

SOLON COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2004

SOLON COMMUNITY SCHOOL DISTRICT

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SOLON COMMUNITY SCHOOL DISTRICT

Officials
June 30, 2004

Name	Title	Term Expires
Board of Education		
(Before September 2003 Election)		
Lois Geist	Board President	2003
Don Otto	Board Member	2003
Joel Miller	Board Member	2004
Robert Upmeyer	Board Member	2004
Dick Schwab	Board Member	2005
(After September 2003 Election)		
Dick Schwab	Board President	2005
Joel Miller	Board Member	2004
Robert Upmeyer	Board Member	2004
Pat Smith	Board Member	2006
Ben Pardini	Board Member	2006
School Officials		
Brad Manard	Superintendent	2004
Shelly Prybil	District Secretary/Treasurer	2004
C. Joseph Holland	Attorney	2004

KAY L. CHAPMAN, CPA PC

119 Sycamore Street, Suite 100
Muscatine, Iowa 52761
563-264-1385

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Solon Community School District
Solon, Iowa

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

I conducted my 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 I 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. I believe my audit provides a reasonable basis for my opinions.

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

As described in Note 12 to the financial statements, during the year ended June 30, 2004, Solon Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosure; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, I have also issued my reports dated August 20, 2004 on my consideration of Solon Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations and contracts. 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 my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 14 and 45 through 46 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Solon Community School District's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 8, 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 my audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.



Kay L. Chapman, CPA PC
August 20, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$7,680,336 in fiscal 2003 to \$7,988,402 in fiscal 2004, while General Fund expenditures increased from \$7,794,086 in fiscal 2003 to \$7,902,295 in fiscal 2004. The District's General Fund balance decreased from \$1,043,025 in fiscal 2003 to \$1,019,671 in fiscal 2004, a 2% decrease.
- The increase in General Fund revenues was attributable to an increase in property taxes, tuition and textbook fees. The increase in expenditures were due to an increase in certified staff full-time equivalency, expending categorical grant funds and an increase in regular instructional programs. Due to the increase in these areas, the General Fund Balance decreased by \$23,354. The District funded a portion of the budget from prior year's carry over of categorical funds as well as using cash reserve levy funds.
- Due to a decrease in interest rates, as well as less cash available for investing, the interest earnings in the General Fund decreased from \$48,164 in FY 2003 to \$29,896 in FY 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 Solon 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 Solon 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 Solon Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

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

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

Other Supplementary Information provides detailed information about the nonmajor Governmental Funds.

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

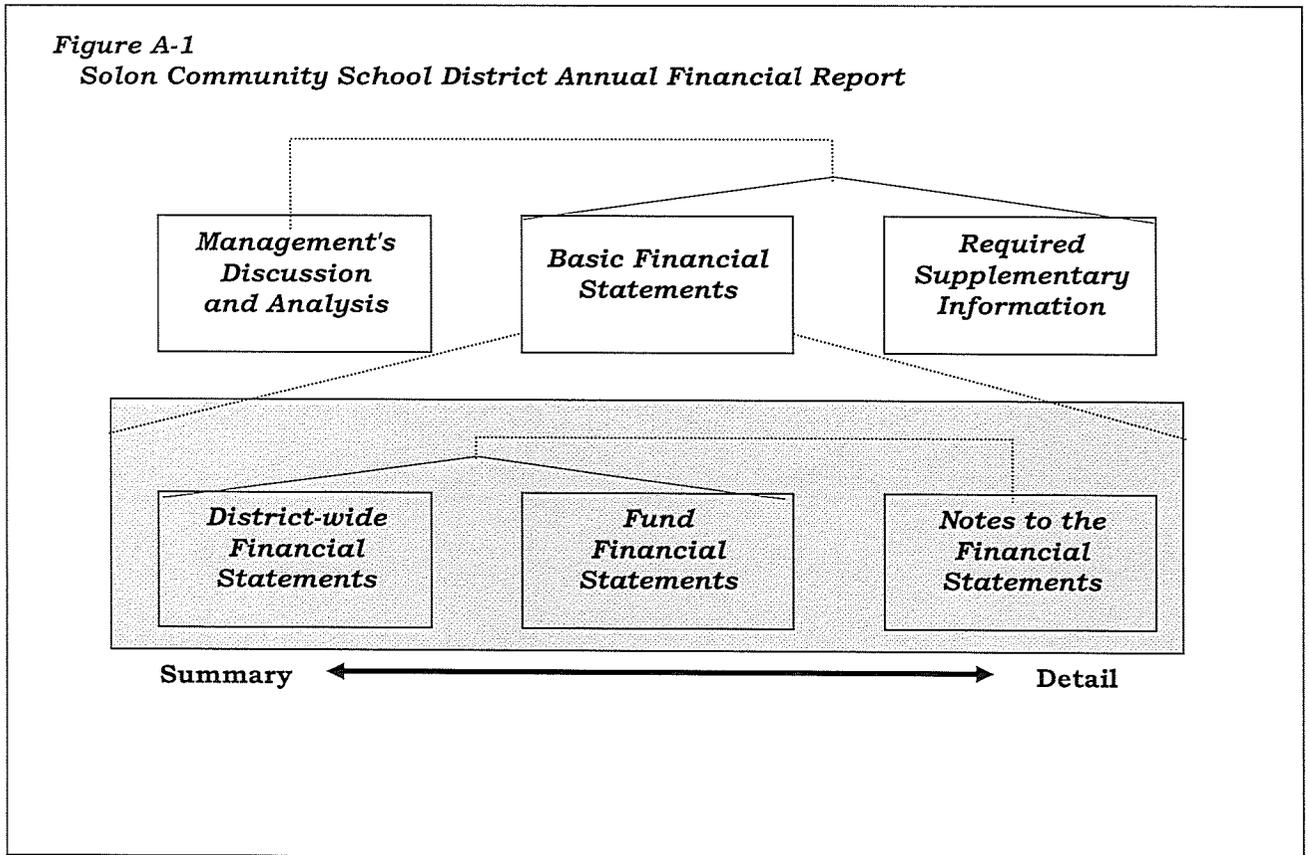


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

- Private-Purpose Trust Fund – The District accounts for outside donations for the maintenance of Stone Academy and for scholarships for individual students in this fund.

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

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

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 at June 30, 2004 compared to June 30, 2003.

Figure A-3

	Condensed Statement of Net Assets						
	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2004	2003	2004	2003	2004	2003	2003-2004
Current and other assets	\$ 6,689,012	\$ 7,663,577	\$ 203,610	\$ 112,355	\$ 6,892,622	\$ 7,775,932	-11.36%
Capital assets	<u>12,447,802</u>	<u>12,584,693</u>	<u>5,720</u>	<u>6,895</u>	<u>12,453,522</u>	<u>12,591,588</u>	-1.10%
Total assets	<u>19,136,814</u>	<u>20,248,270</u>	<u>209,330</u>	<u>119,250</u>	<u>19,346,144</u>	<u>20,367,520</u>	-5.01%
Long-term obligations	9,553,358	10,019,601	-	-	9,553,358	10,019,601	0.00%
Other liabilities	<u>5,443,755</u>	<u>6,321,019</u>	<u>7,161</u>	<u>2,472</u>	<u>5,450,916</u>	<u>6,323,491</u>	-13.80%
Total liabilities	<u>14,997,113</u>	<u>16,340,620</u>	<u>7,161</u>	<u>2,472</u>	<u>15,004,274</u>	<u>16,343,092</u>	-8.19%
Net assets							
Invested in capital assets, net of related debt	3,044,717	2,692,305	5,720	6,895	3,050,437	2,699,200	13.01%
Restricted	175,300	172,320	-	-	175,300	172,320	1.73%
Unrestricted	<u>919,684</u>	<u>1,043,025</u>	<u>196,449</u>	<u>109,883</u>	<u>1,116,133</u>	<u>1,152,908</u>	-3.19%
Total net assets	<u>\$ 4,139,701</u>	<u>\$ 3,907,650</u>	<u>\$ 202,169</u>	<u>\$ 116,778</u>	<u>\$ 4,341,870</u>	<u>\$ 4,024,428</u>	7.89%

The District's combined net assets increased by 7.9%, or \$317,442, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$2,980, or 1.7% over the prior year. The increase was a result of monies to be used for talented and gifted programs, instructional support levy and debt service funds.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$36,775, or 3.2%. This reduction in unrestricted net assets was a result of the District using carryover fund balance as well as the cash reserve funds to meet its financial obligations during the year.

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

	Figure A-4 Change in Net Assets		
	Governmental Activities	Business-type Activities	Total School District
Revenues			
Program revenues			
Charges for service and sales	\$ 853,769	\$ 690,052	\$ 1,543,821
Operating grants, contributions and restricted interest	737,850	58,935	796,785
Capital grants, contributions and restricted interest	22,511	-	22,511
General revenues			
Property tax	4,016,863	-	4,016,863
Unrestricted state grants	3,766,099	-	3,766,099
Unrestricted investment earnings	<u>35,440</u>	<u>614</u>	<u>36,054</u>
Total revenues	<u>9,432,532</u>	<u>749,601</u>	<u>10,182,133</u>
Program expenses			
Governmental activities			
Instruction	5,124,103	-	5,124,103
Support services	2,857,183	-	2,857,183
Non-instructional programs	8,600	664,210	672,810
Other expenses	<u>1,210,595</u>	<u>-</u>	<u>1,210,595</u>
Total expenses	<u>9,200,481</u>	<u>664,210</u>	<u>9,864,691</u>
Change in net assets	<u>\$ 232,051</u>	<u>\$ 85,391</u>	<u>\$ 317,442</u>

Property tax and unrestricted state grants account for 76% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 80% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$9,432,532 and expenses were \$9,200,481. The District was able to underspend governmental activities due to a conservative and pro-active approach to the balance between revenue and expenditures.

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

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 5,124,103	\$ 3,864,943
Support services	2,857,183	2,835,570
Non-instructional programs	8,600	8,600
Other expenses	<u>1,210,595</u>	<u>877,238</u>
Total expenses	<u>\$ 9,200,481</u>	<u>\$ 7,586,351</u>

- The cost financed by users of the District's programs was \$853,769.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$760,361.
- The net cost of governmental activities was financed with \$4,016,863 in property taxes and \$3,766,099 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$749,601 and expenses were \$664,210. The District's business type activities include the School Nutrition Fund and Preschool/Daycare Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2004, the School Nutrition Fund recognized an increased in revenues of \$93,821. This increase can be attributed to a wider variety of ala carte items being served at the high school location as well as more breakfasts being served due to many students participating in early morning activities. The Nutrition Fund also recognized an increase in expenditures of \$8,647 over FY 2003 due to an increase in purchase of supplies and food products. The Daycare/Preschool Fund recognized a substantial increase in their revenues of \$36,653 (13%) while also having an increase in expenses of \$57,063 over FY 2003. Both increases are explained by an increase in students numbers served and the staffing and supplies for the increased numbers.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$1,313,187, below last year's ending fund balances of \$1,414,920. The decrease in the combined fund balance can be attributed to the spending of the carry-over categorical funds, as well as an increase in the certified full time equivalency.

Governmental Fund Highlights

- The District's General Fund financial position is the result of many factors. Growth during the year in tax and grants resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures requiring the District to use carryover fund balance to meet its financial obligations during the year.
- The General Fund balance decreased from \$1,043,025 to \$1,019,671, due in part to the negotiated salary and benefits settlement, the prior year reduction in state aid and existing expenditure commitments of the District, as well as the increased staffing and required spending of categorical carry-over funds.
- The Debt Service Fund balance increased slightly from \$96,326 at June 30, 2003 to \$96,388 at June 30, 2004 due to the decrease in required principal and interest payments on the debt during fiscal year 2004 as well as a slight increase in the interest earnings.

Proprietary Fund Highlights

Enterprise Fund net assets increased from \$116,778 at June 30, 2003 to \$202,169 at June 30, 2004, representing an increase of approximately 73%. For fiscal 2004, the District revamped its school lunch program to provide students with additional ala carte items at the High School. This change resulted in increase in revenue and net assets. The school lunch program recognized an increase in breakfasts served as the population of students in early morning activities rose.

BUDGETARY HIGHLIGHTS

Over the course of the year, Solon Community School District amended its annual budget one time to reflect additional revenue and expenditures associated with an additional bus purchase, STAR grant monies, instructional support levy and PPEL carry-over, as well as increased revenues and expenditures in Food Service, BASP and Preschool.

The District's receipts were \$51,466 more than budgeted receipts, a variance of 1%. The most significant variance resulted from the District receiving additional grant monies not anticipated at the beginning of the fiscal year.

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 actual expenditures for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$12,453,521, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 1% from last year. More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$705,117.

The original cost of the District's capital assets was \$20,164,590. Governmental funds account for \$20,155,181, with the remainder of \$9,409 accounted for in the Proprietary, School Nutrition Fund.

The District had an asset valuation done in June 2004 which caused the capital assets to vary slightly from the previous year, 2003.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business- type Activities		Total School District		Total
	2004	2003	2004	2003	2004	2003	2003-2004
Land	\$ 567,505	\$ 567,505	\$ -	\$ -	\$ 567,505	\$ 567,505	0.00%
Buildings and improvements	10,621,596	10,842,918	-	-	10,621,596	10,842,918	-2.04%
Improvements, other than buildings	152,540	145,905	-	-	152,540	145,905	4.55%
Furniture and equipment	<u>1,106,160</u>	<u>1,028,365</u>	<u>5,720</u>	<u>6,895</u>	<u>1,111,880</u>	<u>1,035,260</u>	7.40%
Totals	<u>\$ 12,447,801</u>	<u>\$ 12,584,693</u>	<u>\$ 5,720</u>	<u>\$ 6,895</u>	<u>\$ 12,453,521</u>	<u>\$ 12,591,588</u>	-1.10%

Long-Term Debt

At June 30, 2004, the District had \$9,553,358 in general obligation and other long-term debt outstanding. This represents a decrease of 4.6% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

In September 2000, the voters of the District authorized the issuance of \$7,600,000 in general obligation bonds to pay for building and furnishing a new high school and build and furnish a two classroom addition to and improve, remodel, repair and furnish the current high school building as a new middle school building. In November 2000, the District issued \$5,935,000 in GOB and in May 2001, issued

\$1,665,000 GOB. The District had total outstanding bonded indebtedness at June 30, 2004 of \$8,925,000.

The District also had Capital Leases of \$103,085 as well as Capital Loan Notes of \$375,000 and early retirement obligations of \$150,273 at fiscal year end 2004.

Figure A-7

	Outstanding Long-term Obligations		
	Total		Total
	School District		Change
	<u>2004</u>	<u>2003</u>	<u>2003-2004</u>
General obligation bonds	\$ 8,925,000	\$ 9,250,000	-3.51%
Capital leases	103,085	202,388	-49.07%
Capital loan notes	375,000	440,000	-14.77%
Early retirement	<u>150,273</u>	<u>127,213</u>	18.13%
Total	<u>\$ 9,553,358</u>	<u>\$10,019,601</u>	-4.65%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The Solon School Board will be placing the issue of extending the current Voter-Approved PPEL levy from the current .67 per \$1,000 taxable valuation to the maximum of \$1.34 per \$1,000 of taxable valuation on the September 2005 school board election ballot. This would increase the revenues of the PPEL fund as well as the expenditures. Along the same lines, the District will also be asking the Voters of the District to extend the current instructional support levy for another 10 years. The impact of the levy not being renewed for another 10 years would be a substantial decrease in revenues of \$452,930 (based on budget year 2004-05 figures).
- The enrollment has been on an upward trend over the past three years. The increase in enrollment, as well as students open enrolling into the District, places the potential need for increased staffing. Although the student enrollment is increasing, which also creates an increase in funding; the funding is not currently sufficient to cover the additional needs.
- The District recognized a positive special education balance for the first time in many years. Although this shows that the district is able to balance the revenue and the expenditures for the program, it also means that the special education deficit balance funding is not applicable for the District.
- The District budgeted \$155,000 for Cash Reserve. This money is meant to be used to help fund the District's unspent balance. At the current time, as well as in past years, the Cash Reserve has been used as actual revenue rather than being used to help fund an increasing Unspent Balance.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Pat Moore, District Secretary/Treasurer and Business Manager, Solon Community School District, 301 S Iowa St, Solon, Iowa, 52333.

Basic Financial Statements

SOLON COMMUNITY SCHOOL DISTRICT
 Statement of Net Assets
 June 30, 2004

Exhibit A

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents			
ISCAP	\$ 1,375,327	\$ -	\$ 1,375,327
Other	1,313,894	193,971	1,507,865
Receivables			
Property tax			
Delinquent	28,512	-	28,512
Succeeding year	3,816,379	-	3,816,379
Accounts receivable	50,061	2,157	52,218
Accrued interest			
ISCAP	3,620	-	3,620
Due from other funds	4,328	-	4,328
Due from other governments	96,891	5,054	101,945
Inventories	-	2,428	2,428
Capital assets, net of accumulated depreciation	12,447,802	5,720	12,453,522
Total assets	19,136,814	209,330	19,346,144
LIABILITIES			
Accounts payable	28,388	-	28,388
Salaries and benefits payable	145,590	2,833	148,423
Accrued interest payable	67,930	-	67,930
Deferred revenue - succeeding year property tax	3,816,379	-	3,816,379
Due to other funds	-	4,328	4,328
ISCAP warrants payable	1,367,000	-	1,367,000
ISCAP accrued interest payable	5,490	-	5,490
ISCAP unamortized premium	12,978	-	12,978
Long-term liabilities			
Portion due within one year			
Capital loan notes payable	70,000	-	70,000
Bonds payable	345,000	-	345,000
Capital leases payable	103,085	-	103,085
Early retirement	84,963	-	84,963
Portion due after one year			
Capital loan notes payable	305,000	-	305,000
Bonds payable	8,580,000	-	8,580,000
Early retirement	65,310	-	65,310
Total liabilities	14,997,113	7,161	15,004,274

See notes to financial statements and Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
 Statement of Net Assets
 June 30, 2004

Exhibit A

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 3,044,717	\$ 5,720	\$3,050,437
Restricted for			
Talented and gifted program	4,390	-	4,390
Physical plant and equipment levy	80,470	-	80,470
Other special revenue purposes	61,982	-	61,982
Debt service	28,458	-	28,458
Unrestricted	<u>919,684</u>	<u>196,449</u>	<u>1,116,133</u>
 Total net assets	 <u>\$ 4,139,701</u>	 <u>\$ 202,169</u>	 <u>\$4,341,870</u>

See notes to financial statements and Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
 Statement of Activities
 For the Year Ended June 30, 2004

Exhibit B

<u>Functions/Programs</u>	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental activities							
Instruction							
Regular instruction	\$ 3,499,399	\$ 412,396	\$ 335,710	\$ -	\$ (2,751,293)	\$ -	\$ (2,751,293)
Special instruction	956,201	148,740	68,395	-	(739,066)	-	(739,066)
Other instruction	668,503	276,010	17,909	-	(374,584)	-	(374,584)
	5,124,103	837,146	422,014	-	(3,864,943)	-	(3,864,943)
Support services							
Student services	173,463	-	-	-	(173,463)	-	(173,463)
Instructional staff services	553,467	-	-	-	(553,467)	-	(553,467)
Administration services	867,369	-	-	-	(867,369)	-	(867,369)
Operation and maintenance of plant services	934,510	497	-	22,511	(911,502)	-	(911,502)
Transportation services	328,374	16,126	4,990	-	(307,258)	-	(307,258)
	2,857,183	16,623	4,990	22,511	(2,813,059)	-	(2,813,059)
Non-instructional programs	8,600	-	-	-	(8,600)	-	(8,600)
Other expenditures							
Long-term debt interest	491,926	-	-	-	(491,926)	-	(491,926)
AEA flowthrough	310,846	-	310,846	-	-	-	-
Depreciation (unallocated)	407,823	-	-	-	(407,823)	-	(407,823)
	1,210,595	-	310,846	-	(899,749)	-	(899,749)
Total governmental activities	9,200,481	853,769	737,850	22,511	(7,586,351)	-	(7,586,351)

See notes to financial statements and Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
 Statement of Activities
 For the Year Ended June 30, 2004

Exhibit B

<u>Functions/Programs</u>	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Business-type activities							
Non-instructional programs							
Nutrition services	\$ 350,311	\$ 364,944	\$ 58,935	\$ -	\$ -	\$ 73,568	\$ 73,568
Preschool/daycare program	313,899	325,108	-	-	-	11,209	11,209
Total business-type activities	664,210	690,052	58,935	-	-	84,777	84,777
Total	\$ 9,864,691	\$1,543,821	\$ 796,785	\$ 22,511	(7,586,351)	84,777	(7,501,574)
<u>General Revenues</u>							
Property tax levied for							
General purposes					3,003,750	-	3,003,750
Capital outlay					218,820	-	218,820
Debt service					794,293	-	794,293
Unrestricted state grants					3,766,099	-	3,766,099
Unrestricted investment earnings					35,440	614	36,054
Total general revenues					7,818,402	614	7,819,016
Change in net assets					232,051	85,391	317,442
Net assets, beginning of year, as restated					3,907,650	116,778	4,024,428
Net assets, end of year					\$ 4,139,701	\$ 202,169	\$ 4,341,870

See notes to financial statements and Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
 Balance Sheet
 Governmental Funds
 June 30, 2004

Exhibit C

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Special Revenue Funds</u>	<u>Total</u>
ASSETS				
Cash and pooled investments				
ISCAP	\$ 1,375,327	\$ -	\$ -	\$ 1,375,327
Other	1,017,958	90,337	205,599	1,313,894
Receivables				
Property tax				
Delinquent	19,656	6,051	2,805	28,512
Succeeding year	2,567,296	801,788	447,295	3,816,379
Accounts receivable	48,313	-	1,748	50,061
Accrued interest - ISCAP	3,620	-	-	3,620
Due from other funds	4,328	-	-	4,328
Due from other governments	96,891	-	-	96,891
Total assets and other debits	<u>\$ 5,133,389</u>	<u>\$ 898,176</u>	<u>\$ 657,447</u>	<u>\$ 6,689,012</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 15,364	\$ -	\$ 13,024	\$ 28,388
Salaries and benefits payable	145,590	-	-	145,590
ISCAP warrants payable	1,367,000	-	-	1,367,000
ISCAP accrued interest payable	5,490	-	-	5,490
ISCAP unamortized premium	12,978	-	-	12,978
Deferred revenue				
Succeeding year property tax	2,567,296	801,788	447,295	3,816,379
Total liabilities	<u>4,113,718</u>	<u>801,788</u>	<u>460,319</u>	<u>5,375,825</u>
Fund balances				
Reserved for				
Talented and gifted	4,390	-	-	4,390
Debt service	-	96,388	-	96,388
Designated for special purpose	2,682	-	-	2,682
Unreserved, undesignated	1,012,599	-	197,128	1,209,727
Total fund balances	<u>1,019,671</u>	<u>96,388</u>	<u>197,128</u>	<u>1,313,187</u>
Total liabilities and fund balances	<u>\$ 5,133,389</u>	<u>\$ 898,176</u>	<u>\$ 657,447</u>	<u>\$ 6,689,012</u>

See notes to financial statements and Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2004

Exhibit D

Total fund balances of governmental funds	\$ 1,313,187
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	12,447,802
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.	(67,930)
Long-term liabilities, including early retirement, bonds payable and notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(9,553,358)</u>
Net assets of governmental activities	<u>\$ 4,139,701</u>

See notes to financial statements and Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Year Ended June 30, 2004

Exhibit E

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues				
Local sources				
Local tax	\$ 2,854,287	\$ 794,293	\$ 368,283	\$ 4,016,863
Tuition	460,436	-	-	460,436
Other	147,219	2,445	279,109	428,773
State sources	4,367,205	-	-	4,367,205
Federal sources	159,255	-	-	159,255
Total revenues	<u>7,988,402</u>	<u>796,738</u>	<u>647,392</u>	<u>9,432,532</u>
Expenditures				
Current				
Instruction				
Regular instruction	3,340,706	-	26,685	3,367,391
Special instruction	955,782	-	-	955,782
Other instruction	371,800	-	275,090	646,890
	<u>4,668,288</u>	<u>-</u>	<u>301,775</u>	<u>4,970,063</u>
Support services				
Student services	170,130	-	-	170,130
Instructional staff services	556,554	-	42,336	598,890
Administration services	874,969	-	-	874,969
Operation and maintenance of plant services	860,563	-	276,659	1,137,222
Transportation services	460,945	-	6,666	467,611
	<u>2,923,161</u>	<u>-</u>	<u>325,661</u>	<u>3,248,822</u>
Non-instructional programs	-	-	18,872	18,872
Other expenditures				
Long-term debt				
Principal	-	489,303	-	489,303
Interest and fiscal charges	-	496,359	-	496,359
AEA flowthrough	310,846	-	-	310,846
	<u>310,846</u>	<u>985,662</u>	<u>-</u>	<u>1,296,508</u>
Total expenditures	<u>7,902,295</u>	<u>985,662</u>	<u>646,308</u>	<u>9,534,265</u>

See notes to financial statements and Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Year Ended June 30, 2004

Exhibit E

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Excess (deficiency) of revenues over (under) expenditures	\$ 86,107	\$ (188,924)	\$ 1,084	\$ (101,733)
Other financing sources (uses)				
Interfund operating transfers in (out)	<u>(109,461)</u>	<u>188,986</u>	<u>(79,525)</u>	<u>-</u>
Net change in fund balances	(23,354)	62	(78,441)	(101,733)
Fund balance, beginning of year	<u>1,043,025</u>	<u>96,326</u>	<u>275,569</u>	<u>1,414,920</u>
Fund balance, end of year	<u>\$ 1,019,671</u>	<u>\$ 96,388</u>	<u>\$ 197,128</u>	<u>\$ 1,313,187</u>

See notes to financial statements and Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances-Governmental Funds
 to the Statement of Activities
 For the Year Ended June 30, 2004

Exhibit F

Net change in fund balances - total governmental funds \$(101,733)

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

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

Capital outlays	\$ 567,050	
Depreciation expense	<u>(703,942)</u>	(136,892)

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. 489,303

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	(23,060)
------------------	----------

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. 4,433

Change in net assets of governmental activities \$ 232,051

See notes to financial statements and Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
 Statement of Net Assets
 Proprietary Funds
 June 30, 2004

Exhibit G

	Nonmajor Enterprise Funds
ASSETS	
Cash and pooled investments	\$ 193,971
Accounts receivable	2,157
Due from other governments	5,054
Inventories	2,428
Capital assets, net of accumulated depreciation	5,720
Total assets	209,330
 LIABILITIES	
Salaries and benefits payable	2,833
Due to other funds	4,328
Total liabilities	7,161
 NET ASSETS	
Invested in capital assets, net of related debt	5,720
Unreserved retained earnings	196,449
Total net assets	\$ 202,169

See notes to financial statements and Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
 Statement of Revenues, Expenses and Changes in Fund Net Assets
 Proprietary Funds
 For the Year Ended June 30, 2004

Exhibit H

	<u>Nonmajor Enterprise Funds</u>
Operating revenue	
Local sources	
Charges for service	<u>\$ 690,052</u>
Operating expenses	
Non-instructional programs	
Salaries	314,446
Benefits	84,003
Purchased services	28,361
Supplies	234,498
Equipment repairs	738
Miscellaneous	989
Depreciation	<u>1,175</u>
Total operating expenses	<u>664,210</u>
Operating income	<u>25,842</u>
Non-operating revenue	
Interest income	614
State sources	4,454
Federal sources	<u>54,481</u>
Total non-operating revenue	<u>59,549</u>
Change in net assets	85,391
Net assets, beginning of year	<u>116,778</u>
Net assets, end of year	<u>\$ 202,169</u>

See notes to financial statements and Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
 Statement of Cash Flows
 Proprietary Funds
 For the Year Ended June 30, 2004

Exhibit I

	Nonmajor Enterprise Funds
Cash flows from operating activities	
Cash received from sale of meals	\$ 364,109
Cash received from sale of services	324,260
Cash payments to employees for services	(397,910)
Cash payments to suppliers for goods and services	<u>(250,925)</u>
Net cash provided by operating activities	<u>39,534</u>
Cash flows from non-capital financing activities	
State grants received	4,454
Federal grants received	<u>39,999</u>
Net cash provided by non-capital financing activities	<u>44,453</u>
Cash flows from investing activities	
Interest on investments	<u>614</u>
Net increase in cash and cash equivalents	84,601
Cash and cash equivalents, beginning of year	<u>109,370</u>
Cash and cash equivalents, end of year	<u><u>\$ 193,971</u></u>

Reconciliation of operating income to net cash provided by operating activities

Operating income	\$ 25,842
Adjustments to reconcile operating income to net cash provided by operating activities	
Commodities used	9,428
Depreciation	1,175
Increase in accounts receivable	(1,683)
Decrease in inventories	83
Decrease in accounts payable	(178)
Increase in salaries and benefits payable	539
Increase in due to other fund	<u>4,328</u>
Net cash provided by operating activities	<u><u>\$ 39,534</u></u>

Non-cash investing, capital and financing activities

During the year ended June 30, 2004, the District received \$9,428 of federal commodities.

See notes to financial statements and Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

Exhibit J

	<u>Private Purpose Trust Stone Academy</u>
Assets	
Cash and pooled investments	\$ 2,968
Liabilities	<u> -</u>
Net assets	
Unreserved	<u><u>\$ 2,968</u></u>

See notes to financial statements and Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
 Statement of Changes in Fiduciary Net Assets
 Fiduciary Funds
 For the Year Ended June 30, 2004

Exhibit K

	<u>Private Purpose Trust</u>
Additions	
Local sources	
Interest	\$ 423
Donations	<u>148</u>
Total additions	<u>571</u>
 Deductions	
Non-instructional programs	
Purchased services	36
Supplies	438
Scholarships	<u>12,819</u>
Total deductions	<u>13,293</u>
 Change in net assets	 (12,722)
 Net assets, beginning of year	 <u>15,690</u>
 Net assets, end of year	 <u><u>\$ 2,968</u></u>

See notes to financial statements and Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2004

Note 1. Summary of Significant Accounting Policies

The Solon 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. The geographic area served includes the City of Solon, Iowa, and the agricultural territory in Johnson and Linn 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, Solon 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 Solon Community School District has no component units, which meet the Governmental Accounting Standards Board criteria.

The District does not participate in any jointly governed organizations for which the District is financially accountable or that the nature and significance of the relationship with the District are such that exclusion would cause the District's financial statements to be misleading.

B. Basis of Presentation

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

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

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

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

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

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

Fund financial statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as 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 revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

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

The District reports no major proprietary funds.

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 maintain the Stone Academy and 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 and claims and judgments and early retirement are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year 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 property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

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

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

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

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and 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.

<u>Asset Class</u>	<u>Amount</u>
Land	\$2,500
Buildings	\$2,500
Improvements other than buildings	\$2,500
Furniture and equipment:	
School Nutrition Fund equipment	\$ 500
Other furniture and equipment	\$2,500

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

<u>Asset Class</u>	<u>Useful Life</u>
Buildings	50 years
Improvements to buildings	20-50 years
Furniture and equipment	4-12 years

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

Early Retirement - District employees meeting certain requirements are eligible for early retirement benefits. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2004. The early retirement liability attributable to the governmental activities will be paid primarily from the Management Fund.

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

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

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

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

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

Designated Fund Balance - The District has designated a portion of its fund balance for specific programs.

E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, expenditures did not exceed the amounts budgeted nor did the District exceed its General Fund unspent authorized budget.

Note 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 no investments at June 30, 2004.

Note 3. Due From and Due to Other Funds

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Enterprise Fund, School Nutrition	\$ 900
General	Enterprise Fund, Preschool/Daycare	<u>3,428</u>
Totals		<u>\$ 4,328</u>

The School Nutrition and Preschool/Daycare Funds are repaying the General Fund for salaries and benefits paid. These amounts will be repaid during the year ending June 30, 2005.

Note 4. Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	General	\$ 109,461
Debt Service	Physical Plant and Equipment Levy	79,525
Physical Plant and Equipment Levy	Capital Projects	<u>1,365</u>
Totals		<u>\$ 190,351</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources. The transfer from the Capital Projects Fund to the Physical Plant and Equipment Levy Fund was to close out the building project that was completed.

Note 5. Iowa Schools Cash Anticipation Program (ISCAP)

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

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>	<u>Unamortized Premium</u>
2003-04B	1/30/04	1/28/05	\$ 665,501	\$3,620	\$ 661,000	\$ 5,490	\$ 3,186
2004-05A	6/30/04	6/30/05	<u>709,826</u>	<u>-</u>	<u>706,000</u>	<u>-</u>	<u>9,792</u>
			<u>\$ 1,375,327</u>	<u>\$3,620</u>	<u>\$ 1,367,000</u>	<u>\$ 5,490</u>	<u>\$ 12,978</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In additions, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no ISCAP advance activity for the year ended June 30, 2004.

The warrants bear an interest rate and the proceeds of the warrants are invested at an interest rate as shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2003-04A	2.000%	2.6030%
2003-04B	2.000%	1.3920%
2004-05A	3.000%	2.4600%

Note 6. Capital Assets

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

<u>Governmental activities</u>	<u>Balance, Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, End of Year</u>
Capital assets not being depreciated:				
Land	\$ 567,505	\$ -	\$ -	\$ 567,505
Capital assets being depreciated:				
Buildings and improvements	16,191,240	186,500	-	16,377,740
Improvements other than buildings	375,641	23,800	-	399,441
Furniture and equipment	<u>2,453,745</u>	<u>356,750</u>	<u>-</u>	<u>2,810,495</u>
Total capital assets being depreciated	<u>19,020,626</u>	<u>567,050</u>	<u>-</u>	<u>19,587,676</u>
Less accumulated depreciation for:				
Buildings and improvements	5,348,322	407,822	-	5,756,144
Improvements other than buildings	229,736	17,165	-	246,901
Furniture and equipment	<u>1,425,380</u>	<u>278,955</u>	<u>-</u>	<u>1,704,335</u>
Total accumulated depreciation	<u>7,003,438</u>	<u>703,942</u>	<u>-</u>	<u>7,707,380</u>
Total capital assets being depreciated, net	<u>12,017,188</u>	<u>(136,892)</u>	<u>-</u>	<u>11,880,296</u>
Governmental activities capital assets, net	<u>\$ 12,584,693</u>	<u>\$(136,892)</u>	<u>\$ -</u>	<u>\$ 12,447,801</u>
<u>Business-type activities</u>				
Furniture and equipment	\$ 9,409	\$ -	\$ -	\$ 9,409
Less accumulated depreciation	<u>2,514</u>	<u>1,175</u>	<u>-</u>	<u>3,689</u>
Business-type activities capital assets, net	<u>\$ 6,895</u>	<u>\$(1,175)</u>	<u>\$ -</u>	<u>\$ 5,720</u>

Depreciation expense was charged to the following functions:

Governmental activities

Instruction	
Regular	\$ 63,781
Special	3,419
Other	25,113
Support services	
Student	3,333
Instructional staff	122,307
Administration	8,550
Operation and maintenance of plant	7,588
Transportation	53,429
Non-instructional programs	8,599
Unallocated depreciation	<u>407,823</u>
 Total governmental activities depreciation expense	 <u>\$ 703,942</u>

Business-type activities

Food services	<u>\$ 1,175</u>
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During the year ended June 30, 2004, the District hired an outside company to perform a physical inventory of its capital assets. Also during the year ended June 30, 2004 the District changed its criteria for determining capitalized assets. Prior to the fiscal year ended June 30, 2004 the District included all assets costing more than \$500 in the General Fixed Asset Account Group. However, beginning in FY04 the District only includes items costing in excess of the limits summarized in Note 1, item D as capital assets. Due to these two changes, the District's beginning balance of capital assets in the year ended June 30, 2004 is less than the amounts reported on the financial statements of the prior fiscal year by \$2,962,118.

Note 7. Long-term Liabilities

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

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
General obligation bonds	\$ 9,250,000	\$ -	\$(325,000)	\$ 8,925,000	\$ 345,000
Capital leases	202,388	-	(99,303)	103,085	103,085
Capital loan notes payable	440,000	-	(65,000)	375,000	70,000
Early retirement	127,213	117,618	(94,558)	150,273	84,963
	<u>10,019,601</u>	<u>117,618</u>	<u>\$(583,861)</u>	<u>9,553,358</u>	<u>\$ 603,048</u>
Totals	<u>\$ 10,019,601</u>	<u>\$ 117,618</u>	<u>\$(583,861)</u>	<u>\$ 9,553,358</u>	<u>\$ 603,048</u>

Early retirement

The District offers a voluntary early retirement plan to its certified and classified employees. Eligible employees must be at least age fifty-five and have completed fifteen years of continuous service to the District. Employees must complete an application, which is required to be approved by the Board of Education.

An employee who is granted voluntary early retirement benefits will be paid an amount equal to a percentage of their salary from the negotiated salary schedule between the District and the Solon Education Association in the last year of employment (exclusive of any extra-duty pay, extended contract pay and fringe benefits). Administrators shall be placed on the lane and step as if their years of experience were as teachers of the District. The percentage shall be calculated as four and two-tenths percent (4.2%) of the salary multiplied by the number of years of service as a professional licensed employee on a regular contract in the District. However, the maximum voluntary early retirement benefit shall be equal to the employee's salary from the salary schedule, exclusive of any extra-duty, extended contract pay and fringe benefits. Part-time employees shall receive a pro rata amount equal to the employee's full-time equivalency during the last year of employment. Early retirement expenditures for the year ended June 30, 2004 totaled \$94,558.

Capital Leases

The District has entered into two contractual agreements for technology equipment. These agreements represent lease-purchase agreements and, in substance, are capital leases as ownership of the property transfers to the District at the end of the lease terms.

One lease is with Gateway Leasing for \$74,200 with a lease rate factor of 3.159 percent. This agreement requires three annual payments of \$27,138, including interest, beginning September 16, 2002. The lease had a balance of \$24,733 at June 30, 2004. The second lease is with Apple Computers for \$235,244 with a lease rate factor of 5.07 percent. This agreement requires three annual payments of \$82,323, including interest, beginning September 16, 2002. The Apple Computers lease had a balance of \$78,351 at June 30, 2004.

Bonds Payable

Details of the District's June 30, 2003 general obligation bonded indebtedness are as follows:

Year		3-1-97 Issue			11-1-00 Issue	
Ending	Interest	Principal	Interest	Interest	Principal	Interest
June 30,	Rates			Rates		
2005	4.80	\$ 195,000	\$ 79,745	4.75	\$ 150,000	\$ 292,893
2006	4.80	205,000	70,385	4.75	155,000	285,768
2007	4.90	215,000	60,545	4.75	160,000	278,405
2008	5.00	230,000	50,010	4.80	170,000	270,805
2009	5.10	235,000	38,510	4.85	175,000	262,645
2010	5.15	250,000	26,525	4.90	185,000	254,158

2011	5.20	260,000	13,650	4.95	195,000	245,093
2012		-	-	5.00	385,000	230,738
2013		-	-	5.10	410,000	211,285
2014		-	-	5.20	435,000	190,093
2015		-	-	5.25	465,000	167,190
2016		-	-	5.30	490,000	142,573
2017		-	-	5.35	520,000	116,265
2018		-	-	5.40	555,000	87,974
2019		-	-	5.40	590,000	57,668
2020		-	-	5.45	620,000	25,403
2021		-	-		-	-
Totals		<u>\$ 1,590,000</u>	<u>\$ 339,370</u>		<u>\$ 5,660,000</u>	<u>\$ 3,118,956</u>

Year Ending June 30,	5-1-01 Issue			Total	
	Interest Rates	Principal	Interest	Principal	Interest
2005		\$ -	\$ 83,250	\$ 345,000	\$ 455,888
2006		-	83,250	360,000	439,403
2007		-	83,250	375,000	422,200
2008		-	83,250	400,000	404,065
2009		-	83,250	410,000	384,405
2010		-	83,250	435,000	363,933
2011		-	83,250	455,000	341,993
2012	5.00	100,000	83,250	485,000	313,988
2013	5.00	100,000	78,250	510,000	289,535
2014	5.00	100,000	73,250	535,000	263,343
2015	5.00	100,000	68,250	565,000	235,440
2016	5.00	100,000	63,250	590,000	205,823
2017	5.00	100,000	58,250	620,000	174,515
2018	5.00	100,000	53,250	655,000	141,224
2019	5.00	100,000	48,250	690,000	105,918
2020	5.00	100,000	43,250	720,000	68,653
2021	5.00	<u>765,000</u>	<u>38,250</u>	<u>765,000</u>	<u>38,250</u>
Totals		<u>\$ 1,665,000</u>	<u>\$ 1,190,250</u>	<u>\$ 8,915,000</u>	<u>\$ 4,648,576</u>

The bond issue of November 1, 1979 is fully retired except for one bond for \$10,000 which was due on June 1, 1999 and two interest coupons for \$1,350, which have not been submitted for redemption. Attempts to identify the holder of the bond have been unsuccessful. The District will annually budget for the payment of this bond and its interest, based on the premise that redemption could occur in any fiscal year.

On June 1, 2002, the District issued Capital Loan Notes in the amount of \$500,000 for purchasing and implementing energy conservation measures to the buildings. The notes bear interest at varying rates and are scheduled to be repaid as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 70,000	\$ 12,835	\$ 82,835
2006	70,000	10,840	80,840
2007	75,000	8,670	83,670
2008	80,000	6,120	86,120
2009	<u>80,000</u>	<u>3,120</u>	<u>83,120</u>
Totals	<u>\$ 375,000</u>	<u>\$ 41,585</u>	<u>\$ 416,585</u>

Note 8. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$273,904, \$253,769 and \$238,852 respectively, equal to the required contributions for each year.

Note 9. Risk Management

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

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

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$569,042.

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 the Association 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. The Association will pay claims incurred before the termination date.

The 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.

Note 10. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$310,846 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.

Note 11. Deficit Balance

The District had two Special Revenue Fund, Student Activity Accounts with negative balances at June 30, 2004.

Note 12. 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 for the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

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

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

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

	<u>General</u>	<u>Debt</u>	Total Nonmajor <u>Govt</u>	<u>Total</u>
Net assets June 30, 2003, as previously reported	\$ 1,043,025	\$ 96,326	\$ 275,569	\$ 1,414,920
GASB Interpretation 6 adjustments	-	-	-	-
Net assets July 1, 2003, as restated for governmental funds	<u>\$ 1,043,025</u>	<u>\$ 96,326</u>	275,569	1,414,920
GASB 34 adjustments:				
Capital assets, net of accumulated depreciation of \$7,003,437				12,584,694
Long-term liabilities:				
Bonds			\$ (9,250,000)	
Capital loan notes			(440,000)	
Capital leases			(202,388)	
Early retirement			<u>(127,213)</u>	
				(10,019,601)
Accrued interest payable				<u>(72,363)</u>
Net assets July 1, 2003, as restated				<u>\$ 3,907,650</u>

Required Supplementary Information

SOLON COMMUNITY SCHOOL DISTRICT
 Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual
 All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 For the Year Ended June 30, 2004

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Funds	Funds		Original	Final	
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>			
Revenues						
Local sources	\$ 4,906,072	\$ 690,666	\$ 5,596,738	\$ 5,338,371	\$ 5,457,515	\$ 139,223
State sources	4,367,205	4,454	4,371,659	4,557,338	4,557,338	(185,679)
Federal sources	<u>159,255</u>	<u>54,481</u>	<u>213,736</u>	<u>115,814</u>	<u>115,814</u>	<u>97,922</u>
Total revenues	<u>9,432,532</u>	<u>749,601</u>	<u>10,182,133</u>	<u>10,011,523</u>	<u>10,130,667</u>	<u>51,466</u>
Expenditures						
Instruction	4,970,063	-	4,970,063	5,487,664	5,487,664	517,601
Support services	3,248,822	-	3,248,822	3,017,214	3,273,068	24,246
Non-instructional programs	18,872	664,210	683,082	659,418	778,562	95,480
Other expenditures	<u>1,296,508</u>	<u>-</u>	<u>1,296,508</u>	<u>1,323,180</u>	<u>1,323,180</u>	<u>26,672</u>
Total expenditures	<u>9,534,265</u>	<u>664,210</u>	<u>10,198,475</u>	<u>10,487,476</u>	<u>10,862,474</u>	<u>663,999</u>
Excess (deficiency) of revenues over (under) expenditures	(101,733)	85,391	(16,342)	(475,953)	(731,807)	715,465
Balance, beginning of year	<u>1,414,920</u>	<u>116,778</u>	<u>1,531,698</u>	<u>879,435</u>	<u>879,435</u>	<u>652,263</u>
Balance, end of year	<u>\$ 1,313,187</u>	<u>\$ 202,169</u>	<u>\$ 1,515,356</u>	<u>\$ 403,482</u>	<u>\$ 147,628</u>	<u>\$ 1,367,728</u>

See accompanying Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the 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 funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a basis consistent with U.S. generally accepted accounting principles.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$374,998.

During the year ended June 30, 2004, District expenditures did not exceed the amounts budgeted in any of the four functions nor did the General Fund expenditures exceed the unspent authorized budget.

Other Supplementary Information

SOLON COMMUNITY SCHOOL DISTRICT
 Combining Balance Sheet
 Nonmajor Special Revenue Funds
 June 30, 2004

Schedule 1

	<u>Management</u>	<u>Student Activity</u>	<u>Physical Pland and Equipment Levy</u>	<u>Total</u>
ASSETS				
Cash and pooled investments	\$ 53,538	\$ 63,501	\$ 88,560	\$ 205,599
Receivables				
Property tax				
Delinquent	1,138	-	1,667	2,805
Succeeding year	220,000	-	227,295	447,295
Accounts receivable	-	1,748	-	1,748
Total assets	<u>\$274,676</u>	<u>\$ 65,249</u>	<u>\$ 317,522</u>	<u>\$ 657,447</u>
 LIABILITIES AND FUND EQUITY				
Liabilities				
Accounts payable	\$ -	\$ 3,267	\$ 9,757	\$ 13,024
Deferred revenue				
Succeeding year property tax	220,000	-	227,295	447,295
Total liabilities	220,000	3,267	237,052	460,319
 Fund equity				
Unreserved fund balances	54,676	61,982	80,470	197,128
Total liabilities and fund equity	<u>\$274,676</u>	<u>\$ 65,249</u>	<u>\$ 317,522</u>	<u>\$ 657,447</u>

See accompanying Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Governmental Funds
 For the Year Ended June 30, 2004

Schedule 2

	Special Revenue				
	Management	Student	Physical Plant and Equipment	Capital	Total
	<u>Levy</u>	<u>Activity</u>	<u>Levy</u>	<u>Projects</u>	<u>Total</u>
Revenues					
Local sources					
Local taxes	\$ 149,463	\$ -	\$ 218,820	\$ -	\$ 368,283
Other	<u>136</u>	<u>277,212</u>	<u>396</u>	<u>1,365</u>	<u>279,109</u>
Total revenues	<u>149,599</u>	<u>277,212</u>	<u>219,216</u>	<u>1,365</u>	<u>647,392</u>
Expenditures					
Current					
Instruction					
Regular program instruction	26,685	-	-	-	26,685
Other instruction	-	275,090	-	-	275,090
Support services					
Instructional staff services	42,336	-	-	-	42,336
Operation and maintenance of plant services	85,352	-	191,307	-	276,659
Transportation services	6,666	-	-	-	6,666
Non-instructional programs					
Food service operations	<u>18,872</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,872</u>
Total expenditures	<u>179,911</u>	<u>275,090</u>	<u>191,307</u>	<u>-</u>	<u>646,308</u>

See accompanying Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Governmental Funds
 For the Year Ended June 30, 2004

Schedule 2

	Special Revenue				
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Capital Projects	Total
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (30,312)</u>	<u>\$ 2,122</u>	<u>\$ 27,909</u>	<u>\$ 1,365</u>	<u>\$ 1,084</u>
Other financing sources (uses)					
Interfund operating transfers in	-	-	1,365	-	1,365
Interfund operating transfers (out)	<u>-</u>	<u>-</u>	<u>(79,525)</u>	<u>(1,365)</u>	<u>(80,890)</u>
Total other financing uses	<u>-</u>	<u>-</u>	<u>(78,160)</u>	<u>(1,365)</u>	<u>(79,525)</u>
Excess (deficiency) of revenues over (under) expenditures and other financing uses	(30,312)	2,122	(50,251)	-	(78,441)
Fund balances, beginning of year	<u>84,988</u>	<u>59,860</u>	<u>130,721</u>	<u>-</u>	<u>275,569</u>
Fund balances, end of year	<u>\$ 54,676</u>	<u>\$ 61,982</u>	<u>\$ 80,470</u>	<u>\$ -</u>	<u>\$ 197,128</u>

See accompanying Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
 Combining Statement of Net Assets
 Nonmajor Proprietary Funds
 June 30, 2004

Schedule 3

	Enterprise		<u>Total</u>
	<u>School Nutrition</u>	<u>Preschool/ Daycare</u>	
ASSETS			
Cash and pooled investments	\$ 130,894	\$ 63,077	\$ 193,971
Accounts receivable	894	1,263	2,157
Due from other governments	5,054	-	5,054
Inventories	2,428	-	2,428
Equipment, net of accumulated depreciation	5,720	-	5,720
Total assets	144,990	64,340	209,330
LIABILITIES			
Salaries and benefits payable	2,343	490	2,833
Due to other funds	900	3,428	4,328
Total liabilities	3,243	3,918	7,161
NET ASSETS			
Invested in capital assets, net	5,720	-	5,720
Unreserved	136,027	60,422	196,449
Total net assets	\$ 141,747	\$ 60,422	\$ 202,169

See accompanying Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
 Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
 Nonmajor Proprietary Funds
 For the Year Ended June 30, 2004

Schedule 4

	Enterprise		Total
	School Nutrition	Preschool/ Daycare	
Operating revenue			
Local sources			
Charges for service	\$ 364,944	\$ 325,108	\$ 690,052
Operating expenses			
Non-instructional programs			
Salaries	124,865	189,581	314,446
Benefits	40,240	43,763	84,003
Purchased services	2,349	26,012	28,361
Supplies	180,869	53,629	234,498
Small equipment	-	738	738
Miscellaneous	813	176	989
Depreciation	1,175	-	1,175
Total operating expenses	350,311	313,899	664,210
Operating income	14,633	11,209	25,842
Non-operating revenue			
Interest income	614	-	614
State sources	4,454	-	4,454
Federal sources	54,481	-	54,481
Total non-operating revenue	59,549	-	59,549
Change in net assets	74,182	11,209	85,391
Net assets, beginning of year	67,565	49,213	116,778
Net assets, end of year	\$ 141,747	\$ 60,422	\$ 202,169

See accompanying Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
 Combining Statement of Cash Flows
 Nonmajor Proprietary Funds
 For the Year Ended June 30, 2004

Schedule 5

	Enterprise		<u>Total</u>
	<u>School Nutrition</u>	<u>Preschool/ Daycare</u>	
Cash flows from operating activities			
Cash received from sale of meals	\$ 364,109	\$ -	\$ 364,109
Cash received from sale of services	-	324,260	324,260
Cash payments to employees for services	(163,234)	(234,676)	(397,910)
Cash payments to suppliers for goods and services	(173,620)	(77,305)	(250,925)
Net cash provided by operating activities	27,255	12,279	39,534
Cash flows from non-capital financing activities			
State grants received	4,454	-	4,454
Federal grants received	39,999	-	39,999
Net cash provided by non-capital financing activities	44,453	-	44,453
Cash flows from investing activities			
Interest on investments	614	-	614
Net increase in cash and cash equivalents	72,322	12,279	84,601
Cash and cash equivalents, beginning of year	58,572	50,798	109,370
Cash and cash equivalents, end of year	\$ 130,894	\$ 63,077	\$ 193,971

Reconciliation of operating income to net cash provided by operating activities

Operating income	\$ 14,633	\$ 11,209	\$ 25,842
Adjustments to reconcile operating income to net cash provided by operating activities			
Commodities used	9,428	-	9,428
Depreciation	1,175	-	1,175
Increase in accounts receivable	(835)	(848)	(1,683)
Decrease in inventories	83	-	83
Decrease in accounts payable	-	(178)	(178)
Increase (decrease) in salaries and benefits payable	1,871	(1,332)	539
Increase in due to other fund	900	3,428	4,328
Net cash provided by operating activities	\$ 27,255	\$ 12,279	\$ 39,534

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$9,428 of federal commodities.

See accompanying Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
 Combining Statement of Revenues, Expenditures and Changes in Fund Balance
 Fiduciary Funds
 For the Year Ended June 30, 2004

Schedule 6

	<u>Stone</u> <u>Academy</u>	<u>Investments</u> <u>Account</u>	<u>Mickelsen</u> <u>Trust</u>	<u>Kessler</u> <u>Memorial</u>	<u>Total</u>
Additions					
Local sources					
Other local sources					
Interest	\$ 293	\$ -	\$ 6	\$ 124	\$ 423
Donations	<u>148</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>148</u>
	<u>441</u>	<u>-</u>	<u>6</u>	<u>124</u>	<u>571</u>
Deductions					
Non-instructional programs					
Purchased services	36	-	-	-	36
Supplies	438	-	-	-	438
Scholarships	<u>-</u>	<u>-</u>	<u>1,677</u>	<u>11,142</u>	<u>12,819</u>
Total expenditures	<u>474</u>	<u>-</u>	<u>1,677</u>	<u>11,142</u>	<u>13,293</u>
Deficiency of revenues under expenditures	(33)	-	(1,671)	(11,018)	(12,722)
Intrafund transfers	2,062	(2,062)	-	-	-
Balance, beginning of year	<u>939</u>	<u>2,062</u>	<u>1,671</u>	<u>11,018</u>	<u>15,690</u>
Balance, end of year	<u>\$ 2,968</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,968</u>

See accompanying Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts
 For the Year Ended June 30, 2004

Schedule 7

Account	Balance, Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance, End of Year
Drama	\$ 3,091	\$ 6,398	\$ 7,015	\$ -	\$ 2,474
Yearbook	9,760	5,377	5,121	-	10,016
MS yearbook	20	1,601	1,553	-	68
Fine arts	1,171	538	-	-	1,709
Honors English	45	-	-	-	45
Win With Reading	60	250	250	-	60
Media Center	-	5,904	-	-	5,904
Mock trial	8	296	246	-	58
Speech	-	-	185	185	-
All athletics	(1,867)	83,759	92,835	-	(10,943)
Athletic director/facilities	1	-	-	-	1
Soccer	118	-	108	-	10
Cross country	173	439	-	-	612
Football	-	6,939	6,939	-	-
Baseball	-	21,795	22,527	-	(732)
Boys track	66	3,443	3,000	-	509
Wrestling	-	1,993	1,318	-	675
Girls basketball	-	279	217	-	62
Volleyball	347	2,891	2,797	-	441
Softball	-	8,518	8,514	-	4
Girls track	484	5,536	4,820	-	1,200
Girls golf	243	-	49	-	194
Book A Birthday	41	157	-	-	198
Lakeview Jobs	292	-	-	-	292
Registration	375	115	-	-	490
High school activities	776	1,086	1,023	-	839
Lakeview activities	2,939	2,181	4,052	-	1,068
Art for education	745	50	-	-	795
Lakeview pictures	6	439	-	-	445
Concessions	1,689	16,451	15,953	-	2,187
Vending machines	1,097	-	-	-	1,097
Petty cash	43	-	-	-	43
High school pictures	3,395	1,713	1,004	(185)	3,919

See accompanying Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts
 For the Year Ended June 30, 2004

Schedule 7

Account	Balance, Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance, End of Year
Computer training classes	\$ 1,533	\$ -	\$ -	\$ -	\$ 1,533
Summer enrichment	2,999	5,993	5,195	-	3,797
Water club	22	70	67	-	25
Lakeview water club	88	739	806	-	21
Lakeview band resale	195	1,777	1,664	-	308
Middle school activities	601	1,920	1,506	-	1,015
Middle school student supplies	1,097	9,233	7,027	-	3,303
District-wide activities	2,749	1,202	3,292	-	659
MS water club	27	110	89	-	48
Instructional supply fundraiser	160	-	160	-	-
LV Spartan Fund Run	-	1,987	1,799	-	188
MS Spartan Fund Run	-	1,387	1,372	-	15
HS Spartan Fund Run	-	1,625	1,580	-	45
Close-up	245	-	-	-	245
Spanish club	1,374	8,215	7,867	-	1,722
Flag corps	1	641	310	-	332
Lakeview student council	371	-	-	-	371
High school student council	1,834	3,162	3,477	-	1,519
Junior high student council	10,127	15,997	18,422	-	7,702
School store	40	-	-	-	40
National Honor Society	-	659	402	-	257
Peer council	320	-	-	-	320
Band	1,254	7,311	7,508	-	1,057
Cheerleaders/poms	3,265	3,598	4,460	200	2,603
SADD	545	622	283	-	884
30 days to fitness	32	-	-	-	32
Environmental club	188	-	-	-	188
YAC	1,618	-	200	-	1,418
Dance team	1,404	8,113	8,401	(200)	916
Science/math boosters	507	4,144	850	-	3,801
Vocal music	22	2,749	2,465	(9)	297
MS cheerleading	-	4,636	3,080	-	1,556
HS show choir	-	200	209	9	-

See accompanying Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts
 For the Year Ended June 30, 2004

Schedule 7

Account	Balance, Beginning of <u>Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Intrafund Transfers</u>	Balance, End of <u>Year</u>
"Stage Fright" club	\$ -	\$ 2,076	\$ 1,860	\$ -	\$ 216
Senior class	970	3,576	3,442	(366)	738
Junior class	603	7,330	6,590	(603)	740
Graduate class contributions	<u>551</u>	<u>-</u>	<u>1,189</u>	<u>969</u>	<u>331</u>
Totals	<u>\$ 59,860</u>	<u>\$ 277,220</u>	<u>\$ 275,098</u>	<u>\$ -</u>	<u>\$ 61,982</u>

See accompanying Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT
Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds
For the Last Four Years

Schedule 8

	Modified Accrual Basis			
	2004	2003	2002	2001
Revenues				
Local sources				
Local tax	\$ 4,016,863	\$ 3,935,726	\$ 3,589,474	\$ 2,788,120
Tuition	460,436	297,548	266,463	250,956
Other	428,773	590,155	948,875	667,175
State sources	4,367,205	4,648,389	4,070,181	3,932,343
Federal sources	159,255	254,981	82,791	72,996
 Total revenues	 \$ 9,432,532	 \$ 9,726,799	 \$ 8,957,784	 \$ 7,711,590
 Expenditures				
Instruction				
Regular instruction	3,367,391	3,352,577	2,820,908	2,655,873
Special instruction	955,782	992,719	827,349	642,068
Other instruction	646,890	761,212	632,435	651,370
Support services				
Student services	170,130	137,658	145,774	131,076
Instructional staff services	598,890	712,332	241,355	374,720
Administration services	874,969	878,638	1,246,892	1,205,471
Operation and maintenance of plant services	945,915	932,027	750,255	656,554
Transportation services	467,611	297,535	259,637	250,084
Non-instructional programs	18,872	16,993	-	-
Other expenditures				
Facilities acquisition	191,307	3,167,434	5,814,346	562,937
Long-term debt				
Principal	489,303	505,428	189,939	247,038
Interest and other charges	496,359	501,987	649,786	121,548
AEA flowthrough	310,846	323,579	309,279	303,749
 Total expenditures	 \$ 9,534,265	 \$ 12,580,119	 \$ 13,887,955	 \$ 7,802,488

See accompanying Independent Auditor's Report.

KAY L. CHAPMAN, CPA PC

119 Sycamore Street, Suite 100
Muscatine, Iowa 52761
563-264-1385

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING

To the Board of Education
Solon Community School District
Solon, Iowa

I have audited the financial statements of the Solon Community School District as of and for the year ended June 30, 2004, and have issued my report thereon dated August 20, 2004. I conducted my 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 Solon Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of noncompliance that are described below.

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 my audit of the financial statements of the District. Since my 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. Current year statutory comments are detailed as follows:

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

2. Certified Budget - Disbursements for the year ended June 30, 2004 did not exceed the amounts budgeted.
3. Questionable Disbursements - I noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
4. 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.
5. Business Transactions - No business transactions between the District and District officials were noted.
6. 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.
7. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
8. Certified Enrollment - No variance in the basic enrollment data certified to the Department of Education were noted.
9. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
10. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely and I noted no significant deficiencies in the amounts reported.
11. Financial Condition - The District had two Student Activity Accounts with negative balances at June 30, 2004.

Recommendation - The District should monitor these accounts and investigate alternatives to eliminate these deficits.

Response - We will investigate possible alternatives to eliminate these deficits.

Conclusion - Response accepted.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Solon Community School District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Solon Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Prior year reportable conditions have not been resolved. Current year reportable conditions are as follows:

- A. 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. I noted that the bank deposits, bank reconciliations, the posting of cash journals, payroll and payroll records are all done by the same person.

Recommendation - I 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 deemed necessary.

Conclusion - Response accepted.

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. My 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, I believe the lack of segregation of duties 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 the Solon Community School District and other parties to whom the District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by the personnel of the Solon Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
August 20, 2004

SOLON COMMUNITY SCHOOL DISTRICT

Audit Staff
June 30, 2004

This audit was performed by

Kay Chapman, CPA