page 17)	\$	<u>8,484,904</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Physical Plant and Equipment Levy	Debt Service	Other Nonmajor Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 2,281,779	345,311	419,985	707,485	3,754,560
Tuition	302,508	0	0	0	302,508
Other	105,084	13,439	8,936	427,583	555,042
Intermediate sources	36,106	0	0	0	36,106
State sources	4,040,873	127	419	199	4,041,618
Federal sources	364,926	3,534	0	0	368,460
Total revenues	<u>7,131,276</u>	<u>362,411</u>	<u>429,340</u>	<u>1,135,267</u>	<u>9,058,294</u>
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	3,144,567	0	0	117,562	3,262,129
Special instruction	1,461,875	0	0	0	1,461,875
Other instruction	515,143	0	0	158,942	674,085
	<u>5,121,585</u>	<u>0</u>	<u>0</u>	<u>276,504</u>	<u>5,398,089</u>
Support services:					
Student services	169,012	0	0	0	169,012
Instructional staff services	253,071	0	0	0	253,071
Administration services	662,371	0	0	0	662,371
Operation and maintenance of plant services	523,127	0	0	8,453	531,580
Transportation services	214,264	0	0	16,123	230,387
	<u>1,821,845</u>	<u>0</u>	<u>0</u>	<u>24,576</u>	<u>1,846,421</u>
Non-instructional programs:					
Food service operations	15,310	0	0	0	15,310
Other expenditures:					
Facilities acquisitions	0	162,798	0	178,890	341,688
Long-term debt:					
Principal	0	0	344,314	0	344,314
Interest and fiscal charges	0	0	460,083	0	460,083
AEA flowthrough	287,741	0	0	0	287,741
	<u>287,741</u>	<u>162,798</u>	<u>804,397</u>	<u>178,890</u>	<u>1,433,826</u>
Total expenditures	<u>7,246,481</u>	<u>162,798</u>	<u>804,397</u>	<u>479,970</u>	<u>8,693,646</u>
Excess(deficiency) of revenues over(under) expenditures	(115,205)	199,613	(375,057)	655,297	364,648
OTHER FINANCING SOURCES(USES)					
Transfer in	0	0	688,052	0	688,052
Transfer out	0	(194,898)	0	(493,154)	(688,052)
	<u>0</u>	<u>(194,898)</u>	<u>688,052</u>	<u>(493,154)</u>	<u>0</u>
Net change in fund balances	(115,205)	4,715	312,995	162,143	364,648
Fund balance beginning of year, as restated(Note 9)	1,445,987	907,088	596,221	196,325	3,145,621
Fund balance end of year	<u>\$ 1,330,782</u>	<u>911,803</u>	<u>909,216</u>	<u>358,468</u>	<u>3,510,269</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds (page 22)	\$	364,648
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are 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 exceed depreciation expense and loss on disposal in the current year, as follows:		
Expenditures for capital assets	\$ 426,607	
Depreciation expense	<u>(491,269)</u>	(64,662)
Net change in Internal Service Funds charged back against expenditures made for self-funded insurance and printing at an entity-wide basis.		(3,113)
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.		344,314
Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		(28,921)
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.		
Early Retirement	\$ 24,928	
Compensated Absences	<u>12,030</u>	36,958
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.		<u>6,133</u>
Changes in net assets of governmental activities (page 19)	\$	<u><u>655,357</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business- type Activities - Enterprise Fund School Nutrition	Governmental Activities - Internal Service Funds
ASSETS		
Cash and cash equivalents:	\$ 87,352	1,079
Inventories	3,356	0
Capital assets, net of accumulated depreciation(Note 4)	65,228	0
TOTAL ASSETS	<u>155,936</u>	<u>1,079</u>
LIABILITIES		
Accounts payable	36	0
Deferred revenue:		
Other	2,577	0
TOTAL LIABILITIES	<u>2,613</u>	<u>0</u>
NET ASSETS		
Investment in capital assets, net of related debt	65,228	0
Unrestricted	88,095	1,079
TOTAL NET ASSETS	<u>\$ 153,323</u>	<u>1,079</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business- type Activities - Enterprise Fund School Nutrition	Governmental Activities - Internal Service Funds
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 186,761	29,662
TOTAL OPERATING REVENUES	186,761	29,662
OPERATING EXPENSES:		
Non-instructional programs:		
Food service operations:		
Salaries	111,622	0
Benefits	15,088	32,775
Services	5,059	0
Supplies	210,986	0
Depreciation	8,421	0
TOTAL OPERATING EXPENSES	351,176	32,775
OPERATING LOSS	(164,415)	(3,113)
NON-OPERATING REVENUES:		
State sources	5,257	0
Federal sources	192,773	0
Interest income	338	0
TOTAL NON-OPERATING REVENUES	198,368	0
Change in net assets	33,953	(3,113)
Net assets beginning of year, as restated(Note 9)	119,370	4,192
Net assets end of year	\$ 153,323	1,079

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business- type Activities - Enterprise Fund School Nutrition	Governmental Activities - Internal Service Funds
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 186,116	0
Cash received from miscellaneous services	1,377	29,662
Cash payments to employees for services	(126,710)	0
Cash payments to suppliers for goods or services	(191,216)	(32,775)
Net cash used in operating activities	(130,433)	(3,113)
Cash flows from non-capital financing activities:		
State grants received	5,257	0
Federal grants received	169,677	0
Net cash provided by non-capital financing activities	174,934	0
Cash flows from capital financing activities:		
Acquisition of capital assets	(13,978)	0
Net cash used in capital financing activities	(13,978)	0
Cash flows from investing activities:		
Interest on investments	338	0
Net cash provided by investing activities	338	0
Net increase(decrease) in cash and cash equivalents	30,861	(3,113)
Cash and cash equivalents at beginning of year	56,491	4,192
Cash and cash equivalents at end of year	\$ 87,352	1,079
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (164,415)	(3,113)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Commodities consumed	23,096	0
Depreciation	8,421	0
Decrease in inventories	1,697	0
Increase in accounts payable	36	0
Increase in deferred revenue	732	0
Net cash used in operating activities	\$ (130,433)	(3,113)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:		
Current assets:		
Cash and pooled investments	\$ 87,352	1,079

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2004, the District received Federal commodities valued at \$23,096.

SEE NOTES TO FINANCIAL STATEMENTS.

SHENANDOAH COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2004

	Private Purpose Trust
	Scholarship
ASSETS	
Cash and pooled investments	\$ 254,991
	254,991
LIABILITIES	0
NET ASSETS	
Reserved for scholarships	\$ 254,991
	254,991

SEE NOTES TO FINANCIAL STATEMENTS.

SHENANDOAH COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2004

	Private Purpose Trust
	Scholarship
Additions:	
Interest on investments	\$ 1,828
Deductions:	
Scholarships awarded	6,444
Change in net assets	(4,616)
Net assets beginning of year, as restated(Note 9)	259,607
Net assets end of year	\$ 254,991

SEE NOTES TO FINANCIAL STATEMENTS.

SHENANDOAH COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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

The Shenandoah Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. 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 Shenandoah, Iowa, and the predominate agricultural territory in Page, Fremont, Montgomery and Mills 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, Shenandoah Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Shenandoah Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues,

are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The Physical Plant and Equipment Levy Fund is utilized to account for equipment purchases as well as capital improvements.

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

The District reports the following proprietary fund:

The District's proprietary funds are the Enterprise, School Nutrition Fund and the Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for employee flex benefits.

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

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

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and 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

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	\$ 3,000
Buildings	3,000
Land improvements	3,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	3,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for extra duties and curriculum work for the current school year, which is paid 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.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

E. Budgeting and Budgetary Control

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

(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 \$1,400,351 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Number 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	\$ 493,154
Debt Service	Special Revenue: Physical Plant and Equipment Levy	194,898
Total		<u>\$ 688,052</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 Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 146,175	13,978	3,629	156,524
Less accumulated depreciation	86,504	8,421	3,629	91,296
Business-type activities capital assets, net	<u>\$ 59,671</u>	<u>5,557</u>	<u>0</u>	<u>65,228</u>

	Balance Beginning of Year, as restated (Note 9)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 183,000	0	0	183,000
Construction in progress	10,311,015	341,688	10,652,703	0
Total capital assets not being depreciated	10,494,015	341,688	10,652,703	183,000
Capital assets being depreciated:				
Buildings	7,114,902	10,652,703	0	17,767,605
Land improvements	630,064	0	0	630,064
Machinery and equipment	1,254,594	84,919	29,000	1,310,513
Total capital assets being depreciated	8,999,560	10,737,622	29,000	19,708,182
Less accumulated depreciation for:				
Buildings	4,362,622	354,812	0	4,717,434
Land improvements	243,544	28,249	0	271,793
Machinery and equipment	820,873	108,208	29,000	900,081
Total accumulated depreciation	5,427,039	491,269	29,000	5,889,308
Total capital assets being depreciated, net	3,572,521	10,246,353	0	13,818,874
Governmental activities capital assets, net	\$ 14,066,536	10,588,041	10,652,703	14,001,874

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 21,734
Special		169
Other		1,480
Support services:		
Instructional staff		5,857
Operation and maintenance of plant		2,931
Transportation		76,037
		108,208
Unallocated depreciation		383,061
Total governmental activities depreciation expense		\$ 491,269
Business-type activities:		
Food services		\$ 8,421
Total business-type activities depreciation expense		\$ 8,421

(5) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 7,730,000	0	275,000	7,455,000	295,000
Quality Zone Academy Bonds	1,000,000	0	0	1,000,000	0
Street Assessment	565,000	0	60,000	505,000	60,000
Bus Lease	52,398	0	9,314	43,084	9,863
Early Retirement	68,754	0	24,928	43,826	27,981
Compensated Absences	99,420	87,390	99,420	87,390	87,390
Total	\$ 9,515,572	87,390	468,662	9,134,300	480,234

General Obligation Bonds Payable

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

Year Ending June 30,	Principal	Interest	Total
2005	\$ 295,000	415,404	710,404
2006	315,000	397,029	712,029
2007	330,000	377,733	707,733
2008	350,000	357,783	707,783
2009	375,000	336,333	711,333
2010	395,000	313,533	708,533
2011	415,000	291,802	706,802
2012	445,000	269,592	714,592
2013	465,000	245,437	710,437
2014	495,000	220,115	715,115
2015	515,000	192,789	707,789
2016	545,000	164,115	709,115
2017	575,000	133,727	708,727
2018	610,000	101,250	711,250
2019	645,000	66,530	711,530
2020	685,000	29,355	714,355
Total	\$ 7,455,000	3,912,527	11,367,527

Quality Zone Academy Bonds Payable

During the year ended June 30, 2002, the District issued zero interest Quality Zone Academy Bonds (QZAB). Annual transfers from the Capital Projects Fund to a Debt Sinking Fund will be made to pay the indebtedness due November 13, 2011, of \$1,000,000.

Street Assessment Payable

Details of the District's June 30, 2004 street assessment payable indebtedness are as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 60,000	22,188	82,188
2006	60,000	20,088	80,088
2007	60,000	17,838	77,838
2008	65,000	15,438	80,438
2009	65,000	12,675	77,675
2010	65,000	9,750	74,750
2011	65,000	6,663	71,663
2012	65,000	3,413	68,413
Total	\$ 505,000	108,053	613,053

Bus Lease Payable

Details of the District's June 30, 2004 bus lease payable indebtedness are as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 9,863	2,542	12,405
2006	10,445	1,960	12,405
2007	11,062	1,344	12,406
2008	11,714	691	12,405
Total	\$ 43,084	6,537	49,621

Early Retirement

The District offers a voluntary early retirement plan to its licensed employees. Eligible employees must be at least age 58 but may not surpass age 62 on or before June 30 of the year in which the employee wishes to retire and employees must have completed at least ten years of full-time service to the District. Employees must complete an application which is subject to approval by the Board of Education. The early retirement incentive is \$10,000. The District did not have an early retirement policy for FY 04. It is a policy that ends each year at June 30th and the board looks at it each fall to see if it will be offered on a year to year basis.

Early retirement benefits paid during the year ended June 30, 2004 totaled \$24,928 from the Special Revenues Fund, Management Levy Account. The cost of early retirement payments expected to be liquidated currently are recorded as a liability in the government-wide Statement of Net Assets representing the District's commitments to fund non-current early retirement.

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a

publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual 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 \$257,407, \$247,127 and \$267,717 respectively, equal to the required contributions for each year.

(7) Risk Management

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

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$287,741 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Accounting Change and Restatements

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

Governmental Accounting Standards Board(GASB) Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement Number 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments; Omnibus, Statement Number 38, Certain Financial Statement Note Disclosures, and Statement Number 41, Budgetary Comparison Schedule - Perspective Differences; were implemented during 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 split the District's programs between business-type and governmental activities. The

beginning net asset amount for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

Beginning capital assets for governmental activities of \$20,091,074 were restated to \$19,493,575. The restatement primarily removed assets below the District's capitalization threshold.

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

	Fund				Total
	Physical	Other			
	Plant and Equipment	Debt	Nonmajor Governmental		
General	Levy	Service	Funds		
Net assets, June 30, 2003, as previously reported	\$ 1,445,987	907,088	596,221	196,788	3,146,084
Reclassification of Trust Accounts to Fiduciary Fund Type	0	0	0	(463)	(463)
Net assets, July 1, 2003, as restated for governmental funds	<u>\$ 1,445,987</u>	<u>907,088</u>	<u>596,221</u>	<u>196,325</u>	<u>3,145,621</u>
GASB 34 adjustments:					
Capital assets, net of accumulated depreciation of \$5,427,039					14,066,536
Income surtax receivable					247,999
Blending of Internal Service Fund					4,192
Long-term liabilities:					
General Obligation Bonds payable			\$ 7,730,000		
Quality Zone Academy Bonds payable			1,000,000		
Street Assessment payable			565,000		
Bus Lease payable			52,398		
Early Retirement payable			68,754		
Compensated Absences payable			99,420		(9,515,572)
Accrued interest payable					(119,229)
Net assets, July 1, 2003, as restated					<u>\$ 7,829,547</u>

	Fund
	School
	Nutrition
Net assets, June 30, 2003, as previously reported	\$ 77,704
GASB Interpretation 6 adjustments	41,666
Net assets, July 1, 2003, as restated for proprietary funds	<u>\$ 119,370</u>

REQUIRED SUPPLEMENTAL INFORMATION

SHENANDOAH COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (GAAP BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Revenues:		
Local sources	\$ 4,612,110	187,099
Intermediate sources	36,106	0
State sources	4,041,618	5,257
Federal sources	368,460	192,773
Total revenues	<u>9,058,294</u>	<u>385,129</u>
Expenditures:		
Instruction	5,398,089	0
Support services	1,846,421	0
Non-instructional programs	15,310	351,176
Other expenditures	1,433,826	0
Total expenditures	<u>8,693,646</u>	<u>351,176</u>
Excess(deficiency) of revenues over(under) expenditures	364,648	33,953
Balance beginning of year	<u>3,145,621</u>	<u>119,370</u>
Balance end of year	<u>\$ 3,510,269</u>	<u>153,323</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive - (Negative)
	Original	Final	
4,799,209	5,023,038	5,023,038	(223,829)
36,106	38,000	38,000	(1,894)
4,046,875	4,333,035	4,333,035	(286,160)
561,233	507,000	507,000	54,233
<u>9,443,423</u>	<u>9,901,073</u>	<u>9,901,073</u>	<u>(457,650)</u>
5,398,089	5,451,223	5,451,223	53,134
1,846,421	2,091,000	2,091,000	244,579
366,486	348,000	448,000	81,514
1,433,826	2,743,684	2,643,684	1,209,858
<u>9,044,822</u>	<u>10,633,907</u>	<u>10,633,907</u>	<u>1,589,085</u>
398,601	(732,834)	(732,834)	1,131,435
3,264,991	3,582,440	3,582,440	(317,449)
<u>3,663,592</u>	<u>2,849,606</u>	<u>2,849,606</u>	<u>813,986</u>

SHENANDOAH 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 GAAP basis. Encumbrances are not recognized on the GAAP 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 and decreasing expenditures in the non-instructional programs and other expenditures functional areas.

OTHER SUPPLEMENTAL INFORMATION

SHENANDOAH COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2004

	Special Revenue Funds					Total
	Management	Student Activity	Expend-able Trust	Total Special Revenue Funds	Capital Projects	Other Nonmajor Governmental Funds
ASSETS						
Cash and pooled investments	\$ 165,065	72,594	4,050	241,709	58,425	300,134
Receivables:						
Property tax:						
Current year delinquent	2,673	0	0	2,673	0	2,673
Succeeding year	160,000	0	0	160,000	0	160,000
Accounts	0	4,864	0	4,864	0	4,864
Due from other governments	0	0	0	0	51,390	51,390
Inventories	0	207	0	207	0	207
TOTAL ASSETS	\$ 327,738	77,665	4,050	409,453	109,815	519,268
LIABILITIES AND FUND EQUITY						
Liabilities:						
Accounts payable	\$ 0	800	0	800	0	800
Deferred revenue:						
Succeeding year property tax	160,000	0	0	160,000	0	160,000
	160,000	800	0	160,800	0	160,800
Fund equity:						
Fund balances:						
Unreserved:						
Undesignated	167,738	76,865	4,050	248,653	109,815	358,468
Total fund balances	167,738	76,865	4,050	248,653	109,815	358,468
TOTAL LIABILITIES AND FUND EQUITY	\$ 327,738	77,665	4,050	409,453	109,815	519,268

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue Funds				Capital Projects	Total Other Nonmajor Governmental Funds
	Manage- ment	Student Activity	Expend- able Trust	Total Special Revenue Funds		
REVENUES:						
Local sources:						
Local tax	\$ 195,757	0	0	195,757	511,728	707,485
Other	20,597	186,401	3,450	210,448	217,135	427,583
State sources	199	0	0	199	0	199
TOTAL REVENUES	<u>216,553</u>	<u>186,401</u>	<u>3,450</u>	<u>406,404</u>	<u>728,863</u>	<u>1,135,267</u>
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	117,562	0	0	117,562	0	117,562
Other instruction	0	157,192	1,750	158,942	0	158,942
Support services:						
Operation and maintenance of plant services	8,453	0	0	8,453	0	8,453
Student transportation	16,123	0	0	16,123	0	16,123
Other:						
Facilities acquisition	0	0	0	0	178,890	178,890
TOTAL EXPENDITURES	<u>142,138</u>	<u>157,192</u>	<u>1,750</u>	<u>301,080</u>	<u>178,890</u>	<u>479,970</u>
EXCESS OF REVENUES OVER EXPENDITURES	74,415	29,209	1,700	105,324	549,973	655,297
OTHER FINANCING USES						
Transfer out	0	0	0	0	(493,154)	(493,154)
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	74,415	29,209	1,700	105,324	56,819	162,143
FUND BALANCE BEGINNING OF YEAR, AS RESTATED(NOTE 9)	93,323	47,656	2,350	143,329	52,996	196,325
FUND BALANCE END OF YEAR	<u>\$ 167,738</u>	<u>76,865</u>	<u>4,050</u>	<u>248,653</u>	<u>109,815</u>	<u>358,468</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SHENANDOAH 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
Athletic Director	\$ 0	111	111	0
HS General Athletics	11,741	8,983	0	20,724
MS General Athletics	0	944	0	944
Athletic Tourneys	0	435	435	0
Boys Basketball	0	3,112	3,112	0
MS Boys Basketball	0	1,675	1,675	0
Football	0	10,734	10,734	0
MS Football	0	1,233	1,233	0
Baseball	(285)	3,146	2,861	0
Boys Track	0	3,045	3,045	0
MS Boys Track	0	1,144	1,144	0
Boys Cross Country	0	869	869	0
Boys Tennis	0	88	88	0
Boys Golf	0	1,179	1,179	0
Wrestling	0	7,824	4,576	3,248
MS Wrestling	0	2,713	2,713	0
Girls Basketball	0	3,085	3,085	0
MS Girls Basketball	0	601	601	0
Volleyball	0	3,906	3,906	0
MS Volleyball	0	783	783	0
Softball	(1,206)	2,846	1,640	0
Girls Track	0	1,510	1,510	0
MS Girls Track	0	285	285	0
Girls Cross Country	0	2,251	2,251	0
Girls Tennis	0	72	72	0
Girls Golf	0	193	193	0
Annual	2,658	4,162	4,122	2,698
Cheerleaders	316	3,184	2,653	847
Class of 2006	825	2,364	0	3,189
Class of 2007	600	227	15	812
Class of 2008	0	600	0	600
Class of 2003	1,028	0	1,028	0
Class of 2004	679	0	97	582
Class of 2005	2,346	9,468	8,013	3,801
Concessions	(1,051)	7,157	7,560	(1,454)
FFA	(415)	13,576	9,801	3,360
FCCLA	793	2,934	2,414	1,313
Interest	1,291	219	917	593
Marching Mustangs	1,634	493	100	2,027
National Art Honor	77	1,134	1,146	65
National Honor Society	0	669	475	194
Pep Club	86	0	0	86
Investment Interest	1,062	190	167	1,085
Shen Boys Basketball	242	702	773	171

SHENANDOAH 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
Shen Girls Basketball	423	1,900	2,276	47
Shen Boys Golf	385	1,163	446	1,102
Shen Boys Cross Country	586	764	840	510
Shen Boys Tennis	460	156	55	561
Shen Boys Track	442	748	684	506
Shen Football	481	3,829	2,687	1,623
Shen Girls Track	410	629	671	368
Shen Girls Tennis	344	0	0	344
Shen Girls Cross Country	2,404	2,050	3,272	1,182
Shen Singers	2,614	561	1,242	1,933
Shen Softball	1,378	575	786	1,167
Shen Volleyball	165	3,299	3,393	71
Shen Weight Club	121	663	271	513
Shen Wrestlers	246	7,952	6,622	1,576
SHS Speech Club	3,562	1,126	2,840	1,848
Student Activity	0	4,616	4,616	0
Student Council	4,321	19,690	15,554	8,457
Shen Baseball	172	1,834	1,493	513
MS Annual	870	2,795	2,618	1,047
MS Cheerleaders	371	0	0	371
MS FCCLA	845	2,062	2,220	687
MS Leadership	380	588	182	786
MS Marching Mustangs	1,366	16,770	15,444	2,692
MS Swing Choir	2,014	581	0	2,595
MS Pride Builders	875	2,204	1,598	1,481
Total	\$ 47,656	186,401	157,192	76,865

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SHENANDOAH 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	\$ 3,754,560	3,841,094	4,072,011	3,990,813
Tuition	302,508	228,698	210,148	139,376
Other	555,042	359,445	692,032	1,039,555
Intermediate sources	36,106	32,480	32,587	0
State sources	4,041,618	4,124,883	4,175,215	4,241,702
Federal sources	368,460	355,722	347,062	855,369
Total	\$ 9,058,294	8,942,322	9,529,055	10,266,815
Expenditures:				
Instruction:				
Regular instruction	\$ 3,262,129	3,040,843	3,166,488	2,883,934
Special instruction	1,461,875	1,207,787	1,307,704	1,528,035
Other instruction	674,085	683,090	610,774	657,522
Support services:				
Student services	169,012	131,803	207,800	360,219
Instructional staff services	253,071	376,276	356,721	439,665
Administration services	662,371	665,375	676,769	663,616
Operation and maintenance of plant services	531,580	511,242	477,517	588,205
Transportation services	230,387	264,665	204,559	223,678
Central support services	0	0	0	5,694
Non-instructional programs	15,310	11,530	18,314	36,860
Other expenditures:				
Facilities acquisitions	341,688	1,284,673	6,440,821	3,025,541
Long-term debt:				
Principal	344,314	331,480	245,000	215,000
Interest and other charges	460,083	457,521	464,170	477,876
AEA flow-through	287,741	308,801	309,593	319,718
Total	\$ 8,693,646	9,275,086	14,486,230	11,425,563

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SHENANDOAH COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION (non-cash)	10.550	FY 04	\$ <u>23,096</u>
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 04	28,261
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 04	<u>141,416</u>
			<u>169,677</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	0387-G	<u>193,980</u>
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)			
	84.298	FY 03	3,195
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)			
	84.298	FY 04	<u>7,696</u>
			<u>10,891</u>
SAFE AND DRUG FREE SCHOOLS AND COMMUNITIES - STATE GRANTS			
	84.186	FY 03	6,513
SAFE AND DRUG FREE SCHOOLS AND COMMUNITIES - STATE GRANTS			
	84.186	FY 04	<u>2,571</u>
			<u>9,084</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM			
	84.367	FY 03	3,020
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM			
	84.367	FY 04	<u>63,835</u>
			<u>66,855</u>
FUND FOR THE IMPROVEMENT OF EDUCATION			
	84.215	FY 03	<u>15,376</u>
GRANTS FOR STATE ASSESSMENT AND RELATED ACTIVITIES (TITLE VI A)			
	84.369	FY 03	5,030
GRANTS FOR STATE ASSESSMENT AND RELATED ACTIVITIES (TITLE VI A)			
	84.369	FY 04	<u>5,235</u>
			<u>10,265</u>
IOWA WESTERN COMMUNITY COLLEGE:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES			
	84.048	FY 04	<u>16,536</u>

SHENANDOAH COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
<u>INDIRECT (CONTINUED) :</u>			
LOESS HILLS AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 04	<u>40,734</u>
EISENHOWER PROFESSIONAL DEVELOPMENT			
STATE GRANTS	84.281	FY 04	<u>3,315</u>
DEPARTMENT OF HUMAN SERVICES:			
MEDICAL ASSISTANCE PROGRAM	94.778	FY 03	654
MEDICAL ASSISTANCE PROGRAM	94.778	FY 04	<u>20,821</u>
			<u>21,475</u>
TOTAL			<u>\$ 581,284</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Shenandoah Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements.

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
Shenandoah Community School District:

We have audited the financial statements of Shenandoah Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated August 18, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Shenandoah Community School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings and Questioned Costs.

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.

Internal Control Over Financial Reporting

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

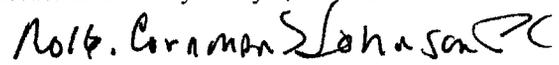
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected 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

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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 is a material weakness. Prior year reportable conditions have all been resolved except for items II-A-04, II-B-04, II-C-04 and II-D-04.

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



NOLTE, CORNMAN & JOHNSON, P.C.

August 18, 2004

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance

To the Board of Education of
Shenandoah Community School District

Compliance

We have audited the compliance of Shenandoah Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Shenandoah Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Shenandoah Community School District's management. Our responsibility is to express an opinion on Shenandoah Community School District's compliance based on our audit.

We conducted our audit of compliance 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 and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Shenandoah Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Shenandoah Community School District's compliance with those requirements.

In our opinion, Shenandoah Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

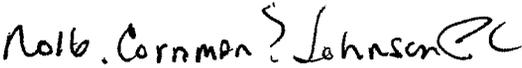
The management of Shenandoah Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Shenandoah Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect Shenandoah Community School District's ability to administer a major

federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs.

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 non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance 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 III-A-04 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Shenandoah Community School District and other parties to whom Shenandoah Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

August 18, 2004

SHENANDOAH COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part I: Summary of the Independent Auditor's 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 a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A reportable condition in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Clustered
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - Individual
 - CFDA Number 84.010 - Title I - Grants to Local Educational Agencies
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Shenandoah Community School District did not qualify as a low-risk auditee.

SHENANDOAH COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-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. One individual has control over data processing in general, receipt posting, investing, disbursement journalizing, payroll preparation and bank reconciling.

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 - Personnel changes will allow us to have another person doing some of these duties.

Conclusion - Response accepted.

II-B-04 District and Regional Rents - We noted during our audit that the district receives money for use of facilities when hosting district and regional events.

Recommendation - Chapter 297.9 of the code of Iowa requires rent to be receipted into the general fund. The district should receipt rent collected for facility usage into the general fund.

Response - We will make the necessary changes.

Conclusion - Response accepted.

II-C-04 Gate Admissions - The gate admissions were reconciled to pre-numbered tickets however, the two controls have never balanced.

Recommendation - The District should review its gate reconciliation process and implement procedures to insure controls are in place. Individuals taking tickets should be trained on the importance of the process and need for accuracy when selling, collecting and reconciling tickets to cash.

Response - We will review our procedures.

Conclusion - Response accepted.

II-D-04 Student Activity Fund - The Student Activity Fund included an interest account.

Recommendation - The District should allocate the balance in its interest account at year end among the remaining activity accounts.

Response - We will make the necessary changes.

Conclusion - Response accepted.

SHENANDOAH COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 10.553 - School Breakfast Program
CFDA Number 10.555 - National School Lunch Program
Federal Award Year: 2004
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.010 - Title I - Grants to Local Educational Agencies
Federal Award Year: 2004
U.S. Department of Education
Passed through the Iowa Department of Education

III-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. One individual has control over data processing in general, receipt posting, investing, disbursement journalizing, payroll preparation and bank reconciling.

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 - Personnel changes will allow us to have another person doing some of these duties.

Conclusion - Response accepted.

SHENANDOAH COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2004

Part IV: Other Findings Related to Statutory Reporting

IV-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.

IV-B-04 Certified Budget - District disbursements for the year ended June 30, 2004, did not exceed the amount budgeted.

IV-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.

IV-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.

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

Name, Title and Business Connection	Transaction Description	Amount
Ken Lee, Board President	Officiating	\$600

In accordance with Chapter 279.7A of the code of Iowa, the above transactions with the board member do not appear to represent a conflict of interest.

IV-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.

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

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

IV-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.

IV-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.