

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

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South Tama County Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
G. Joe Lyon	President	2003
Alan Upah	Vice President	2004
Deb Hanus	Board Member(Resigned)	2003
Margaret Kubik	Board Member(Appointed)	2003
Donald Wacha	Board Member	2005
Jackie Dvorak	Board Member	2005

**Board of Education
(After September 2003 Election)**

G. Joe Lyon	President	2006
Alan Upah	Vice President	2004
Margaret Kubik	Board Member	2004
Donald Wacha	Board Member	2005
Jackie Dvorak	Board Member	2005

School Officials

Larry Molacek	Superintendent	2004
Teresa Hofer	District Secretary	2004
John Legg	Business Manager	2004
Peter Pashler	Attorney	2004
Joel Greer	Attorney	2004

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(a professional corporation)
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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
South Tama County Community School District:

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

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

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

In accordance with Government Auditing Standards, we have also issued our reports dated August 24, 2004, on our consideration of the South Tama County Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 34 through 36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not

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audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise South Tama County Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material aspects, in relation to the basic financial statements taken as a whole.



NOLTE, CORNMAN & JOHNSON, P.C.

August 24, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$11,416,729 in fiscal 2003 to \$11,787,733 in fiscal 2004, while General Fund expenditures increased from \$10,843,461 in fiscal 2003 to \$11,844,840 in fiscal 2004. This resulted in a decrease in the District's General Fund balance from \$2,897,814 in fiscal 2003 to a balance of \$2,840,707 in fiscal 2004, a 1.97% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in state sources during fiscal 2004.

USING THIS ANNUAL REPORT

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

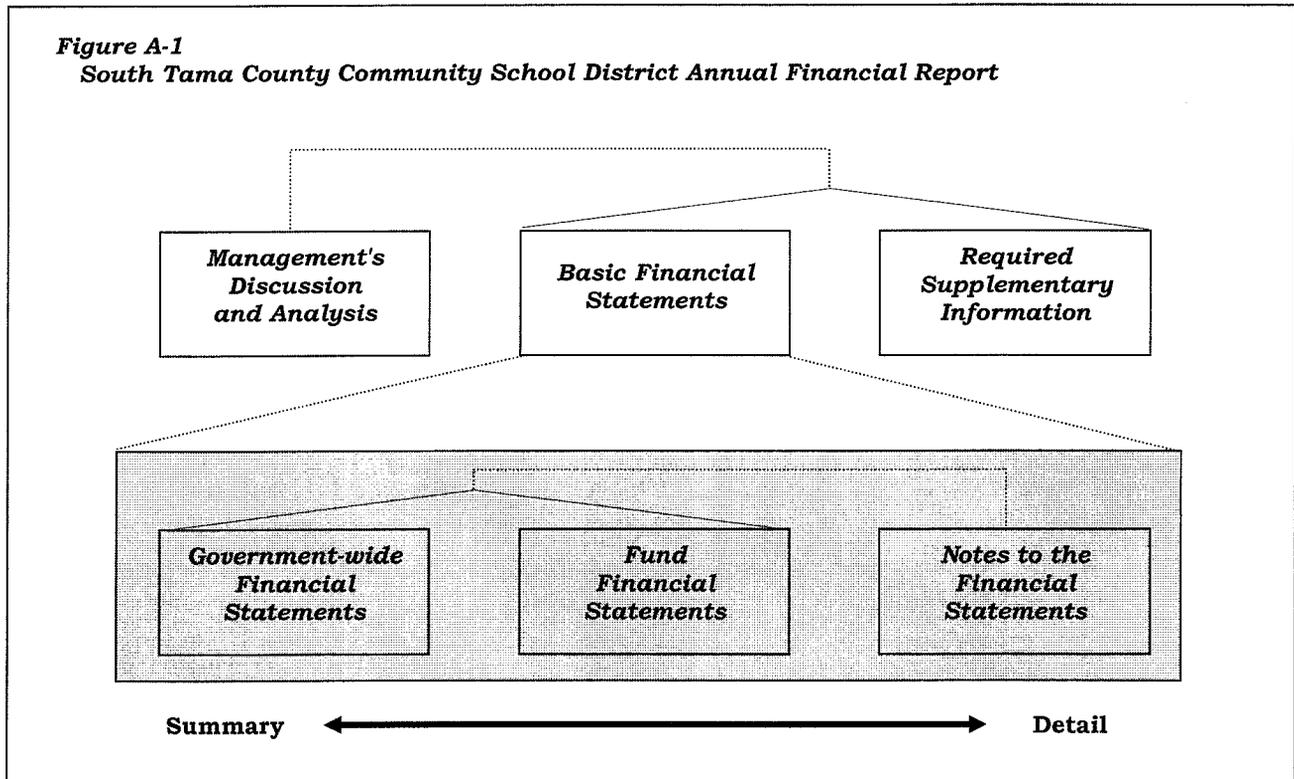


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	District-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 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, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due 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 position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

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

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Agency Fund.

Agency Fund – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts.

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 Activities		Business-type Activities		Total District		Total Change
	2004	2003	2004	2003	2004	2003	2003-04
Current and other assets	\$ 8,127,731	7,411,919	\$ 126,516	77,162	\$ 8,254,247	7,489,081	10.22%
Capital assets	1,875,640	1,831,924	15,825	19,398	1,891,465	1,851,322	2.17%
Total assets	10,003,371	9,243,843	142,341	96,560	10,145,712	9,340,403	8.62%
Long-term obligations	519,733	441,530	0	0	519,733	441,530	17.71%
Other liabilities	4,501,891	3,770,503	31,031	7,557	4,532,922	3,778,060	19.98%
Total liabilities	5,021,624	4,212,033	31,031	7,557	5,052,655	4,219,590	19.74%
Net assets:							
Invested in capital assets, net of related debt	1,875,640	1,831,924	15,825	19,398	1,891,465	1,851,322	2.17%
Restricted	668,017	599,988	0	0	668,017	599,988	11.34%
Unrestricted	2,438,090	2,599,898	95,485	69,605	2,533,575	2,669,503	-5.09%
Total net assets	\$ 4,981,747	5,031,810	\$ 111,310	89,003	\$ 5,093,057	5,120,813	-0.54%

The District's combined net assets decreased by 0.54%, or \$27,756, below the prior year. The largest portion of the District's net assets in the unrestricted net assets. Unrestricted net assets is the part of the net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements. Unrestricted net assets decreased by \$133,447, or 5.00%.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$65,548, or 10.92% over the prior year.

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

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2004	2003	2004	2003	2004	2003	2003-04
Revenues:							
Program revenues:							
Charges for services	\$ 642,579	675,907	269,255	274,042	911,834	949,949	-4.01%
Operating grants and contributions and restricted interest	2,197,959	1,929,090	348,606	301,990	2,546,565	2,231,080	14.14%
General revenues:							
Property tax	3,633,127	3,675,032	0	0	3,633,127	3,675,032	-1.14%
Local option sales and services tax	2,124	0	0	0	2,124	0	100.00%
Unrestricted state grants	6,001,711	5,895,743	0	0	6,001,711	5,895,743	1.80%
Unrestricted investment earnings	77,546	72,524	337	386	77,883	72,910	6.82%
Total revenues	12,555,046	12,248,296	618,198	576,418	13,173,244	12,824,714	2.72%
Program expenses:							
Governmental activities:							
Instructional	8,401,462	7,765,060	0	0	8,401,462	7,765,060	8.20%
Support services	3,606,666	3,316,470	0	0	3,606,666	3,316,470	8.75%
Non-instructional programs	485	(68)	595,891	590,022	596,376	589,954	1.09%
Other expenses	596,496	583,420	0	0	596,496	583,420	2.24%
Total expenses	12,605,109	11,664,882	595,891	590,022	13,201,000	12,254,904	7.72%
Change in net assets	\$ (50,063)	583,414	22,307	(13,604)	(27,756)	569,810	-104.87%

Property tax and unrestricted state grants account for approximately 73% of the total revenue. The District's expenses primarily relate to instruction and support services which account for approximately 91% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$12,555,046 and expenses were \$12,605,109.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 8,401,462	6,036,606
Support services	3,606,666	3,603,179
Non-instructional	485	485
Other expenses	596,496	124,301
Totals	\$ 12,605,109	9,764,571

-
- The cost financed by users of the District's programs was \$642,579.
 - Federal and state governments subsidized certain programs with grants and contributions totaling \$2,197,959.
 - The net cost of governmental activities was financed with \$3,633,127 in property and other taxes, \$2,124 in local option sales and services tax, \$6,001,711 in unrestricted state grants, and \$77,546 in interest on investments.

Business-Type Activities

Revenues of the District's business-type activities were \$618,198 and expenses were \$595,891. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and interest income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$3,625,840, below last year's ending fund balance of a \$3,641,416.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. Growth during the year in tax and grants resulted in an increase in revenues. However, along with the increase in revenues, the General Fund also had an increase in expenditures.
- The General Fund balance decreased from \$2,897,814 in fiscal year 2003 to \$2,840,707 in fiscal year 2004, due in part to the large increase in instruction and support services expenses over 2003.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$89,003 at June 30, 2003 to \$111,310 at June 30, 2004, representing an increase of 25%.

BUDGETARY HIGHLIGHTS

Over the course of the year, South Tama County Community School District amended its annual budget one time to reflect additional expenditures from federal grants.

The District's receipts were \$251,353 more than budgeted receipts, a variance of 1.95%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

Total expenditures were less than budgeted, primarily due 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.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services functional area due to the timing of disbursements paid.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$1,891,465, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 3 to the financial statements. Depreciation expense for the year was \$200,286.

The original cost of the District's capital assets was \$5,822,698. Governmental funds account for \$5,695,201 with the remainder of \$127,497 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$632,606 at June 30, 2004, compared to \$540,024 reported at June 30, 2003.

Figure A-6

	Capital Assets, Net of Depreciation						
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2004	2003	2004	2003	2004	2003	2003-04
Land	\$ 317,920	317,920	\$ 0	0	\$ 317,920	317,920	0.00%
Buildings	741,363	778,492	0	0	741,363	778,492	-5.01%
Improvements other than buildings	183,451	195,488	0	0	183,451	195,488	-6.56%
Machinery and equipment	632,906	540,024	15,825	19,398	648,731	559,422	13.77%
Total	<u>\$ 1,875,640</u>	<u>1,831,924</u>	<u>\$ 15,825</u>	<u>19,398</u>	<u>\$ 1,891,465</u>	<u>1,851,322</u>	<u>2.12%</u>

Long-Term Debt

At June 30, 2004, the District had \$519,733 in other long-term debt outstanding. This represents an increase of 18% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 4 to the financial statements.

Figure A-7

	Outstanding Long-Term Obligations		
	Total School District		Total Change
	2004	2003	
Early retirement	\$ 456,354	418,144	9.1%
Compensated absences	63,379	23,386	171.0%
Totals	<u>\$ 519,733</u>	<u>441,530</u>	<u>17.7%</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- A 2.5% across-the-board state cut did reduce revenues the District received during the 2003-2004 school year. This was due to a downward estimate in state revenues.
- The District experienced a growth in enrollment during the 2004 fiscal year, which will increase revenues for the District in 2005.
- Federal Impact Aid payments to the District have increased over the past six years. The District received \$500,767 in fiscal year 2004. However, as the Federal deficit grows, continued funding for the program is a concern.
- Residents of Tama County passed, in February, the 1% local option sales tax to be used for school infrastructure. At current projections, that will generate approximately \$400,000 per year for the District.
- In March, 2004 residents of the school district passed the \$1.34 PPEL levy. The levy should generate approximately \$354,274 yearly.

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 John Legg, Business Manager, South Tama County Community School District, 1702 Harding St., Tama, Iowa, 52339.

BASIC FINANCIAL STATEMENTS

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents:			
Other	\$ 4,500,384	106,016	4,606,400
Receivables			
Property tax:			
Delinquent	69,169	0	69,169
Succeeding year	3,387,558	0	3,387,558
Accounts	147,786	865	148,651
Due from other governments	22,834	0	22,834
Inventories	0	19,635	19,635
Capital assets, net of accumulated depreciation (Note 3)	1,875,640	15,825	1,891,465
TOTAL ASSETS	\$ 10,003,371	142,341	10,145,712
LIABILITIES			
Accounts payable	\$ 24,613	0	24,613
Salaries and benefits payable	1,089,720	24,077	1,113,797
Deferred revenue:			
Succeeding year property tax	3,387,558	0	3,387,558
Other	0	6,954	6,954
Long-term liabilities (Note 4):			
Portion due within one year:			
Early retirement	145,914	0	145,914
Accrued compensated absences	63,379	0	63,379
Portion due after one year:			
Early retirement	310,440	0	310,440
TOTAL LIABILITIES	\$ 5,021,624	31,031	5,052,655
NET ASSETS			
Investment in capital assets, net of related debt	1,875,640	15,825	1,891,465
Restricted for:			
Teacher Quality	1,403	0	1,403
Talented and Gifted	13,765	0	13,765
Early Intervention	240,785	0	240,785
Capital projects	2,481	0	2,481
Physical plant and equipment levy	244,185	0	244,185
Other special revenue purposes	165,398	0	165,398
Unrestricted	2,438,090	95,485	2,533,575
TOTAL NET ASSETS	\$ 4,981,747	111,310	5,093,057

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 5,108,222	616,444	1,724,737
Special instruction	2,408,792	22,648	1,027
Other instruction	884,448	0	0
	<u>8,401,462</u>	<u>639,092</u>	<u>1,725,764</u>
Support services:			
Student services	307,912	0	0
Instructional staff services	186,009	0	0
Adminstration services	1,569,033	0	0
Operation and maintenance of plant services	1,024,648	0	0
Transportation services	511,531	3,487	0
Central services	7,533	0	0
	<u>3,606,666</u>	<u>3,487</u>	<u>0</u>
Non-instructional programs	485	0	0
Other expenditures:			
Facilities acquisitions	75,135	0	0
AEA flowthrough	472,195	0	472,195
Depreciation(unallocated)*	49,166	0	0
	<u>596,496</u>	<u>0</u>	<u>472,195</u>
Total governmental activities	12,605,109	642,579	2,197,959
Business-Type activities:			
Non-instructional programs:			
Nutrition services	595,891	269,255	348,606
Total business-type activities	<u>595,891</u>	<u>269,255</u>	<u>348,606</u>
Total	<u>\$ 13,201,000</u>	<u>911,834</u>	<u>2,546,565</u>

General Revenues:

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

Total general revenues

Changes in net assets

Net assets beginning of year

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(2,767,041)	0	(2,767,041)
(2,385,117)	0	(2,385,117)
(884,448)	0	(884,448)
(6,036,606)	0	(6,036,606)
(307,912)	0	(307,912)
(186,009)	0	(186,009)
(1,569,033)	0	(1,569,033)
(1,024,648)	0	(1,024,648)
(508,044)	0	(508,044)
(7,533)	0	(7,533)
(3,603,179)	0	(3,603,179)
(485)		(485)
(75,135)	0	(75,135)
0	0	0
(49,166)	0	(49,166)
(124,301)	0	(124,301)
(9,764,571)	0	(9,764,571)
0	21,970	21,970
0	21,970	21,970
(9,764,571)	21,970	(9,742,601)
\$ 3,541,040	0	3,541,040
92,087	0	92,087
2,124	0	2,124
6,001,711	0	6,001,711
77,546	337	77,883
9,714,508	337	9,714,845
(50,063)	22,307	(27,756)
5,031,810	89,003	5,120,813
\$ 4,981,747	111,310	5,093,057

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Other Nonmajor Governmental Funds	Total
ASSETS			
Cash and pooled investments:			
Other	\$ 3,723,522	776,862	4,500,384
Receivables:			
Property tax:			
Delinquent	61,374	7,795	69,169
Succeeding year	3,050,058	337,500	3,387,558
Accounts	147,786	0	147,786
Due from other governments	22,358	476	22,834
TOTAL ASSETS	\$ 7,005,098	1,122,633	8,127,731
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 24,613	0	24,613
Salaries and benefits payable	1,089,720	0	1,089,720
Deferred revenue:			
Succeeding year property tax	3,050,058	337,500	3,387,558
Total liabilities	4,164,391	337,500	4,501,891
Fund balances:			
Reserved for:			
Teacher Quality	1,403	0	1,403
Talented and Gifted	13,765	0	13,765
Early Intervention	240,785	0	240,785
Unreserved:			
Undesignated	2,584,754	785,133	3,369,887
Total fund balances	2,840,707	785,133	3,625,840
TOTAL LIABILITIES AND FUND BALANCES	\$ 7,005,098	1,122,633	8,127,731

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2004

Total fund balances of governmental funds (page 17)	\$ 3,625,840
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	1,875,640
Long-term liabilities, including early retirement and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(519,733)</u>
Net assets of governmental activites (page 14)	<u><u>\$ 4,981,747</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Other Nonmajor Governmental Funds	Total
REVENUES:			
Local sources:			
Local tax	\$ 3,223,651	409,476	3,633,127
Tuition	126,783	0	126,783
Other	236,198	357,443	593,641
Intermediate sources	1,825	0	1,825
State sources	6,952,586	394	6,952,980
Federal sources	1,246,690	0	1,246,690
Total revenues	<u>11,787,733</u>	<u>767,313</u>	<u>12,555,046</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	5,222,259	0	5,222,259
Special instruction	2,402,292	0	2,402,292
Other instruction	535,082	349,366	884,448
	<u>8,159,633</u>	<u>349,366</u>	<u>8,508,999</u>
Support services:			
Student services	307,912	0	307,912
Instructional staff services	184,627	0	184,627
Administration services	1,333,876	206,545	1,540,421
Operation and maintenance of plant services	904,459	77,787	982,246
Transportation services	474,605	16,949	491,554
Central services	7,533	0	7,533
	<u>3,213,012</u>	<u>301,281</u>	<u>3,514,293</u>
Other expenditures:			
Facilities acquisitions	0	75,135	75,135
AEA flowthrough	472,195	0	472,195
	<u>472,195</u>	<u>75,135</u>	<u>547,330</u>
Total expenditures	<u>11,844,840</u>	<u>725,782</u>	<u>12,570,622</u>
Net change in fund balances	(57,107)	41,531	(15,576)
Fund balance beginning of year	2,897,814	743,602	3,641,416
Fund balance end of year	<u>\$ 2,840,707</u>	<u>785,133</u>	<u>3,625,840</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds (page 19) \$ (15,576)

***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	\$ 239,392	
Depreciation expense	(195,676)	43,716

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement	(38,210)	
Compensated absences	(39,993)	(78,203)

Changes in net assets of governmental activities (page 16) \$ (50,063)

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	School Nutrition
ASSETS	
Cash and pooled investments	\$ 106,016
Accounts receivable	865
Inventories	19,635
Capital assets, net of accumulated depreciation	15,825
Total assets	142,341
LIABILITIES	
Salaries and benefits payable	24,077
Deferred Revenue	6,954
Total liabilities	31,031
NET ASSETS	
Invested in capital assets, net of related debt	15,825
Unrestricted	95,485
Total net assets	\$ 111,310

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 269,255
TOTAL OPERATING REVENUES	269,255
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	251,585
Benefits	34,206
Services	14,202
Supplies	290,315
Depreciation	4,610
Other	973
TOTAL OPERATING EXPENSES	595,891
OPERATING LOSS	(326,636)
NON-OPERATING REVENUES:	
State sources	9,505
Federal sources	339,101
Interest income	337
TOTAL NON-OPERATING REVENUES	348,943
Change in net assets	22,307
Net assets beginning of year	89,003
Net assets end of year	\$ 111,310

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 267,473
Cash received from miscellaneous operating activities	1,321
Cash payments to employees for services	(261,714)
Cash payments to suppliers for goods or services	(260,621)
Net cash used in operating activities	(253,541)
Cash flows from non-capital financing activities:	
State grants received	9,505
Federal grants received	302,922
Net cash provided by non-capital financing activities	312,427
Cash flows from capital and related financing activities:	
Purchase of capital assets	(1,037)
Net cash used in capital and related financing activities	(1,037)
Cash flows from investing activities:	
Interest on investments	337
Net cash provided by investing activities	337
Net increase in cash and cash equivalents	58,186
Cash and cash equivalents at beginning of year	47,830
Cash and cash equivalents at end of year	\$ 106,016
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (326,636)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	36,179
Depreciation	4,610
Decrease in inventories	9,004
Increase in accounts receivable	(172)
Decrease in accounts payable	(314)
Increase in salaries and benefits payable	24,077
Decrease in deferred revenue	(289)
Net cash used in operating activities	\$ (253,541)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 106,016

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2004, the District received Federal commodities valued at \$36,179.

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	<u>Agency</u>
Assets	
Cash and pooled investments	\$ 66,468
Total assets	<u>66,468</u>
Liabilities	
Due to other groups	<u>66,468</u>
Total liabilities	<u>66,468</u>
Net assets	<u><u>\$ 66,468</u></u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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

The South Tama County Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Tama, Toledo, Chelsea, Montour, and Vining, Iowa, and the predominate agricultural territory in Tama and Poweshiek 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, South Tama County Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The South Tama County Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The District reports the following major proprietary funds:

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

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 Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations

and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus". The Government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared

revenues, grants and reimbursements from other governments.

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

Capital Assets - Capital assets, which include property, 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.

Asset Class	Amount
Land	\$ 2,500
Buildings	2,500
Improvements other than buildings	2,500
Machinery and equipment:	
School Nutrition Fund equipment	500

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	10-50 years
Machinery and equipment	5-20 years

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

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

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be

recognized as revenue until the year for which it is levied.

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

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

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

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

E. Budgeting and Budgetary Control

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

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2004 were entirely covered by Federal depository insurance, collateralized with securities or letters of credit held by the District or the District's agent in the District's name, or by multiple financial institution collateral pool 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 the end of the year.

(3) **Capital Assets**

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 317,920	0	0	317,920
Total capital assets not being depreciated	317,920	0	0	317,920
Capital assets being depreciated:				
Buildings	2,542,498	0	0	2,542,498
Improvements other than buildings	221,164	0	0	221,164
Machinery and equipment	2,436,991	239,392	62,764	2,613,619
Total capital assets being depreciated	5,200,653	239,392	62,764	5,377,281
Less accumulated depreciation for:				
Buildings	1,764,006	37,129	0	1,801,135
Improvements other than buildings	25,676	12,037	0	37,713
Machinery and equipment	1,896,967	146,510	62,764	1,980,713
Total accumulated depreciation	3,686,649	195,676	62,764	3,819,561
Total capital assets being depreciated, net	1,514,004	43,716	0	1,557,720
Governmental activities capital assets, net	\$ 1,831,924	43,716	0	1,875,640
Business-type activities:				
Machinery and equipment	\$ 126,609	1,037	149	127,497
Less accumulated depreciation	107,211	4,610	149	111,672
Business-type activities capital assets, net	\$ 19,398	(3,573)	0	15,825

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 27,464
Support services:		
Instructional staff		1,382
Administration		14,080
Operation and maintenance of plant		20,125
Transportation		83,459
		146,510
Unallocated depreciation		49,166
Total governmental activities depreciation expense		\$ 195,676
Business-type activities:		
Food services		\$ 4,610
Total business-type activities depreciation expense		\$ 4,610

(4) 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
Early retirement	418,144	193,089	154,879	456,354	145,914
Compensated absences	23,386	39,993	0	63,379	63,379
Total	\$ 441,530	233,082	154,879	519,733	209,293

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must 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. The early retirement incentive for each eligible employee is equal to a percent of the employee's base salary calculated by using the current year regular salary schedule, less any other additional pay and subject to a maximum dollar amount ranging from \$3,500 to \$6,500 depending on the year of retirement per individual. Early retirement benefits paid during the year ended June 30, 2004, totaled \$154,879. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund early retirement.

(5) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$413,338, \$460,315, \$435,188 respectively, equal to the required contributions for each year.

(6) Risk Management

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

(7) 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 \$472,195 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.

(8) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2004, disbursements in the support services functional program area exceeded the amount budgeted.

REQUIRED SUPPLEMENTAL INFORMATION

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

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 4,353,551	269,592
Intermediate sources	1,825	0
State sources	6,952,980	9,505
Federal sources	1,246,690	339,101
Total revenues	<u>12,555,046</u>	<u>618,198</u>
Disbursements:		
Instruction	8,508,999	0
Support services	3,514,293	0
Non-instructional programs	0	595,891
Other expenditures	547,330	0
Total expenditures	<u>12,570,622</u>	<u>595,891</u>
Excess(deficiency) of receipts over(under) disbursements	(15,576)	22,307
Other financing sources, net	<u>0</u>	<u>0</u>
Excess(deficiency) of receipts over(under) disbursements	(15,576)	22,307
Balance beginning of year	<u>3,641,416</u>	<u>89,003</u>
Balance end of year	<u>\$ 3,625,840</u>	<u>111,310</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
4,623,143	4,797,684	4,797,684	(174,541)
1,825	0	0	1,825
6,962,485	7,163,207	7,163,207	(200,722)
1,585,791	961,000	961,000	624,791
<u>13,173,244</u>	<u>12,921,891</u>	<u>12,921,891</u>	<u>251,353</u>
8,508,999	8,375,000	8,775,000	266,001
3,514,293	3,325,500	3,425,000	(89,293)
595,891	647,000	647,000	51,109
547,330	656,122	656,122	108,792
<u>13,166,513</u>	<u>13,003,622</u>	<u>13,503,122</u>	<u>336,609</u>
6,731	(81,731)	(581,231)	587,962
0	0	0	0
6,731	(81,731)	(581,231)	587,962
3,730,419	3,342,621	3,342,621	387,798
<u>3,737,150</u>	<u>3,260,890</u>	<u>2,761,390</u>	<u>975,760</u>

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$499,500.

During the year ended June 30, 2004, disbursements in the support services functional area exceeded the amounts budgeted.

OTHER SUPPLEMENTAL INFORMATION

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2004

	Special Revenue Funds					
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Capital Projects	Total Nonmajor Governmental Funds
ASSETS						
Cash and pooled investments	\$ 367,043	165,398	242,416	774,857	2,005	776,862
Receivables:						
Property tax:						
Current year delinquent	6,026	0	1,769	7,795	0	7,795
Succeeding year	236,895	0	100,605	337,500	0	337,500
Due from other governments	0	0	0	0	476	476
TOTAL ASSETS	\$ 609,964	165,398	344,790	1,120,152	2,481	1,122,633
LIABILITIES AND FUND EQUITY						
Liabilities:						
Deferred revenue:						
Succeeding year property tax	\$ 236,895	0	100,605	337,500	0	337,500
Total Liabilities	236,895	0	100,605	337,500	0	337,500
Fund equity:						
Fund balances:						
Unreserved:						
Undesignated	373,069	165,398	244,185	782,652	2,481	785,133
Total fund balances	373,069	165,398	244,185	782,652	2,481	785,133
TOTAL LIABILITIES AND FUND EQUITY	\$ 609,964	165,398	344,790	1,120,152	2,481	1,122,633

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Capital Projects	
REVENUES:						
Local sources:						
Local tax	\$ 317,389	0	92,087	409,476	0	409,476
Other	0	350,373	4,946	355,319	2,124	357,443
State sources	305	0	89	394	0	394
TOTAL REVENUES	<u>317,694</u>	<u>350,373</u>	<u>97,122</u>	<u>765,189</u>	<u>2,124</u>	<u>767,313</u>
EXPENDITURES:						
Current:						
Instruction:						
Other instruction	0	349,366	0	349,366	0	349,366
Support services:						
Administration services	206,545	0	0	206,545	0	206,545
Operation and maintenance of plant services	74,538	0	3,249	77,787	0	77,787
Student transportation	16,949	0	0	16,949	0	16,949
Other expenditures:						
Facilities acquisitions	0	0	75,135	75,135	0	75,135
TOTAL EXPENDITURES	<u>298,032</u>	<u>349,366</u>	<u>78,384</u>	<u>725,782</u>	<u>0</u>	<u>725,782</u>
EXCESS OF REVENUES OVER EXPENDITURES	19,662	1,007	18,738	39,407	2,124	41,531
FUND BALANCE BEGINNING OF YEAR	<u>353,407</u>	<u>164,391</u>	<u>225,447</u>	<u>743,245</u>	<u>357</u>	<u>743,602</u>
FUND BALANCE END OF YEAR	<u>\$ 373,069</u>	<u>165,398</u>	<u>244,185</u>	<u>782,652</u>	<u>2,481</u>	<u>785,133</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Savings Interest	\$ 9,494	(9,212)	282	0
Cross Country	1,211	1,556	2,251	516
Boys Basketball	4,066	8,391	7,242	5,215
Football	7,403	18,975	19,210	7,168
Speical Fundraising	284	0	0	284
Fitness Football	2,004	3,055	4,167	892
Boys Soccer	400	2,280	2,643	37
Girls Soccer	0	1,318	1,318	0
Baseball Metro Dome	394	(394)	0	0
Baseball	1,375	8,055	9,430	0
Boys Golf	430	215	619	26
Girls Golf	430	234	664	0
Wrestling	464	8,042	8,506	0
Girls Basketball	4,951	8,841	8,819	4,973
Fitness Girls BB	93	1,495	727	861
Volleyball	1,818	9,996	9,063	2,751
Softball	400	4,665	5,065	0
Boys Track	500	6,256	5,789	967
Girls Track	578	3,648	4,226	0
Boys Tennis	400	292	692	0
Girls Tennis	400	1,096	1,496	0
Chelsea Activity	1,345	1,079	205	2,219
Chelsea Assembly	1,706	163	331	1,538
Montour Activities	98	0	0	98
Montour Book Fair	86	0	0	86
Primary Activities	3,938	3,143	2,757	4,324
Primary Assembly	3,214	447	416	3,245
Primary Book Fair	1,313	19	0	1,332
Primary Red Ribbon	363	0	158	205
Interm Activities	5,605	3,293	1,474	7,424
Interm Assembly	2,864	1,323	2,256	1,931
Interm Book Fair	604	0	0	604
MS Activities	394	968	145	1,217
MS Assembly	2,640	481	375	2,746
MS Athletics	939	16,690	17,599	30
MS Concessions	526	0	0	526
MS Band	0	2,618	1,113	1,505
MS Vocal	532	136	0	668
PE Club MS	4	0	0	4
MS Student Council	495	673	389	779
MS Magazine Sales	7,712	46,134	48,384	5,462
MS Special Ed Activity	5,713	0	0	5,713
HS Activities	2,180	1,922	1,468	2,634
HS Atheltic-Activity	1,007	11,086	12,093	0
SBYS Pop	389	1,035	1,260	164

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Diversity Account	66	0	57	9
HS Drill Team	4,991	1,408	1,252	5,147
Technology Club	505	0	95	410
A F S	27	0	0	27
Annual	3,318	8,314	6,472	5,160
Art Activities	297	54	30	321
Art Club	196	509	444	261
Cheerleaders	414	13,366	11,463	2,317
ALM Club	672	535	304	903
HS Class Activity	6,291	11,857	0	18,148
Class of 2006	133	0	0	133
Class of 2007	0	0	15	(15)
Class of 2003	0	8	94	(86)
Class of 2004	74	2,861	3,351	(416)
HS Concessions	4,446	30,864	29,992	5,318
Drama Club	667	4,684	3,751	1,600
Environmental Science	489	0	401	88
FCA Club	54	0	0	54
FFA Club	1,019	5,501	5,173	1,347
Class of 2005	64	0	45	19
National Honor Society	50	355	405	0
HS Juice Account	15,895	15,934	13,654	18,175
HS Band	864	1,414	3,148	(870)
Harding Street	1,767	1,715	2,542	940
Musical	4,550	941	798	4,693
HS Vocal	249	1,426	1,417	258
Music Dept Cards	4,180	0	1,264	2,916
HS PE Club	90	20	0	110
Plays	2,841	2,567	2,882	2,526
Pop, Athletics	1,326	586	412	1,500
Pop, HS Student	9,744	28,741	26,982	11,503
Soda Club	222	0	0	222
Spanish Club	146	0	24	122
Speech Activities	500	2,551	3,051	0
Speech Club	545	0	326	219
HS Special Ed	227	0	0	227
HS Student Council	86	5,110	4,982	214
HS Vending	4,076	22,654	17,765	8,965
Spanish Spain Trip	5,176	18,705	21,675	2,206
Volleyball Club	876	976	60	1,792
HS Prom Account	177	2,260	2,003	434
HS Instrumental Music, Mansfield	175	100	270	5
HS Music Madrigals	145	0	0	145
FCCLA Club - Fams & Cons Science	0	177	40	137
Industrial Tech Club	0	165	95	70
Athletic Tickets	5,999	(5,999)	0	0
Total	\$ 164,391	350,373	349,366	165,398

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 AGENCY FUND
 YEAR ENDED JUNE 30, 2004

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash and pooled investments	\$ 49,784	56,311	39,627	66,468
Total assets	<u>\$ 49,784</u>	<u>56,311</u>	<u>39,627</u>	<u>66,468</u>
Liabilities				
Due to other groups	\$ 49,784	56,311	39,627	66,468
Total liabilities	<u>\$ 49,784</u>	<u>56,311</u>	<u>39,627</u>	<u>66,468</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUNDS
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 3,633,127	3,675,032	3,333,921	3,187,512
Tuition	126,783	141,409	193,233	182,841
Other	593,641	607,022	633,953	661,575
Intermediate sources	1,825	844	1,928	5,206
State sources	6,952,980	6,884,766	6,906,478	7,011,300
Federal sources	1,246,690	939,223	826,814	552,365
Total	\$ 12,555,046	12,248,296	11,896,327	11,600,799
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 5,222,259	4,674,276	4,843,767	4,588,364
Special instruction	2,402,292	2,215,080	2,180,734	2,000,040
Other instruction	884,448	887,089	937,592	879,256
Support services:				
Student services	307,912	209,646	195,324	196,401
Instructional staff services	184,627	175,599	181,331	176,798
Administration services	1,540,421	1,457,029	1,359,980	1,288,259
Operation and maintenance of plant services	982,246	951,816	891,463	917,273
Transportation services	491,554	462,354	397,704	471,205
Central services	7,533	8,541	13,004	17,657
Other expenditures:				
Facilities acquisitions	75,135	71,525	85,501	312,054
AEA flow-through	472,195	482,083	483,115	487,875
Total	\$ 12,570,622	11,595,038	11,569,515	11,335,182

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	EXPENDITURES
DIRECT:			
DEPARTMENT OF EDUCATION			
IMPACT AID GRANT	84.041	FY 04	\$ <u>500,767</u>
CAROL M. WHITE PHYSICAL EDUCATION PROGRAM			
	84.215	FY 04	<u>311,358</u>
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION	10.550	FY 04	<u>36,179</u>
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 04	45,484
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 04	<u>257,438</u>
			<u>302,922</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	6098-GC	40,088
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	6098-G	<u>216,685</u>
			<u>256,773</u>
TITLE I ACCOUNTABILITY GRANTS (DATA DRIVEN LEADERSHIP)	84.348	FY 04	<u>900</u>
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE VI PROGRAM)			
	84.151	FY 04	9,444
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)			
	84.151	FY 03	608
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)			
	84.151	FY 04	<u>12,000</u>
			<u>22,052</u>
READING FIRST STATE GRANTS	84.357	FY 04	<u>142,013</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS			
	84.186	FY 04	<u>8,936</u>
TITLE IIA FEDERAL TEACHER QUALITY PROGRAM			
	84.367	FY 03	38,442
TITLE IIA FEDERAL TEACHER QUALITY PROGRAM			
	84.367	FY 04	<u>44,118</u>
			<u>82,560</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A)			
	84.369	FY 03	<u>1,849</u>

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2004

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	EXPENDITURES
IOWA PUBLIC TELEVISION:			
STAR SCHOOLS	84.203	FY 03	<u>16,373</u>
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES(PART B)	84.027	FY 04	<u>25,180</u>
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 03	16
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 04	<u>23,064</u>
			<u>23,080</u>
INDIAN EDUCATION - GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.060A	FY 04	<u>27,311</u>
SPECIAL EDUCATION - STATE PROGRAM			
IMPROVEMENT GRANTS FOR CHILDREN WITH DISABILITIES(CAREER LADDER)	84.323	FY 03	<u>9,366</u>
DEPARTMENT OF HUMAN SERVICES:			
IOWA DEPARTMENT OF HUMAN SERVICES:			
MEDICAL ASSISTANCE PROGRAM	93.778	FY 03	2,357
MEDICAL ASSISTANCE PROGRAM	93.778	FY 04	<u>6,166</u>
			<u>8,523</u>
TOTAL			<u>\$ 1,776,142</u>

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

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

To the Board of Education of the
South Tama County Community School District:

We have audited the financial statements of South Tama County Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated August 24, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

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

Internal Control Over Financial Reporting

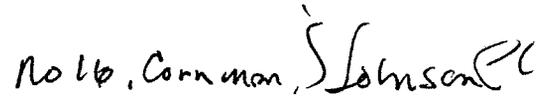
In planning and performing our audit, we considered South Tama County Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal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

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

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

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of South Tama County Community School District and other parties to whom South Tama County Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of South Tama County Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink that reads "Nolte, Cornman, & Johnson, P.C." with a stylized flourish at the end.

NOLTE, CORNMAN & JOHNSON, P.C.

August 24, 2004

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

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

To the Board of Education of
South Tama County Community School District:

Compliance

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

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about South Tama County Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on South Tama County Community School District's compliance with those requirements.

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

Internal Control Over Compliance

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

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect South Tama County Community School District's ability to administer

a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described as item III-A-04 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

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


NOLTE, CORNMAN & JOHNSON, P.C.

August 24, 2004

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over major programs was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Individual Programs:
 - CFDA Number 84.041 – Impact Aid Grant
 - CFDA Number 84.215 – Carol M. White Physical Education Program
 - Clustered Programs:
 - CFDA Number 10.553 – School Breakfast Program
 - CFDA Number 10.555 – National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) South Tama County Community School District did not qualify as a low-risk auditee.

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part II: Findings Related to the General Purpose Financial Statements:

REPORTABLE CONDITIONS:

- II-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

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

Conclusion - Response accepted.

- II-B-04 Student Activity Accounts – We noted during the audit that the Student Activity Fund included a juice account as well as a red ribbons account. The expenditures in these accounts appear to be instructional in nature, and should be moved to the General Fund. We also noted that the book fairs account was not closed out at year-end.

Recommendation – The juice account and the red ribbons account should be moved to the General Fund because the expenditures appear to be more instructional in nature. The book fairs account should close out at year-end.

Response – The Red Ribbon and book fair accounts have been moved to the General Fund. The juice account is a fundraiser, which falls under II-C-04.

Conclusion – Response accepted.

- II-C-04 Fundraisers – We noted during the audit that fundraisers that were conducted by the District were not for a specific purpose.

Recommendation – The District cannot fund raise for the sake of fundraising. Fundraising should be for a specific purpose.

Response – The District will designate fundraisers and where the profits for those will be spent.

Conclusion – Response accepted.

- II-D-04 Federal Awards – We noted during the audit that the Drug Free and Reading Grants were not reported and summarized using the general ledger.

Recommendation – The Federal Awards should be reported and summarized using the general ledger.

Response – General ledger accounts will be used for the reporting of grant expenditures.

Conclusion – Response accepted.

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

III-A-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

Response and Corrective Action Planned – We will continue to review our procedures and implement additional controls where possible.

Conclusion – Response accepted.

SOUTH TAMA COUNTY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part IV: Other Findings Related to Statutory Reporting

IV-A-04 Official Depositories - A resolution naming official depositories has been approved by the Board. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2004.

Recommendation – The District should increase their depository limits.

Response – We will review our depository limits.

Conclusion – Response accepted.

IV-B-04 Certified Budget - District disbursements for the year ended June 30, 2004 exceeded the amount budgeted in the support services functional program area.

Recommendation – The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will amend the budget if necessary in the future.

Conclusion – Response accepted.

IV-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-E-04 Business Transactions – Business transactions between the District and District officials or employees were noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Margaret Kubik, Board Member	Substitute Nurse	\$380
Tim Down, Maintenance Supervisor Spouse owns Ben Franklin	Various	\$1,634

In accordance with Chapter 279.7A of the Code of Iowa, the above transaction with the board member does not appear to represent a conflict of interest.

In accordance with the Attorney General's opinion dated November 9, 1976, the above transaction with the maintenance supervisor does not appear to represent a conflict of interest.

IV-F-04 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner. Also, we noted that the monthly bills were not published

as required by Chapter 279.35 of the Code of Iowa.

Recommendation – The District should publish the minutes within two weeks of the Board meeting, as required by Chapter 279.35 of the Code of Iowa. The District should also publish a listing of bills presented for payment including a description of the claim on a monthly basis.

Response – The District will comply with the recommendation.

Conclusion – Response accepted.

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

IV-I-04 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

IV-K-04 Financial Condition – We noted during the audit that the Student Activity Fund had accounts with deficit balances at June 30, 2004.

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

Response – The District will review activity accounts for negative balances at years end.

Conclusion – Response accepted.