

SOUTHERN CAL COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

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Southern Cal Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 election)		
Charles Loeck	President	2003
Paul Stumpf	Vice President	2003
Jim Brown	Board Member	2004
Travis Ellis	Board Member	2004
Linda Iler	Board Member	2005
Board of Education (After September 2003 election)		
Charles Loeck	President	2006
Travis Ellis	Vice President	2004
Jim Brown	Board Member	2004
Linda Iler	Board Member	2005
Eric Richardson	Board Member	2006
School Officials		
Dwayne Cross	Superintendent	2004
Susan Lasher	District Secretary/ District Treasurer	2004
Brian Gruhn	Attorney	2004

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(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Southern Cal 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 Southern Cal 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 Southern Cal 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.

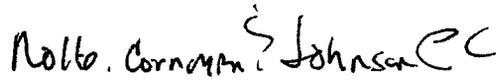
As described in Note 9 to the financial statements, during the year ended June 30, 2004, Southern Cal Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments; Statement 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 report dated November 8, 2004 on our consideration of the Southern Cal Community School District's internal control over

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

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 33 through 35 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 Southern Cal Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

November 8, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$4,467,466 in fiscal 2003 to \$4,328,034 in fiscal 2004, while General Fund expenditures increased from \$4,198,963 in fiscal 2003 to \$4,228,532 in fiscal 2004. This resulted in an increase in the District's General Fund balance from \$1,033,563 in fiscal 2003 to a balance of \$1,133,065 in fiscal 2004, a 9.63% increase from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in property tax and state and federal grant revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures.
- A decline in interest rates during the past fiscal year, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone to decrease from \$9,014 in fiscal year 2003 to \$8,188 in fiscal year 2004.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Southern Cal Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Southern Cal Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Southern Cal Community School District acts solely as an agent or custodial for the benefit of those outside of County government.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

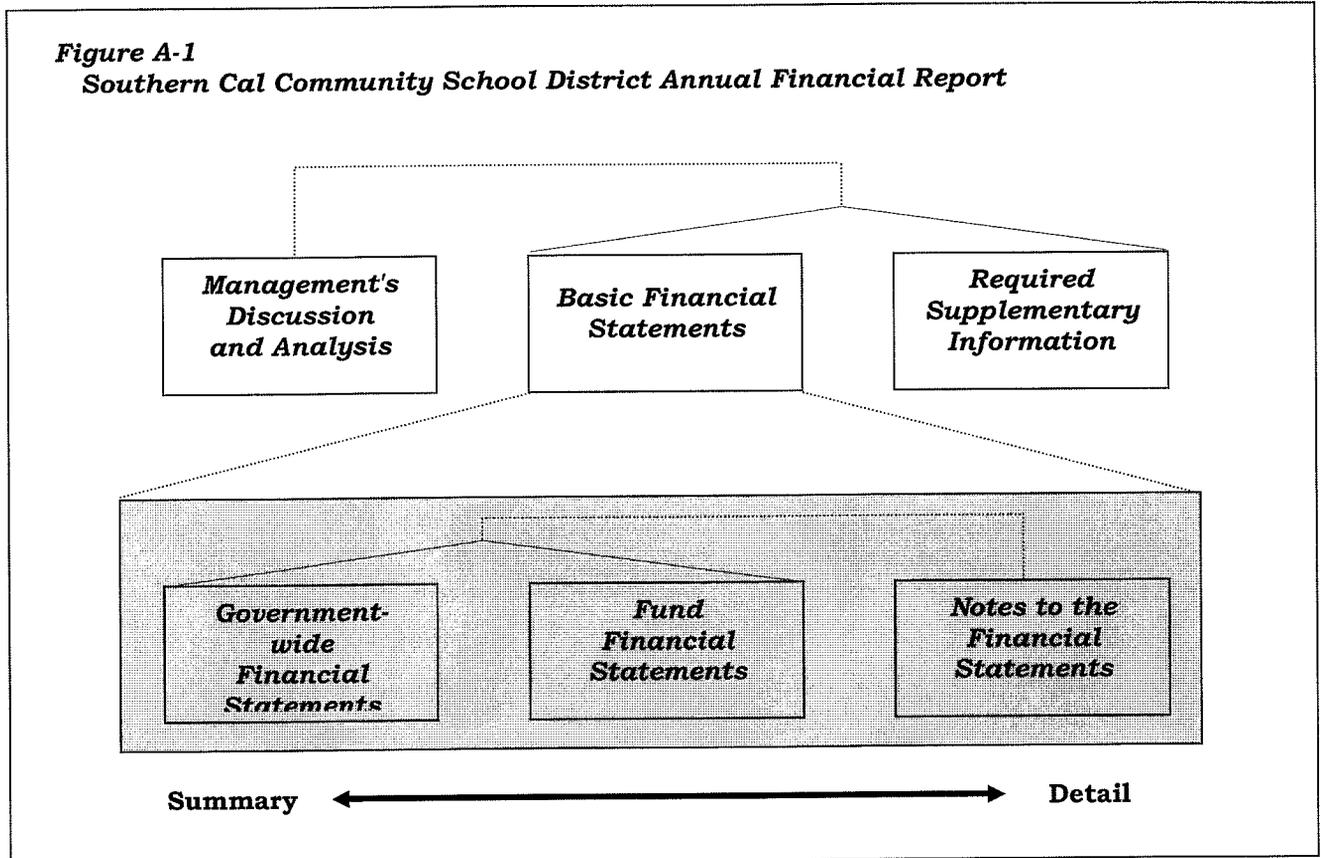


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2
Major Features of the Government-wide and Fund Financial Statements

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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Current and other assets	\$ 3,414,800	7,627	3,422,427
Capital assets	2,149,028	6,516	2,155,544
Total assets	<u>5,563,828</u>	<u>14,143</u>	<u>5,577,971</u>
Long-term obligations	12,660	0	12,660
Other liabilities	2,044,776	2,788	2,047,564
Total liabilities	<u>2,057,436</u>	<u>2,788</u>	<u>2,060,224</u>
Net assets:			
Invested in capital assets, net of related debt	2,149,028	6,516	2,155,544
Restricted	235,868	0	235,868
Unrestricted	1,121,496	4,839	1,126,335
Total net assets	<u>\$ 3,506,392</u>	<u>11,355</u>	<u>3,517,747</u>

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

Figure A-4
Changes of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Revenues:			
Program revenues:			
Charges for services	\$ 303,702	139,083	442,785
Operating grants and contributions and restricted interest	597,287	105,799	703,086
General revenues:			
Property tax	2,116,535	0	2,116,535
Unrestricted state grants	1,667,439	0	1,667,439
Other	8,881	0	8,881
Total revenues	<u>4,693,844</u>	<u>244,882</u>	<u>4,938,726</u>
Program expenses:			
Governmental activities:			
Instructional	2,884,736	0	2,884,736
Support services	1,368,959	0	1,368,959
Non-instructional programs	5,541	248,190	253,731
Other expenses	246,850	0	246,850
Total expenses	<u>4,506,086</u>	<u>248,190</u>	<u>4,754,276</u>
Changes in net assets	<u>\$ 187,758</u>	<u>(3,308)</u>	<u>184,450</u>

Property tax and unrestricted state grants account for 77% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 89% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$4,693,844 and expenses were \$4,506,086.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 2,884,736	2,162,911
Support services	1,368,959	1,368,207
Non-instructional programs	5,541	5,541
Other expenses	246,850	68,438
Totals	<u>\$ 4,506,086</u>	<u>3,605,097</u>

- The cost financed by users of the District's programs was \$303,702.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$597,287.
- The net cost of governmental activities was financed with \$2,116,535 in property tax, \$1,667,439 in state foundation aid and \$8,881 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$244,882 and expenses were \$248,190. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,370,024, above last year's ending fund balances of a \$1,294,337. However, the primary reason for the increase in combined fund balances in fiscal 2004 is due to fiscal restraint.

Governmental Fund Highlights

- The District's improving General Fund financial position from \$1,033,563 to \$1,133,065 is the product of many factors:
 - Reduction in state aid, grants and decrease in tax levy during the year resulted in a decrease in revenues, which was enough to offset increases in expenditures.
 - The increase in negotiated salary and benefits settlement, as well as existing expenditure commitments of the District, resulted in an increase in expenditures.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$14,663 at June 30, 2003 to \$11,355 at June 30, 2004, representing a decrease of 22.56%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$232,363 less than budgeted revenues, a variance of 4.49%. The most significant variance resulted from the District receiving less in local sources than originally anticipated.

Total expenditures were less than budgeted, 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 actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$2.2 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$202,505.

The original cost of the District's capital assets was \$6.6 million. Governmental funds account for \$6.5 million with the remainder of \$0.1 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the building category. The District's buildings totaled \$1,296,649 at June 30, 2004, compared to \$1,147,258 reported at June 30, 2003. This increase resulted from improvements made during the year and current year depreciation expense.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities	Business-type Activities	Total School District
	2004	2004	2004
Land	\$ 52,564	0	52,564
Buildings	1,296,649	0	1,296,649
Land improvements	319,629	0	319,629
Machinery and equipment	480,186	6,516	486,702
Total	\$ 2,149,028	6,516	2,155,544

Long-Term Debt

At June 30, 2004, the District had \$12,660 in other long-term debt outstanding. This represents a decrease of 18% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding Contract Settlement from the Special Revenue - Management Fund of \$1,251 at June 30, 2004.

The District had total outstanding Compensated Absences from the General Fund of \$11,409 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
Compensated Absences	\$ 11,409	9,211	23.9%
Contract Settlement	1,251	6,227	-79.9%
Totals	\$ 12,660	15,438	-18.0%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Susan Lasher, District Secretary, Southern Cal Community School District, 709 West Main Street, Lake City, Iowa, 51449.

BASIC FINANCIAL STATEMENTS

SOUTHERN CAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 1,699,742	0	1,699,742
Receivables:			
Property tax:			
Delinquent	32,274	0	32,274
Succeeding year	1,635,767	0	1,635,767
Interfund	0	100	100
Accounts	30	155	185
Accrued interest	833	0	833
Due from other governments	46,154	0	46,154
Inventories	0	7,372	7,372
Capital assets, net of accumulated depreciation (Note 4)	2,149,028	6,516	2,155,544
TOTAL ASSETS	5,563,828	14,143	5,577,971
LIABILITIES			
Excess of warrants issued over bank balance	0	472	472
Interfund payable	100	0	100
Accounts payable	28,829	0	28,829
Salaries and benefits payable	380,080	277	380,357
Deferred revenue:			
Succeeding year property tax	1,635,767	0	1,635,767
Other	0	2,039	2,039
Long-term liabilities (Note 5):			
Portion due within one year:			
Compensated absences	11,409	0	11,409
Contract settlement	1,251	0	1,251
TOTAL LIABILITIES	2,057,436	2,788	2,060,224
NET ASSETS			
Investment in capital assets, net of related debt	2,149,028	6,516	2,155,544
Restricted for:			
Teacher Compensation	160	0	160
Management levy	119,656	0	119,656
Physical plant and equipment levy	52,239	0	52,239
Other special revenue purposes	63,813	0	63,813
Unrestricted	1,121,496	4,839	1,126,335
TOTAL NET ASSETS	\$ 3,506,392	11,355	3,517,747

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 1,946,037	93,216	396,330
Special instruction	531,786	0	22,545
Other instruction	406,913	209,734	0
	<u>2,884,736</u>	<u>302,950</u>	<u>418,875</u>
Support services:			
Student services	225,931	0	0
Instructional staff services	143,133	0	0
Administration services	434,139	0	0
Operation and maintenance of plant services	339,610	0	0
Transportation services	226,146	752	0
	<u>1,368,959</u>	<u>752</u>	<u>0</u>
Non-instructional programs:			
Community service and education operations	5,016	0	0
Food service operations	525	0	0
	<u>5,541</u>	<u>0</u>	<u>0</u>
Other expenditures:			
AEA flowthrough	178,412	0	178,412
Depreciation(unallocated)*	68,438	0	0
	<u>246,850</u>	<u>0</u>	<u>178,412</u>
Total governmental activities	4,506,086	303,702	597,287
Business-Type activities:			
Non-instructional programs:			
Nutrition services	248,190	139,083	105,799
Total business-type activities	<u>248,190</u>	<u>139,083</u>	<u>105,799</u>
Total	<u>\$ 4,754,276</u>	<u>442,785</u>	<u>703,086</u>

General Revenues:

Property tax levied for:
 General purposes
 Capital projects
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
(1,456,491)	0	(1,456,491)
(509,241)	0	(509,241)
(197,179)	0	(197,179)
<u>(2,162,911)</u>	<u>0</u>	<u>(2,162,911)</u>
(225,931)	0	(225,931)
(143,133)	0	(143,133)
(434,139)	0	(434,139)
(339,610)	0	(339,610)
(225,394)	0	(225,394)
<u>(1,368,207)</u>	<u>0</u>	<u>(1,368,207)</u>
(5,016)	0	(5,016)
(525)	0	(525)
<u>(5,541)</u>	<u>0</u>	<u>(5,541)</u>
0	0	0
(68,438)	0	(68,438)
<u>(68,438)</u>	<u>0</u>	<u>(68,438)</u>
(3,605,097)	0	(3,605,097)
0	(3,308)	(3,308)
0	(3,308)	(3,308)
<u>(3,605,097)</u>	<u>(3,308)</u>	<u>(3,608,405)</u>
\$ 1,934,371	0	1,934,371
182,164	0	182,164
1,667,439	0	1,667,439
8,881	0	8,881
<u>3,792,855</u>	<u>0</u>	<u>3,792,855</u>
187,758	(3,308)	184,450
<u>3,318,634</u>	<u>14,663</u>	<u>3,333,297</u>
<u>\$ 3,506,392</u>	<u>11,355</u>	<u>3,517,747</u>

SOUTHERN CAL COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Other Nonmajor Governmental Funds	Total
ASSETS			
Cash and pooled investments	\$ 1,463,744	235,998	1,699,742
Receivables:			
Property tax:			
Delinquent	29,356	2,918	32,274
Succeeding year	1,610,767	25,000	1,635,767
Accounts	30	0	30
Accrued interest	804	29	833
Due from other governments	46,154	0	46,154
TOTAL ASSETS	\$ 3,150,855	263,945	3,414,800
LIABILITIES AND FUND BALANCES			
Liabilities:			
Interfund payable	\$ 0	100	100
Accounts payable	26,943	1,886	28,829
Salaries and benefits payable	380,080	0	380,080
Deferred revenue:			
Succeeding year property tax	1,610,767	25,000	1,635,767
Total liabilities	2,017,790	26,986	2,044,776
Fund balances:			
Reserved for:			
Teacher Compensation	160	0	160
Unreserved:			
General	1,132,905	0	1,132,905
Management levy	0	120,907	120,907
Physical plant and equipment levy	0	52,239	52,239
Other special revenue purposes	0	63,813	63,813
Total fund balances	1,133,065	236,959	1,370,024
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,150,855	263,945	3,414,800

SEE NOTES TO FINANCIAL STATEMENTS.

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

Total fund balances of governmental funds (page 16)	\$	1,370,024
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.		2,149,028
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Long-term liabilities, including compensated absences and early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(12,660)
		<hr style="width: 100%;"/>

Net assets of governmental activites (page 13)	\$	<u><u>3,506,392</u></u>
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SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Other Nonmajor Governmental Funds	Total
REVENUES:			
Local sources:			
Local tax	\$ 1,924,410	192,125	2,116,535
Tuition	93,216	0	93,216
Other	45,806	173,561	219,367
Intermediate sources	11,510	0	11,510
State sources	2,082,902	124	2,083,026
Federal sources	170,190	0	170,190
Total revenues	<u>4,328,034</u>	<u>365,810</u>	<u>4,693,844</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	1,869,530	81,984	1,951,514
Special instruction	531,786	0	531,786
Other instruction	268,049	166,777	434,826
	<u>2,669,365</u>	<u>248,761</u>	<u>2,918,126</u>
Support services:			
Student services	222,694	2,722	225,416
Instructional staff services	141,261	1,872	143,133
Administration services	418,295	15,453	433,748
Operation and maintenance of plant services	435,719	108,286	544,005
Transportation services	157,770	12,006	169,776
	<u>1,375,739</u>	<u>140,339</u>	<u>1,516,078</u>
Non-instructional programs:			
Community service and education operations	5,016	0	5,016
Food service operations	0	525	525
	<u>5,016</u>	<u>525</u>	<u>5,541</u>
Other expenditures:			
AEA flowthrough	178,412	0	178,412
Total expenditures	<u>4,228,532</u>	<u>389,625</u>	<u>4,618,157</u>
Net change in fund balances	99,502	(23,815)	75,687
Fund balance beginning of year, as restated(Note 9)	1,033,563	260,774	1,294,337
Fund balance end of year	<u>\$ 1,133,065</u>	<u>236,959</u>	<u>1,370,024</u>

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTHERN CAL 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 18) \$ 75,687

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

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

Expenditures for capital assets	\$ 317,422	
Depreciation expense	(198,341)	
Loss on disposal of capital assets	<u>(9,788)</u>	109,293

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.

Compensated absences	\$ (2,198)	
Early Retirement	<u>4,976</u>	<u>2,778</u>

Changes in net assets of governmental activities (page 15) \$ 187,758

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTHERN CAL COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 JUNE 30, 2004

	School Nutrition
ASSETS	
Receivables:	
Interfund	\$ 100
Accounts	155
Inventories	7,372
Capital assets, net of accumulated depreciation(Note 5)	6,516
TOTAL ASSETS	14,143
 LIABILITIES	
Excess of warrants issued over bank balance	472
Salaries and benefits payable	277
Deferred revenue:	
Other	2,039
TOTAL LIABILITIES	2,788
 NET ASSETS	
Investment in capital assets, net of related debt	6,516
Unrestricted	4,839
TOTAL NET ASSETS	\$ 11,355

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 139,083
TOTAL OPERATING REVENUES	139,083
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	91,068
Benefits	26,802
Services	588
Supplies	125,568
Depreciation	4,164
TOTAL OPERATING EXPENSES	248,190
OPERATING LOSS	(109,107)
NON-OPERATING REVENUES:	
State sources	3,452
Federal sources	102,347
TOTAL NON-OPERATING REVENUES	105,799
Change in net assets	(3,308)
Net assets beginning of year	14,663
Net assets end of year	\$ 11,355

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTHERN CAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 139,302
Cash payments to employees for services	(118,347)
Cash payments to suppliers for goods or services	(109,411)
Net cash used in operating activities	(88,456)
Cash flows from non-capital financing activities:	
State grants received	3,452
Federal grants received	87,979
Net cash provided by non-capital financing activities	91,431
Cash flows from capital financing activities:	
Interfund loan to the Student Activity Fund	(100)
Net cash provided by capital financing activities	(100)
Net increase in cash and cash equivalents	2,875
Cash and cash equivalents at beginning of year	(3,347)
Cash and cash equivalents at end of year	\$ (472)
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (109,107)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	14,368
Depreciation	4,164
Decrease in inventories	2,377
Decrease in accounts receivable	108
Decrease in salaries and benefits payable	(477)
Increase in deferred revenue	111
Net cash used in operating activities	\$ (88,456)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ (472)
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	

During the year ended June 30, 2004, the District received Federal commodities valued at \$14,368.

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTHERN CAL COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

(1) Summary of Significant Accounting Policies

The Southern Cal Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Lake City and Lohrville, Iowa, and the predominate agricultural territory in Calhoun, Sac, Greene and Carroll 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, Southern Cal Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Southern Cal 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 Calhoun, Sac, Greene and Carroll 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 District reports the following major proprietary fund:

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

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary 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	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 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 \$1,416,150 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) Interfund Receivables and Payables

Individual interfund receivable and payable balances at June 30, 2004 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Enterprise, School Nutrition	Special Revenue, Student Activity	<u>\$ 100</u>

The Special Revenue, Student Activity Fund is repaying fees collected for student lunches to the Enterprise, School Nutrition Fund. The balance will be repaid by June 30, 2005.

(4) Capital Assets

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

	Balance Beginning of Year, as restated (Note 9)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 52,564	0	0	52,564
Total capital assets not being depreciated	<u>52,564</u>	<u>0</u>	<u>0</u>	<u>52,564</u>
Capital assets being depreciated:				
Buildings	3,287,263	190,706	0	3,477,969
Land improvements	608,902	1,823	0	610,725
Machinery and equipment	2,201,462	124,893	18,000	2,308,355
Total capital assets being depreciated	<u>6,097,627</u>	<u>317,422</u>	<u>18,000</u>	<u>6,397,049</u>
Less accumulated depreciation for:				
Buildings	2,140,005	41,315	0	2,181,320
Land improvements	266,995	24,101	0	291,096
Machinery and equipment	1,703,456	132,925	8,212	1,828,169
Total accumulated depreciation	<u>4,110,456</u>	<u>198,341</u>	<u>8,212</u>	<u>4,300,585</u>
Total capital assets being depreciated, net	<u>1,987,171</u>	<u>119,081</u>	<u>9,788</u>	<u>2,096,464</u>
Governmental activities capital assets, net	<u>\$ 2,039,735</u>	<u>119,081</u>	<u>9,788</u>	<u>2,149,028</u>
Business-type activities:				
Machinery and equipment	\$ 104,775	0	0	104,775
Less accumulated depreciation	94,095	4,164	0	98,259
Business-type activities capital assets, net	<u>\$ 10,680</u>	<u>(4,164)</u>	<u>0</u>	<u>6,516</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 62,345
Other		4,584
Support services:		
Student		4,039
Instructional staff		8,254
Operation and maintenance of plant		4,108
Transportation		46,573
		<u>129,903</u>
Unallocated depreciation		<u>68,438</u>
Total governmental activities depreciation expense		<u>\$ 198,341</u>
Business-type activities:		
Food services		\$ 4,164
Total business-type activities depreciation expense		<u>\$ 4,164</u>

(5) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Compensated Absences	\$ 9,211	11,409	9,211	11,409	11,409
Contract Settlement	6,227	0	4,976	1,251	1,251
Total	<u>\$ 15,438</u>	<u>11,409</u>	<u>14,187</u>	<u>12,660</u>	<u>12,660</u>

Contract Settlement

During the year ended June 30, 2002, the District entered into a contract settlement agreement with an Employee for termination of contract. This settlement requires the District to compensate the employee \$30,000 in two installments of \$10,000 plus FICA tax and \$10,000 toward insurance premiums. The balance remaining outstanding at June 30, 2004 is \$1,251.

(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 payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$147,184, \$149,310

and \$156,050 respectively, equal to the required contributions for each year.

(7) Risk Management

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

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

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$345,600.

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

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

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

Southern Cal 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 \$178,412 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 District-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 \$7,082,645 were restated to \$6,150,191. 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		
	General	Other Nonmajor Governmental Funds	Total
Net assets, June 30, 2003, as previously reported	\$ 1,024,352	260,774	1,285,126
GASB Interpretation 6 adjustments	9,211	0	9,211
Net assets, July 1, 2003, as restated for governmental funds	<u>\$ 1,033,563</u>	<u>260,774</u>	<u>1,294,337</u>
GASB 34 adjustments:			
Capital assets, net of accumulated depreciation of \$4,110,456			2,039,735
Long-term liabilities:			
Compensated Absences			(9,211)
Contract Settlement			(6,227)
Net assets, July 1, 2003, as restated			<u>\$ 3,318,634</u>

REQUIRED SUPPLEMENTAL INFORMATION

SOUTHERN CAL 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	\$ 2,429,118	139,083
Intermediate sources	11,510	0
State sources	2,083,026	3,452
Federal sources	170,190	102,347
Total revenues	<u>4,693,844</u>	<u>244,882</u>
Expenditures:		
Instruction	2,918,126	0
Support services	1,516,078	0
Non-instructional programs	5,541	248,190
Other expenditures	178,412	0
Total expenditures	<u>4,618,157</u>	<u>248,190</u>
Excess(deficiency) of revenues over(under) expenditures	75,687	(3,308)
Balance beginning of year	<u>1,294,337</u>	<u>14,663</u>
Balance end of year	<u>\$ 1,370,024</u>	<u>11,355</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
2,568,201	2,735,157	2,735,157	(166,956)
11,510	0	0	11,510
2,086,478	2,183,942	2,183,942	(97,464)
272,537	252,000	252,000	20,537
<u>4,938,726</u>	<u>5,171,099</u>	<u>5,171,099</u>	<u>(232,373)</u>
2,918,126	3,169,000	3,169,000	250,874
1,516,078	1,708,000	1,708,000	191,922
253,731	297,000	297,000	43,269
178,412	191,231	191,231	12,819
<u>4,866,347</u>	<u>5,365,231</u>	<u>5,365,231</u>	<u>498,884</u>
72,379	(194,132)	(194,132)	(266,511)
<u>1,309,000</u>	<u>1,096,560</u>	<u>1,096,560</u>	<u>212,440</u>
<u>1,381,379</u>	<u>902,428</u>	<u>902,428</u>	<u>478,951</u>

SOUTHERN CAL 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.

OTHER SUPPLEMENTAL INFORMATION

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

	Special Revenue Funds				
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expend- able Trust	Total Special Revenue Funds
ASSETS					
Cash and pooled investments	\$ 120,885	62,438	49,460	3,215	235,998
Receivables:					
Property tax:					
Current year delinquent	139	0	2,779	0	2,918
Succeeding year	25,000	0	0	0	25,000
Accrued interest	0	27	0	2	29
TOTAL ASSETS	\$ 146,024	62,465	52,239	3,217	263,945
LIABILITIES AND FUND EQUITY					
Liabilities:					
Interfund payable	\$ 0	100	0	0	100
Accounts payable	117	1,769	0	0	1,886
Deferred revenue:					
Succeeding year property tax	25,000	0	0	0	25,000
	25,117	1,869	0	0	26,986
Fund equity:					
Fund balances:					
Unreserved:					
Undesignated	120,907	60,596	52,239	3,217	236,959
Total fund balances	120,907	60,596	52,239	3,217	236,959
TOTAL LIABILITIES AND FUND EQUITY	\$ 146,024	62,465	52,239	3,217	263,945

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue Funds				Total Special Revenue Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expend- able Trust	
REVENUES:					
Local sources:					
Local tax	\$ 9,961	0	182,164	0	192,125
Other	447	172,496	0	618	173,561
State sources	6	0	118	0	124
TOTAL REVENUES	10,414	172,496	182,282	618	365,810
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	30,151	0	49,733	2,100	81,984
Other instruction	0	166,777	0	0	166,777
Support services:					
Student support	2,722	0	0	0	2,722
Instructional staff support	1,872	0	0	0	1,872
Administration services	15,453	0	0	0	15,453
Operation and maintenance of plant services	5,508	0	102,778	0	108,286
Student transportation	12,006	0	0	0	12,006
Non-instructional programs:					
Food service operations	525	0	0	0	525
TOTAL EXPENDITURES	68,237	166,777	152,511	2,100	389,625
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(57,823)	5,719	29,771	(1,482)	(23,815)
FUND BALANCE BEGINNING OF YEAR	178,730	54,877	22,468	4,699	260,774
FUND BALANCE END OF YEAR	\$ 120,907	60,596	52,239	3,217	236,959

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTHERN CAL 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
Activities:				
Academic Competitions	\$ 0	316	0	316
Activity Tickets	0	8,204	8,204	0
Atheletic Awards	0	1,095	1,095	0
Baseball	85	3,151	3,290	(54)
Softball	(441)	4,519	5,180	(1,102)
Basketball	3,761	7,335	6,829	4,267
Cross Country	1,691	1,844	2,092	1,443
Drama	1,385	766	1,489	662
Football	1,093	8,934	8,659	1,368
Golf	1,009	611	794	826
Memorial Scoreboard	194	0	0	194
Music	0	9,761	9,717	44
Music Awards	0	523	523	0
Football Camp	4,343	5,047	7,272	2,118
Girls Basketball Camp	749	1,928	1,944	733
Boys Basketball Camp	2,107	5,949	5,962	2,094
Track Resurfacing	7,667	3,931	0	11,598
Track	839	13,518	13,740	617
Volleyball	293	6,631	6,674	250
Wrestling	1,024	4,259	4,678	605
State Athletic Competitions	398	961	896	463
	<u>26,197</u>	<u>89,283</u>	<u>89,038</u>	<u>26,442</u>
Classes:				
Elementary	582	0	0	582
Class of 2004	2,594	1,475	4,069	0
Class of 2005	628	11,129	9,572	2,185
Class of 2006	234	430	0	664
Class of 2007	24	465	3	486
Class of 2008	39	0	0	39
Class Wenck	0	415	415	0
Class Richardson	0	101	101	0
Class Feld	0	183	183	0
	<u>4,101</u>	<u>14,198</u>	<u>14,343</u>	<u>3,956</u>
Clubs/Organizations:				
Assoc. Foreign Students	129	0	0	129
FB & BB Cheerleaders	1,290	2,643	2,832	1,101
Wrestling Cheerleaders	595	100	0	695
Dance Team	3,062	2,049	2,691	2,420
National Honor Society	162	789	898	53
Student Council	693	1,010	1,146	557
Leadership Activities	0	80	80	0
	<u>5,931</u>	<u>6,671</u>	<u>7,647</u>	<u>4,955</u>

SOUTHERN CAL 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
Miscellaneous Accounts:				
Interest	53	518	544	27
General Athletics	(29)	0	0	(29)
Field Trips	0	305	305	0
7-12 Projects	2,146	1,326	467	3,005
Public Relations	0	1,017	1,017	0
	<u>2,170</u>	<u>3,166</u>	<u>2,333</u>	<u>3,003</u>
School Projects:				
Annual	2,178	6,560	7,981	757
4-6 Yearbook	0	794	794	0
7-8 Yearbook	124	344	396	72
Curtain Fund	3,001	0	0	3,001
HS Pop Machines	0	8,755	8,755	0
Elementary Vending	100	740	639	201
Elementary Student Council	115	1	97	19
Lincoln Elementary	123	0	0	123
7-8 Student Council	0	30	30	0
Vending Machines	238	0	238	0
Tech Trends	0	1,283	262	1,021
Booster Club	0	619	619	0
	<u>5,879</u>	<u>19,126</u>	<u>19,811</u>	<u>5,194</u>
Student Resale Items:				
Band Resale	0	940	940	0
Home Ec Resale	0	752	752	0
	<u>0</u>	<u>1,692</u>	<u>1,692</u>	<u>0</u>
Vocational Organizations:				
FFA	8,302	38,154	31,913	14,543
HOSA	1,353	0	0	1,353
	<u>9,655</u>	<u>38,154</u>	<u>31,913</u>	<u>15,896</u>
Transfer Accounts:				
Hot Lunch Sales	0	100	0	100
Student Fees	(56)	56	0	0
	<u>(56)</u>	<u>156</u>	<u>0</u>	<u>100</u>
Other Accounts:				
Vo Tech Bldg Fundraiser	1,000	0	0	1,000
Flagpole Fundraiser	0	50	0	50
	<u>1,000</u>	<u>50</u>	<u>0</u>	<u>1,050</u>
Total	<u>\$ 54,877</u>	<u>172,496</u>	<u>166,777</u>	<u>60,596</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTHERN CAL 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	\$ 2,116,535	2,249,552	2,150,787	1,846,547
Tuition	93,216	136,305	151,237	121,074
Other	219,367	282,267	286,959	351,423
Intermediate sources	11,510	9,197	7,037	0
State sources	2,083,026	2,052,457	2,289,149	2,243,797
Federal sources	170,190	138,324	126,667	103,017
Total	\$ 4,693,844	4,868,102	5,011,836	4,665,858
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 1,951,514	2,002,382	2,101,771	2,064,762
Special instruction	531,786	520,911	535,675	500,203
Other instruction	434,826	415,661	406,812	473,020
Support services:				
Student services	225,416	218,137	185,117	178,819
Instructional staff services	143,133	182,307	173,807	168,963
Administration services	433,748	459,888	431,355	363,980
Operation and maintenance of plant services	544,005	501,005	493,823	628,710
Transportation services	169,776	161,418	165,437	216,832
Non-instructional programs	5,541	992	2,953	2,370
Other expenditures:				
Facilities acquisitions	0	0	15,090	2,951
Long-term debt:				
Principal	0	18,000	85,204	81,400
Interest and fiscal charges	0	0	4,032	7,836
AEA flow-through	178,412	189,787	195,590	197,444
Total	\$ 4,618,157	4,670,488	4,796,666	4,887,290

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
Southern Cal Community School District:

We have audited the financial statements of Southern Cal Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated November 8, 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 Southern Cal 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.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved except for item II-D-04.

Internal Control Over Financial Reporting

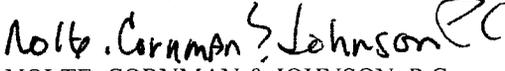
In planning and performing our audit, we considered Southern Cal Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control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

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

reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have all been resolved except for item I-A-04.

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

November 8, 2004

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

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

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

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

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

Conclusion - Response accepted.

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

Part II: Other Findings Related to Statutory Reporting

- II-A-04 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- II-B-04 Certified Budget - District disbursements for the year ended June 30, 2004, did not exceed the amount budgeted.
- II-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-D-04 Travel Expense - Expenditures of District money for travel expenses of spouses were noted. In the 2002 year, the Board had a dinner at a restaurant that the District paid for both the Board Members and their spouses' meals, and we requested the spouses' part be repaid to the District. The District response had been that they would comply. This repayment to the District was not noted as of the audit date.
- Recommendation - Part of the total expense of \$239.58 should be reimbursed to the District for spouses' meals. Also, the District should review their procedures to make sure reimbursements are done in a timely manner.
- Response - We will comply with this recommendation.
- Conclusion - Response accepted.
- II-E-04 Business Transactions - No business transactions between the District and District officials were noted.
- II-F-04 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-H-04 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-I-04 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.