VALLEY 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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VALLEY COMMUNITY SCHOOL DISTRICT

Officials

Name	Title	Term Expires
	Board of Education (Before September 2003 Election)	
Lois Dummermuth	President	2003
Greg Kleppe	Vice President	2004
Celeste Strong	Board Member	2003
Allen Knox	Board Member	2005
Mick Olson	Board Member	2005
	Board of Education (After September 2003 Election)	
Lois Dummermuth	President	2006
Greg Kleppe	Vice President	2004
Allen Knox	Board Member	2005
Mick Olson	Board Member	2005
Celeste Strong	Board Member	2006
	School Officials	
Cathleen Molumby	Superintendent	2004
Denise Dieckman	Business Manager/ District Treasurer	2004
Carole Nading	District Secretary	2004
T. David Katsumes	Attorney	2004

Dietz, Donald & Company
CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA
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Elkader, Iowa 52043
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Independent Auditor's Report

To the Board of Education of
Valley Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Valley Community School District, Elgin, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. 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 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, the business type activities, each major fund and the aggregate remaining fund information of Valley Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 12 to the financial statements, during the year ended June 30, 2004, Valley Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments;

Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated August 27, 2004 on our consideration of Valley 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 7 through 17 and 46 through 48 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting 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. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Valley Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary 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 respects in relation to the basic financial statements taken as a whole.

Elkader, Iowa 52043

Dietz, Donald & Company

Dietz, Donald & Company, CPAs
FEIN 42-1172392

August 27, 2004

Valley Community School District

Cathleen A. Molumby, Superintendent

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Elgin, IA 52141-9634
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Management Discussion & Analysis

This section of the Valley Community School District's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2004. The analysis focuses on the District's financial performance as a whole. Please read it in conjunction with the District's financial statements, which follow this section.

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

2004 FINANCIAL HIGHLIGHTS

General Fund revenues decreased overall by $ 217,116 compared to FY03, while expenditures increased $ 41,641. Total expenditures of $ 3,968,959 exceeded total revenues of $ 3,817,934 by $ 151,025. This resulted in a decrease in the District's General Fund balance from $ 589,134 to $ 438,109.

The reduction in revenues was mostly attributable to a decrease of $ 75,686 in the property tax levy and a decrease of $ 100,212 in state aid.

During the year ending June 30, 2004, the State of Iowa imposed a 2.25% reduction in State Foundation aid, Early Intervention and Educational Excellence Programs grants. This resulted in a $ 43,893 loss of State Foundation aid alone. The State of Iowa also eliminated the Phase III funding for teacher staff development.

At the time of the reduction, the District had already obligated the resources to fund fiscal 2004 salaries and programs. The District responded to the reduction by using a portion of the unreserved, undesignated fund balance.

Equal Opportunity Employer

Salaries and benefits increased about $ 63,000, supplies and equipment increased about $ 26,000, while purchased services, other, and AEA flow-thru decreased about $ 65,000.

Revenue bonds in the amount of $ 850,000 were issued to construct an addition containing six new classrooms, remodel the Junior-Senior High section of the building and to construct an Early Childhood-Elementary Learning center at the south end of the campus. Additional funding for the projects will come from an Iowa Demonstration Construction Grant, a USDA grant, RACI grant, and private contributions.

The District was also awarded $ 560,000 in no-interest QZAB loans. This QZAB funding came from revenue bonds in the amount of $ 220,000, to be repaid with local option tax receipts, and capital loan notes in the amount of $ 340,000, to be repaid from PPEL funds, over the next nine years.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

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

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

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

Proprietary funds statements offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.

Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of Required Supplementary Information that further explains and supports the financial statements with a comparison of the District's budget for the year. Following the Required Supplementary Information, Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

District-wide Financial Statements

The District-wide 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 District-wide statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial position.

Over time, increases or decreases in the District's net assets may serve as an indicator of whether financial position is improving or deteriorating, respectively.

To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-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 taxes 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 food service program would be 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:

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 funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information included in Exhibits D and F explains the relationship or differences between the two statements.

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

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

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

Fiduciary funds: The District is the trustee, or fiduciary, for assets that belong to others, such as the Northeast Iowa Health Occupations Consortium.

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

DISTRICT-WIDE FINANCIAL ANAYSIS

Condensed Statement of Net Assets
(Expressed in Thousands)

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-2004
Current and other assets	$ 3,624	2,810	104	104	3,728	2,914	27.9%
Capital assets	2,837	1,544	13	12	2,850	1,556	83.2%
Total assets	6,461	4,354	117	116	6,578	4,470	47.2%
Long-term liabilities	2,002	727	-	-	2,002	727	175.4%
Other liabilities	1,963	2,069	17	23	1,980	2,092	- 5.4%
Total Liabilities	3,965	2,796	17	23	3,982	2,819	41.3%
Net assets:							
Invested in capital assets, net of related debt	1,227	834	13	12	1,240	846	46.6%
Restricted	552	181	-	-	552	181	205.0%
Unrestricted	717	543	87	81	804	624	28.8%
Total net assets	$ 2,496	1,558	100	93	2,596	1,651	57.2%

The District's combined net assets increased by over 57%, or approximately $ 945,000 over the prior year. The largest portion of the District's net assets is the investment in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately $ 371,000 or 205% over the prior year. The increase was a result of issuing $ 340,000 in capital loan notes. The proceeds from said notes were deposited in the Physical Plant and Equipment Levy Fund.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt convenants, enabling legislation or other legal requirements - increased $ 604,000, or 33%. This increase in unrestricted net assets was a result of money remaining in the Capital Projects Fund which will be used to finance approximately $ 575,000 remaining in outstanding construction contracts.

	Changes in Net Assets (Expressed in Thousands)		
	Governmental Activities	Business type Activities	Total District
Revenues:			
Program revenues:			
Charges for service	$ 310	114	424
Operating grants, contributions and restricted interest	517	127	644
Capital grants, contributions and restricted interest	874	-	874
General revenues:			
Property tax	1,540	-	1,540
Local option sales and service tax	148	-	148
Unrestricted state grants	1,893	-	1,893
Unrestricted investment earnings	19	1	20
Other	27	-	27
Total revenues	5,328	242	5,570
Program expenses:			
Governmental activities:			
Instruction	$ 2,744	-	2,744
Support services	1,309	-	1,309
Non-instructional programs	-	234	234
Other expenses	337	-	337
Total expenses	4,390	234	4,624
Change in net assets	$ 938	8	946

Property taxes and unrestricted state grants account for 62% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 88% of the total expenses.

Governmental Activities

Revenues for governmental activities were $ 5,328,626 and expenses were $ 4,389,791. 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.

	Total and Net Cost of Governmental Activities (Expressed in Thousands)	
	Total Cost of Services	Net Cost of Services
Instruction	$ 2,744	2,108
Support services	1,309	1,287
Non-instructional programs	-	-
Other expenses	337	(707)
Totals	$ 4,390	2,688

The cost financed by users of the District's programs was $ 310,164.

Federal and state governments subsidized certain programs with grants and contributions totaling $ 517,507.

The net cost of governmental activities was financed with $ 1,687,657 in property and other taxes and $ 1,893,450 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were $ 240,321 and expenses were $ 233,879. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2004, the District added a part-time employee. Also added were programs offering breakfast bags for students to buy and salads for adults. The District has not increased lunch prices since 1997/98.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Valley 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 fiscal year

2004, its governmental funds reported combined fund balances of $ 1,681,425, well above last year's ending fund balances of $ 727,614. However, the primary reason for the increase is approximately $ 499,000 of unexpended QZAB revenue bonds and capital loan notes and approximately $ 346,000 of unexpended construction revenue bonds.

Governmental Fund Highlights

The General Fund balance decreased from $ 589,134 to $ 454,724, due mostly to the reduced property tax and state aid receipts, as previously noted.

The Physical Plant and Equipment Levy (PPEL) Fund balance increased $ 377,625 primarily due to the issuance of QZAB capital loan notes and the voter-approved levy which went into effect July 1, 2003.

The Capital Projects Fund balance increased due to the sale of $ 850,000 in revenue bonds and $ 220,000 in QZAB revenue bonds. The District had ended 2003 with a deficit of $ 67,261 as a result of preliminary project costs. Fiscal 2004 ended with a fund balance of $ 650,756, consisting primarily of unexpended bond proceeds that will be expended as projects are completed.

The Management Fund ending balance stayed steady at $ 42,638. Revenues increased from $ 50,752 to $ 63,597 and expenses decreased from $ 77,084 to $ 62,338, resulting in a net increase to the fund balance of about $ 1,250.

The Student Activity Fund ending balance decreased about $ 8,000 to $ 65,591. Expenses increased about $ 60,000, mostly due to a trip to Florida taken by band students.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from $ 92,791 to $ 99,860, an increase of approximately 8%. If the operating balance exceeds three months' normal operating cost, schools are to implement a plan of action to reduce the balance. Valley was instructed to reduce its operating balance by $ 26,251. A plan was developed to add staff and services, and purchase needed equipment and supplies. This plan will be implemented during the 2005 fiscal year.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except its private purpose trust funds and agency funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's certified budget is prepared on the GAAP basis.

A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report.

Over the course of the year, the District amended its certified budget once on May 26, 2004. The area of Instruction was increased $ 55,000 due to a band trip to Florida paid from the Student Activity Fund and additional Gifted/Talented and Special Education personnel. The Support Services area was increased by $ 30,000 due to the purchase of a used bus. The area of Noninstructional Programs was increased $ 15,000 because the District had hired an additional part-time food-service employee and started two extra food programs. The area Total Other Expenditures was increased $ 115,465 for planned purchases of new bleachers and a phone system, and for QZAB bond issuance expenditures.

Total expenditures were less than budgeted due primarily to the area of Facility Acquisition and Construction. There were numerous projects in process during the year and it was difficult to determine what the status would be on each of them by the end of the fiscal year. Projects in various stages: JH-HS addition and remodeling, EC-Elementary Learning Center, HVAC project, bleacher replacement, and a new phone system.

Also, actual General Fund expenditures were about $ 200,000 less than budgeted. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year.

School Districts have two levels of budgetary control. One form of budgetary control exists through the "certified budget", which includes all funds of the District as noted above. This budget is certified with the County Auditor and Department of Management each year. Iowa school Districts may not certify a general fund budget in excess of its spending authority.

The other level of budgetary control is the "unspent (maximum) authorized budget" and pertains only to the General Fund of the District. The maximum authorized budget is the total "spending authority" in the General Fund of the District. The unspent balance is a budgetary concept and does not mean the "actual General Fund cash". It is imperative for users of District financial information to make this important distinction. The unspent balance is the amount of spending authority that is carried over into the next fiscal year. The unspent balance is a budgetary carry-over and does not represent actual dollars (General Fund cash) or actual financial position (unreserved, undesignated General Fund balance) of the District.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested $ 2.8 million net of accumulated depreciation, in a broad range of capital assets in the governmental funds. This includes land, buildings, equipment, transportation equipment, and construction in progress. **(See chart below)**. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year in the governmental funds was approximately $ 91,000.

During the year the District adopted a capitalization threshold of $ 3,000 per asset for governmental funds. The threshold remains at $ 500 for business-type funds.

The School Nutrition Fund owned $ 13,208 in assets, net of depreciation. This is up slightly from $ 12,517 on June 30, 2003, mostly due to the addition of walk-in cooler shelving.

Construction in progress for the year added $ 1,182,658. Of that amount, $ 22,915 was spent on design services for the Early Childhood-Elementary Learning Center and $ 1,159,743 on the JH-HS classroom addition and remodeling project. The JH-HS project is scheduled for completion in August and the EC/Elementary Learning Center in February.

The HVAC, classroom exit, and asbestos removal/rewrap projects were also in progress during the year. Federal grants of $ 160,219 were obtained to help with the cost of these projects.

A used Thomas bus was purchased with QZAB loan funds, in the amount of $ 30,000.

Other equipment added during the year included a new football scoreboard, network server, and heating system controller. A new phone system was also engineered and will be installed during the summer of 2004.

Capital Assets, net of Depreciation
(expressed in thousands)

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-2004
Land	$ 6	6	-	-	6	6	-
Site improvements	42	45	-	-	42	45	- 6.7%
Buildings	1,489	1,406	-	-	1,489	1,406	5.9%
Furniture and equipment	50	20	13	12	63	32	96.9%
Construction in progress	1,250	67	-	-	1,250	67	1765.7%
Totals	$ 2,837	1,544	13	12	2,850	1,556	83.2%

Long-Term Debt

At year-end, the District had debt of $ 1,985,000 in general obligation bonds, revenue bonds, and capital loan notes. This represents an increase of approximately 180% from last year. (See chart below) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

As previously noted, the District issued $ 850,000 in revenue bonds to fund the JH-HS classroom addition and remodeling project and the Early Childhood-Elementary Center. The revenue bonds and interest will be paid from local option sales tax receipts.

Also previously noted, the District issued $ 220,000 in revenue bonds and $ 340,000 in capital loan notes to fund the QZAB no-interest loan that was awarded. Annual payments will be made to an escrow agent with both local option sales tax receipts and the voter-approved Physical Plant and Equipment Levy.

A payment of $ 135,000 was made on the existing general obligation bonds, lowering the balance due from $ 710,000 to $ 575,000.

	Outstanding Long-Term Obligations (expressed in thousands)		
	Total District June 30,		Total Change June 30,
	2004	2003	2003-2004
General obligation bonds	$ 575	710	-19.0%
Revenue bonds	1,070	0	100.0%
Notes payable	340	0	100.0%
Compensated absences	17	17	0.0%
Totals	$ 2,002	727	175.4%

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

Taxable valuation in the District decreased from $ 101,952,805 to $ 95,808,661.

Although enrollment was slightly higher during the year, it was not enough of an increase to result in additional funding for 2004/05. Because the District is in the budget guarantee status, which is being phased out, "New Money" for FY05 regular program district costs will decrease $ 11,490.

Employee contract settlements for 2004/05 are 3.85% for the certified staff and 4.25% for the support staff.

Construction of the JH-HS addition and remodeling will be completed in the fall of 2005, with an estimated remaining balance of $ 150,000. Approximately $ 100,000 of that amount will come from Iowa Demonstration Construction Grant funds.

The construction of the Early Childhood-Elementary Learning Center will begin in the fall, with a scheduled completion of February 2005. Total cost of the project is estimated at $ 337,000. Grants and contributions totaling about $ 148,000 have been secured for the project.

The HVAC project will be completed in FY05, needing approximately $ 22,000 of PPEL funds.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, and 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 Denice Diekman, Business Manager/Board Treasurer, or Cathleen Molumby, Superintendent.

Basic Financial Statements

Exhibit A

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2004

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and cash equivalents	$ 1,856,970	97,536	1,954,506
Receivables:			
Property tax			
Delinquent	43,721	0	43,721
Succeeding year	1,420,072	0	1,420,072
Accounts	2,065	498	2,563
Due from other governments	301,676	0	301,676
Inventories	0	6,124	6,124
Capital assets, net of accumulated depreciation	2,836,914	13,208	2,850,122
TOTAL ASSETS	6,461,418	117,366	6,578,784
LIABILITIES			
Accounts payable	151,947	19	151,966
Salaries and benefits payable	366,432	12,335	378,767
Accrued interest payable	20,008	0	20,008
Deferred revenue:			
Succeeding year property tax	1,420,072	0	1,420,072
Other	4,628	5,152	9,780
Long-term liabilities:			
Portion due within one year			
General obligation bonds payable	145,000	0	145,000
Revenue bonds payable	70,000	0	70,000
Compensated absences	17,265	0	17,265
Portion due after one year			
General obligation bonds payable	430,000	0	430,000
Revenue bonds payable	1,000,000	0	1,000,000
Notes payable	340,000	0	340,000
TOTAL LIABILITIES	3,965,352	17,506	3,982,858
NET ASSETS			
Invested in capital assets, net of related debt	1,226,652	13,208	1,239,860
Restricted for:			
Management levy	42,638	0	42,638
Physical plant and equipment levy	438,073	0	438,073
Other special revenue purposes	71,711	0	71,711
Unrestricted	716,992	86,652	803,644
TOTAL NET ASSETS	$ 2,496,066	99,860	2,595,926

See notes to financial statements.

Exhibit B

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
FUNCTIONS/PROGRAMS	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental activities:							
Instruction:							
Regular instruction	$ 1,672,441	112,662	213,928	0	(1,345,851)	0	(1,345,851)
Special instruction	851,501	12,807	103,692	0	(535,002)	0	(535,002)
Other instruction	419,998	169,590	23,591	0	(226,817)	0	(226,817)
	2,743,940	295,059	341,211	0	(2,107,670)	0	(2,107,670)
Support services:							
Student services	97,044	7,264	4,715	0	(85,165)	0	(85,165)
Instructional staff services	142,161	489	147	0	(141,525)	0	(141,525)
Administration services	484,879	0	1,900	0	(482,979)	0	(482,979)
Operation and maintenance of plant services	365,711	2,919	0	0	(362,792)	0	(362,792)
Transportation services	217,753	4,533	0	0	(213,220)	0	(213,220)
Central support services	1,574	0	0	0	(1,574)	0	(1,574)
	1,309,122	15,105	6,762	0	(1,287,255)	0	(1,287,255)
Other expenditures:							
Facilities acquisition	3,572	0	0	873,926	870,354	0	870,354
Long-term debt interest	98,781	0	0	0	(98,781)	0	(98,781)
AEA flow-through	169,534	0	169,534	0	0	0	0
Depreciation (unallocated)	64,842	0	0	0	(64,842)	0	(64,842)
	336,729	0	169,534	873,926	706,731	0	706,731
Total governmental activities	4,389,791	310,164	517,507	873,926	(2,688,194)	0	(2,688,194)
Business type activities							
Non-instructional programs:							
Food service operations	234,443	113,789	126,332	0	(564)	6,442	5,878
Total	$ 4,624,234	423,953	644,039	873,926	(2,688,758)	6,442	(2,682,316)
GENERAL REVENUES:							
Property taxes levied for:							
General purposes					1,306,426	0	1,306,426
Debt service					162,579	0	162,579
Capital outlay					70,619	0	70,619
Local option sales and services tax					148,033	0	148,033
Unrestricted state grants					1,893,450	0	1,893,450
Unrestricted investment earnings					18,633	627	19,260
Other					27,289	0	27,289
Total general revenues					3,627,029	627	3,627,656
Changes in net assets					938,271	7,069	945,340
Net assets beginning of year, as restated					1,557,795	92,791	1,650,586
Net assets end of year					$ 2,496,066	99,860	2,595,926

See notes to financial statements.

Exhibit C

VALLEY COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

	General	Special Revenue Property, Plant and Equipment Levy	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
ASSETS						
Cash and pooled investments	$ 776,659	436,097	18,971	513,403	111,840	1,856,970
Receivables:						
Property tax:						
Delinquent	35,388	1,976	4,552	0	1,805	43,721
Succeeding year	1,124,562	63,710	163,307	0	68,493	1,420,072
Accounts	1,229	0	0	100	736	2,065
Due from other governments	35,115	0	0	266,561	0	301,676
TOTAL ASSETS	$ 1,972,953	501,783	186,830	780,064	182,874	3,624,504
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 22,607	0	0	129,308	32	151,947
Salaries and benefits payable	366,432	0	0	0	0	366,432
Deferred revenue:						
Succeeding year property tax	1,124,562	63,710	163,307	0	68,493	1,420,072
Other	4,628	0	0	0	0	4,628
Total liabilities	1,518,229	63,710	163,307	129,308	68,525	1,943,079
Fund balances:						
Reserve for debt service	0	0	23,523	0	0	23,523
Unreserved	454,724	438,073	0	650,756	114,349	1,657,902
Total fund balances	454,724	438,073	23,523	650,756	114,349	1,681,425
TOTAL LIABILITIES AND FUND BALANCES	$ 1,972,953	501,783	186,830	780,064	182,874	3,624,504

See notes to financial statements.

Exhibit D

VALLEY 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 21)	$ 1,681,425
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	2,836,914
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds	(20,008)
Long-term liabilities, including bonds and notes payable and compensated absences, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(2,002,265)
Net assets of governmental activities (page 19)	$ 2,496,066

See notes to financial statements.

Exhibit E

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2004

	General	Special Revenue Property, Plant and Equipment Levy	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
Revenues:						
Local sources:						
Local tax	$ 1,243,936	70,619	162,687	148,033	63,343	1,688,618
Tuition	113,882	0	0	0	0	113,882
Other	66,018	3,251	617	6,997	180,753	257,836
State sources	2,217,187	64	147	0	56	2,217,454
Federal sources	176,911	162,219	0	711,706	0	1,050,836
Total revenues	3,817,934	236,153	163,651	866,736	244,152	5,328,626
Expenditures:						
Current:						
Instruction:						
Regular instruction	1,658,646	0	0	0	13,795	1,672,441
Special instruction	651,501	0	0	0	0	651,501
Other instruction	233,264	0	0	0	188,544	421,808
	2,543,411	0	0	0	202,339	2,745,750
Support services:						
Student services	96,502	0	0	0	542	97,044
Instructional staff services	145,286	0	0	0	513	145,799
Administration services	466,745	0	0	0	16,748	483,493
Operation and maintenance of plant services	349,274	0	0	0	23,550	372,824
Transportation services	196,633	30,000	0	0	6,626	233,259
Central support services	1,574	0	0	0	0	1,574
	1,256,014	30,000	0	0	47,979	1,333,993
Non-instructional program	0	0	0	0	564	564
Other expenditures:						
Facilities acquisition	0	151,528	0	1,182,658	0	1,334,186
Long-term debt:						
Principal	0	0	135,000	0	0	135,000
Interest and fiscal charges	0	17,000	40,083	33,340	0	90,423
AEA flow-through	169,534	0	0	0	0	169,534
	169,534	168,528	175,083	1,215,998	0	1,729,143
Total expenditures	3,968,959	198,528	175,083	1,215,998	250,882	5,809,450
Excess (deficiency) of revenues over (under) expenditures	(151,025)	37,625	(11,432)	(349,262)	(6,730)	(480,824)

Exhibit E

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2004

	General	Special Revenue Property, Plant and Equipment Levy	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
Other financing sources (uses)						
Operating transfers in	0	0	10,741	0	0	10,741
Operating transfers out	0	0	0	(10,741)	0	(10,741)
Capital loan notes issued	0	340,000	0	0	0	340,000
Revenue bonds issued	0	0	0	1,078,020	0	1,078,020
Total other financing sources (uses)	0	340,000	10,741	1,067,279	0	1,418,020
Net change in fund balances	(151,025)	377,625	(691)	718,017	(6,730)	937,196
Fund balances beginning of year	589,134	60,448	24,234	(67,261)	121,079	727,614
Fund balances end of year	$ 438,109	438,073	23,543	650,756	114,349	1,664,810

See notes to financial statements.

Exhibit F

VALLEY COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

Net change in fund balances-Total governmental funds (page 24)		$ 937,196
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, these costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year as follows:		
Expenditures for capital assets	$ 1,384,322	
Depreciation expense	(91,219)	1,293,103
Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Assets. Current year issues exceed repayments as follows:		
Issued	(1,410,000)	
Repaid	135,000	(1,275,000)
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		(16,378)

Exhibit F

VALLEY COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

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:	
Compensated absences	(650)
Change in net assets of governmental activities (page 20)	$ 938,271

See notes to financial statements.

Exhibit G

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2004

	School Nutrition
ASSETS	
Cash and cash equivalents	$ 97,536
Accounts receivable	498
Inventories	6,124
Capital assets, net of accumulated depreciation	13,208
TOTAL ASSETS	117,366
LIABILITIES	
Accounts payable	19
Salaries and benefits payable	12,335
Deferred revenue	5,152
TOTAL LIABILITIES	17,506
NET ASSETS	
Invested in capital assets, net of related debt	13,208
Unrestricted	86,652
TOTAL NET ASSETS	$ 99,860

See notes to financial statements.

Exhibit H

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET FUND ASSETS
PROPRIETARY FUND
Year Ended June 30, 2004

	School Nutrition
Operating revenues:	
Local sources:	
Charges for service	$ 113,789
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	75,490
Benefits	32,257
Purchased services	1,496
Supplies	122,344
Depreciation	2,292
Total operating expenses	233,879
Operating loss	(120,090)
Non-operating revenues:	
State sources	3,363
Federal sources	123,169
Interest income	627
Total non-operating revenues	127,159
Change in net assets	7,069
Net assets beginning of year	92,791
Net assets end of year	$ 99,860

See notes to financial statements.

Exhibit I

VALLEY 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	$ 112,261
Cash received from miscellaneous operating activities	2,369
Cash paid to employees for services	(106,724)
Cash paid to suppliers for goods or services	(101,523)
Net cash used by operating activities	(93,617)
Cash flows from non-capital financing activities:	
State grants received	3,363
Federal grants received	103,347
Net cash provided by non-capital financing activities	106,710
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(10,653)
Cash flows from investing activities:	
Interest on investments	627
Net increase in cash and cash equivalents	3,067
Cash and cash equivalents beginning of year	94,469
Cash and cash equivalents end of year	$ 97,536

See notes to financial statements.

Exhibit I

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2004

	School Nutrition
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	$ (120,090)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	19,822
Depreciation	2,292
Decrease in inventories	2,476
Decrease in accounts receivable	85
Increase in accounts payable	19
Increase in salaries and benefits payable	1,023
Increase in deferred revenue	756
Net cash used by operating activities	$ (93,617)

Non-cash investing, capital and financing activities:
During the year ended June 30, 2004, the District received $ 19,822 of federal commodities.

See notes to financial statements.

Exhibit J

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
June 30, 2004

	Agency
ASSETS	
Cash and pooled investments	$ 2,247
Due from other governments	753
TOTAL ASSETS	3,000
LIABILITIES	
Due to other governments	3,000
NET ASSETS	$ 0

See notes to financial statements.

(1) Summary of Significant Accounting Policies

Valley Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Clermont, Elgin and Wadena, Iowa and the predominate agricultural territory of eastern Fayette and western Clayton Counties. The District is governed by a Board of Education whose members are elected on a nonpartisan 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, Valley Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Valley Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The District participates in two jointly governed organizations that provide 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 Fayette County Assessor's Conference Board and the Clayton County Assessor's Conference Board.

B. Basis of Presentation

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

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

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

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

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

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

Fund Financial Statement - 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 nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that

are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Special Revenue Property, Plant and Equipment Levy Fund is used to account for revenues derived from the property, plant and equipment levy which are required by law to be accounted for in a separate fund.

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

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

The District reports the following major proprietary fund:

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

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund is 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, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are reported 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 the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

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

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

D. Assets, Liabilities and Fund Equity

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

Cash, Pooled Investments and Cash Equivalents - The cash

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date 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 repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	$ 3,000
Buildings	3,000
Improvements other than buildings	3,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	3,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	20-50 years
Improvements other than buildings	20 years
Furniture and equipment	4-12 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are 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 represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in 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, unspent grant revenues and lunch fees collected in advance.

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. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. 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. Budgets and Budgetary Accounting

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

(2) Cash and Pooled Investments

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

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements;

certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of $ 72,415 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

(3) Interfund Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	$ 10,741

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

(4) Capital Assets

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

	Balance Beginning of Year as restated (note 11)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 6,000	-	-	6,000
Construction in progress	67,236	1,182,658	-	1,249,894
Total capital assets not being depreciated	73,236	1,182,658	-	1,255,894
Capital assets being depreciated:				
Buildings	2,351,268	144,695	-	2,495,963
Site improvements	60,487	-	-	60,487
Furniture and equipment	330,220	56,969	-	387,189
Total capital assets being depreciated	2,741,975	201,664	-	2,943,639
Less accumulated depreciation for:				
Buildings	945,130	61,818	-	1,006,948
Site improvements	15,441	3,024	-	18,465
Furniture and equipment	310,829	26,377	-	337,206
Total accumulated depreciation	1,271,400	91,219	-	1,362,619
Total capital assets being depreciated, net	1,470,575	110,445	-	1,581,020
Governmental activities capital assets, net	$ 1,543,811	1,293,103	-	2,836,914

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Furniture and equipment	$ 60,401	2,983	-	63,384
Less accumulated depreciation	47,884	2,292	-	50,176
Business type activities capital assets, net	$ 12,517	691	-	13,208

Depreciation expense was charged to the following functions:

Governmental activities:	
Instruction:	
Other	$ 4,090
Support services:	
Instructional staff	1,969
Operation and maintenance of plant	5,824
Transportation	14,494
	26,377
Unallocated	64,842
Total depreciated expense-governmental activities	$ 91,219
Business type activities:	
Food service operations	$ 2,292

(5) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	$ 710,000	-	135,000	575,000	145,000
Revenue bonds	-	1,070,000	-	1,070,000	70,000
Notes payable	-	340,000	-	340,000	-
Compensated absences	16,615	14,091	13,441	17,265	17,265
Total	$ 726,615	1,424,091	148,441	2,002,265	232,265

Early Retirement

The District offers voluntary early retirement plans to both its certified employees and support employees. Eligible certified employees must have completed fifteen years of continuous contracted

halftime or greater service to the District and qualify for IPERS retirement benefits without penalty by August 15 of the next school year. The base rate for early retirement pay for each eligible certified employee shall be calculated as the difference between the B.A. base and the certified employee's current salary as determined by the current salary schedule excluding any extra-curricular, extended contract, and Phase III monies. This amount shall then be multiplied by the certified employee's average full-time equivalence for the last fifteen years of service to the District. This shall be the base rate. Eligible support employees must be at least age fifty-five and support employees must have completed fifteen years or greater service to the District. The base rate for early retirement for each eligible support employee shall be calculated as the employee's average annual contracted hours for the last five years, excluding overtime hours, multiplied by $ 2.45. This shall be the base rate. All employees must complete an application which is required to be approved by the Board of Education. All employees shall receive early retirement incentive pay as a percentage of the base rate according to the following formula:

Year of Eligibility	Percentage of Base Rate
1	100%
2	70%
3	50%
4	30%
5	10%
6	0%

Early retirement expenditures for the year ended June 30, 2004 totaled $ 5,985.

General Obligation Bonds Payable

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

Year Ending June 30,	Bond Issue of May 1, 2001			
	Interest Rates	Principal	Interest	Total
2005	4.00%	$ 145,000	23,778	168,778
2006	4.10%	150,000	17,977	167,977
2007	4.20%	145,000	11,828	156,828
2008	4.25%	135,000	5,737	140,737
Total		$ 575,000	59,320	634,320

Revenue Bonds Payable

Details of the District's June 30, 2004 local option sales and service tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of Sep 1, 2003 Interest Rates	Principal	Interest	Bond Issue Dec 28, 2003 Interest Rates	Principal	Total Principal	Interest	Total
2005	3.35%	$ 70,000	30,300	0%	$ 0	$ 70,000	30,300	100,300
2006	3.35	70,000	27,955	0	0	70,000	27,955	97,955
2007	3.35	75,000	25,526	0	0	75,000	25,526	100,526
2008	3.35	80,000	22,930	0	0	80,000	22,930	102,930
2009	3.35	80,000	20,250	0	0	80,000	20,250	100,250
2010	3.50	85,000	17,423	0	0	85,000	17,423	102,423
2011	3.80	90,000	14,225	0	0	90,000	14,225	104,225
2012	4.00	95,000	10,615	0	0	95,000	10,615	105,615
2013	4.20	100,000	6,615	0	0	100,000	6,615	106,615
2014	4.30	105,000	2,257	0	220,000	325,000	2,257	327,257
Total		$ 850,000	178,096	0	220,000	$ 1,070,000	178,096	1,248,096

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. The resolution providing for the issuance of the September 1, 2003 local option sales and services tax revenue bonds included the following provisions:

a) $ 85,000 of the proceeds from the issuance of the revenue bonds shall be deposited to the Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited in the Project Account.

b) All proceeds from the local option sales and service tax shall be placed in a Revenue Account.

c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.

d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

The resolution providing for the issuance of the District's December 1, 2003 local option sales and service tax revenue bonds

includes the following provisions:

a) To provide for the payment of the bonds at maturity there is established with the Bank of America, N.A. of Des Moines, Iowa an irrevocable trust fund for the benefit of bondholders known as the Escrow Account to be invested as per the Investment Agreement. Annually, on July 1 of each year commencing July 1, 2005, there shall be deposited from the Sinking Fund into the Escrow Fund $ 22,545 to be invested in accordance with the terms of the Investment Agreement. Such amount has been determined to be sufficient together with invested earnings thereon to pay when due the principal of the bonds. The Escrow Fund is pledged to the payment of the bonds at maturity.

Notes Payable

During the year ended June 30, 2004 the District issued Capital Loan Notes (Qualified Zone Academy Bonds) to provide funds for the equipping, rehabilitation and repair of the School. The notes bear no interest and are payable from the Special Revenue, Physical Plant and Equipment Levy Fund (PPEL Fund). On July 1 of each year commencing July 1, 2005, there shall be deposited from the PPEL Fund to the Escrow Fund $ 34,845 to be invested in accordance with the Investment Agreement and held in trust for the benefit of the holders of the Note until final maturity July 1, 2013. In any year in which taxable valuations within the District are of an amount that the tax collections will be less than $ 34,845, the District shall certify to each County Auditor an additional tax levy to the full extent of 45¢ per thousand dollars of assessed valuation. Details of the District's indebtedness under the agreement in effect at June 30, 2004 are as follows:

Year Ending	December 28, 2003 Capital Loan Notes	
June 30,	Principal	Interest
2014	$ 340,000	0

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by 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 $ 143,347, $ 140,053 and $ 134,196, respectively, equal to the required contributions for each year.

(7) Risk Management

Valley Community School District is exposed to various risks of loss related to torts; thefts; 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 for these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled $ 169,534 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Construction Commitments

The District has entered into contracts totaling $ 1,636,773 for the construction of two additions to the school facility. As of June 30, 2004, costs of $ 1,063,055 had been incurred against the contracts. The balance of $ 573,718 remaining at June 30, 2004 will be paid as work on the project progresses.

(10) Lease Commitments

The District has various leases for equipment and buildings which are classified as operating leases. Rent expense for all operating leases for the year end June 30, 2004 totaled $ 91,147.

Future minimum lease payments under the noncancelable operating leases with initial or remaining terms of one year or more are as follows:

Year Ended June 30,	Amount
2005	$ 74,937
2006	68,723
2007	28,921

(11) Accounting Change and Restatement

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures

in Governmental Fund Financial Statements, was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

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

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

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

	Fund					
	General	Special Revenue Property, Plant and Equipment Levy	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
Net assets June 30, 2003, as previously reported	$ 589,134	60,448	24,214	(67,261)	121,079	727,614
GASB Interpretation 6 adjustments	16,615	-	-	-	-	16,615
	$ 605,749	60,448	24,214	(67,261)	121,079	744,229
GASB 34 adjustments:						
Capital assets, net of accumulated depreciation of $ 1,271,400						1,543,811
Long-term liabilities:						
Bonds and notes					710,000	
Compensated absences					16,615	(726,615)
Accrued interest payable						(3,630)
Net assets, July 1, 2003, as restated						$ 1,557,795

Required Supplementary Information

VALLEY COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN BALANCES
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2004

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts Original	Budgeted Amounts Final	Final to Actual Variance
Revenues:						
Local sources	$ 2,060,336	114,416	2,174,752	2,131,450	2,131,450	43,302
State sources	2,217,454	3,363	2,220,817	2,298,851	2,298,851	(78,034)
Federal sources	1,050,836	123,169	1,174,005	1,234,540	1,234,540	(60,535)
Total revenues	5,328,626	240,948	5,569,574	5,664,841	5,664,841	(95,267)
Expenditures:						
Instruction	2,745,750	0	2,745,750	2,761,523	2,816,523	70,773
Support services	1,333,993	0	1,333,993	1,417,612	1,447,612	113,619
Non-instructional programs	364	233,879	234,443	245,817	260,817	26,374
Other expenditures	1,729,143	0	1,729,143	1,929,668	2,045,133	315,990
Total expenditures	5,809,450	233,879	6,043,329	6,354,620	6,570,085	526,756
Excess (deficiency) of revenues over (under) expenditures	(480,824)	7,069	(473,755)	(689,779)	(905,244)	431,489
Other financing sources, net	1,418,020	0	1,418,020	358,690	358,690	1,059,330
Excess of revenues and other financing sources over expenditures and other financing uses	937,196	7,069	944,265	(331,089)	(546,554)	1,490,819
Balances beginning of year	727,614	92,791	820,405	814,658	814,658	5,747
Balances end of year	$ 1,664,810	99,860	1,764,670	483,569	268,104	1,496,566

See accompanying independent auditor's report.

VALLEY 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 Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the modified accrual basis.

Formal and legal budgetary control of the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides 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 $ 215,465.

Other Supplementary Information

Schedule 1

VALLEY COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
June 30, 2004

	Library Trust	Management Levy	Student Activity	Total
ASSETS				
Cash and pooled investments	$ 6,120	40,833	64,887	111,840
Receivables				
Property tax:				
Delinquent	0	1,805	0	1,805
Succeeding year	0	68,493	0	68,493
Accounts	0	0	736	736
TOTAL ASSETS	$ 6,120	111,131	65,623	182,874
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	$ 0	0	32	32
Deferred revenue:				
Succeeding year property taxes	0	68,493	0	68,493
Total liabilities	0	68,493	32	68,525
Fund balances				
Unreserved fund balances	6,120	42,638	65,591	114,349
TOTAL LIABILITIES AND FUND EQUITY	$ 6,120	111,131	65,623	182,874

See accompanying independent auditor's report.

Schedule 2

VALLEY COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
Year Ended June 30, 2004

	Library Trust	Management Levy	Student Activity	Total
Revenues:				
Local sources:				
Local tax	$ 0	63,343	0	63,343
Other	37	198	180,518	180,753
State sources	0	56	0	56
Total revenues	37	63,597	180,518	244,152
Expenditures:				
Current:				
Instruction:				
Regular instruction	0	13,795	0	13,795
Other instruction	0	0	188,544	188,544
Support services:				
Student services	0	542	0	542
Instructional staff services	0	513	0	513
Administration services	0	16,748	0	16,748
Operation and maintenance of plant services	0	23,550	0	23,550
Transportation services	0	6,626	0	6,626
Non-instructional programs				
Food service operations	0	564	0	564
Total Expenditures	0	62,338	188,544	250,882
Excess (deficiency) of revenues over (under) expenditures	37	1,259	(8,026)	(6,730)
Fund balances beginning of year	6,083	41,379	73,617	121,079
Fund balances end of year	$ 6,120	42,638	65,591	114,349

See accompanying independent auditor's report.

Schedule 3

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITIES ACCOUNT
Year Ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance End of Year
Interest	$ 1,429	682	0	(2,065)	46
Drama	1,111	3,233	2,251	2,000	4,093
Junior High Drama	492	271	141	0	622
Speech	0	200	590	382	(8)
Vocal Music	3,200	9,571	8,246	6,386	10,911
Instrumental Music	(1,020)	21,338	42,360	24,857	(2,185)
Band Carnival	15,853	5,864	2,061	(19,656)	0
Band Uniforms	4,589	0	0	1,800	6,389
Magazine Sales	5,227	11,983	7,568	(9,642)	0
Student O	517	8,986	7,002	0	2,501
FFA	9,356	11,269	13,264	2,005	9,266
FFA Pop	3,434	0	0	0	3,434
Student Council	1,557	18,900	16,467	284	4,274
Junior High Student Council	824	70	205	0	689
Yearbook	(1,540)	6,544	9,675	3,630	(1,041)
Class of 2003	764	0	0	(764)	0
Class of 2004	5,607	693	4,386	(1,183)	731
Class of 2005	1,097	17,685	14,226	(81)	4,475
Class of 2006	1,305	390	44	0	1,651
Class of 2007	850	420	0	0	1,270
Class of 2008	399	380	0	0	779
Class of 2009	0	410	0	0	410
General Athletics	778	7,694	8,952	3,533	3,051
Football Cheerleaders	533	769	554	0	748
Athletic Resale	21	0	0	0	21
Drill Team	(859)	0	35	0	(894)
Wrestling Cheerleaders	(697)	44	174	0	(827)
Wrestling Fundraisers	(221)	2,100	2,074	0	(195)
Basketball Fundraisers-Girls	23	1,145	1,168	0	0
Volleyball Fundraisers	3,783	798	379	0	4,202
Softball Fundraisers	1,123	2,998	2,497	(12)	1,612
Football Fundraisers	7,399	1,113	6,702	0	1,810
Baseball Fundraisers	1,512	2,767	5,787	2,047	539
Track Fundraisers	2,430	1,715	1,184	11	2,972
Golf Fundraisers	(322)	395	389	0	(316)
Girls' State Basketball Tournament	891	0	0	0	891
Track	0	1,480	2,291	811	0
Golf	0	0	763	763	0
Basketball-Boys	0	3,906	1,890	(2,016)	0
Football	0	10,507	5,216	(5,291)	0
Baseball	0	1,622	4,494	2,872	0

Schedule 3

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITIES ACCOUNT
Year Ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance End of Year
Wrestling	0	3,478	3,134	(344)	0
Basketball-Girls	0	2,933	916	(2,017)	0
Volleyball	0	1,822	843	(979)	0
Softball	0	0	2,783	2,783	0
Drama Donations	0	2,000	0	(2,000)	0
Vocal Music Donations	0	1,261	0	(1,261)	0
Band Donations	0	2,071	0	(2,071)	0
Magazine Account Donations	0	73	0	(73)	0
FFA Donations	0	2,005	0	(2,005)	0
Athletics Donations	0	2,999	0	(2,999)	0
Basketball Donations	0	1,500	0	(1,500)	0
Baseball Donations	0	2,047	0	(2,047)	0
Track Donations	0	390	0	(390)	0
Basketball Fundraisers-Boys	174	0	0	1,500	1,674
Junior High Athletics	0	0	2,737	2,732	(5)
Total	$ 73,617	180,521	188,548	0	65,590

See accompanying independent auditor's report.

Schedule 4

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
AGENCY FUND
Year Ended June 30, 2004

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Cash	$ 8,849	56,712	63,314	2,247
Due from other governments	6,019	753	6,019	753
TOTAL ASSETS	$ 14,868	57,465	69,333	3,000
LIABILITIES				
Due to other governments	$ 14,868	57,465	69,333	3,000

See accompanying independent auditor's report.

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

	Modified Accrual			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	$ 1,688,618	1,589,022	1,307,504	1,273,178
Tuition	113,882	103,641	89,371	65,799
Other	257,836	212,421	243,630	207,837
Intermediate sources	0	0	0	4,800
State sources	2,217,454	2,339,837	2,458,041	2,442,777
Federal sources	1,050,836	192,486	181,447	153,797
Total	5,328,626	4,437,407	4,279,993	4,148,188
Expenditures:				
Instruction:				
Regular instruction	1,672,441	1,644,630	1,610,235	1,517,465
Special instruction	651,501	591,447	590,064	567,026
Other instruction	421,808	391,355	438,456	368,023
Support services:				
Student services	97,044	99,273	91,977	112,916
Instructional staff services	145,799	205,228	212,526	131,673
Administration services	483,493	490,094	459,783	441,540
Operation and maintenance of plant services	372,824	319,080	307,412	270,702
Transportation services	233,259	203,149	199,596	233,735
Central support services	1,574	2,072	1,287	2,604
Non-instructional programs	564	489	256	353
Other expenditures:				
Facilities acquisition	1,334,186	105,299	35,545	72,031
Long-term debt:				
Principal	135,000	135,000	125,000	110,000
Interest and other charges	90,423	34,472	40,671	73,510
AEA flow through	169,534	182,995	185,381	186,469
	$ 5,809,450	4,404,583	4,298,189	4,088,047

See accompanying independent auditor's report.

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2004

Grantor/Program	CFDA Number	Grant Number	Expenditures
Direct:			
U.S. Department of Education:			
Rural Education Achievement Program	84.358	FY 04	$ 27,763
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
Food Donation (non-cash)	10.550	FY 04	19,822
School Nutrition Cluster Programs:			
School Breakfast Programs	10.553	FY 04	252
National School Lunch Program	10.555	FY 04	103,095
			103,347
U.S. Department of Education:			
Iowa Department of Education			
Title I Grants to Local Educational Agencies	84.010	FY 04	82,910
Safe and Drug-Free Schools and Communities-State Grants	84.186	FY 04	2,627
Fund for the Improvement of Education	84.215	FY 03	646,694
Innovative Education Program Strategies (Title V Program)	84.298	FY 03	147
School Renovation Grants	84.352	FY 03	78,808
Title II A - Federal Teacher Quality Program	84.367	FY 04	21,498
Grants for State Assessments and Related Activities	84.369	FY 04	3,354
Keystone Area Education Association:			
Special Education Grants to States	84.027	FY 04	31,167
Vocational Education Basic Grants to States	84.048	FY 04	6,394
Tech-Prep Education	84.243	FY 04	91
Eisenhower Professional Development Grants	84.281	FY 04	1,508
State University of Iowa:			
Eisenhower Professional Development Grants	84.281	FY 04	91
Total			$ 1,026,221

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2004

BASIS OF PRESENTATION - The Schedule of Expenditures of Federal Awards includes the grant activity of Valley 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 the preparation of, the basic financial statements.

See accompanying independent auditor's report.

Dietz, Donald & Company
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Education of the
Valley Community School District

We have audited the financial statements of Valley Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated August 27, 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 Valley Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

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

Internal Control over Financial Reporting

In planning and performing our audit, we considered Valley 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.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses as defined above. There were no material weaknesses in the prior year's report.

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

We would like to ackowledge the many courtesies and assistance extended to us by personnel of Valley 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.

Elkader, Iowa

August 27, 2004

Dietz, Donald & Company

Dietz, Donald & Company, CPAs
FEIN 42-1172392

Dietz, Donald & Company
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL
CONTROL OVER COMPLIANCE

To the Board of Education of
Valley Community School District

Compliance

We have audited the compliance of Valley 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 its major program for the year ended June 30, 2004. Valley Community School District's major federal program is 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 its major federal program is the responsibility of Valley Community School District's management. Our responsibility is to express an opinion on Valley 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 Valley Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Valley Community School District's compliance with those requirements.

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

Internal Control Over Compliance

The management of Valley 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 Valley 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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. We noted no matters involving the internal control over compliance that we consider 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 Valley Community School District and other parties to whom Valley Community School District may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Elkader, Iowa

August 27, 2004

Dietz, Donald & Company

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FEIN 42-1172392

VALLEY 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) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.

(c) The audit did not disclose any non-compliance which is material to the financial statements.

(d) No reportable conditions in internal control over the major program were disclosed by the audit of the financial statements.

(e) An unqualified opinion was issued on compliance with requirements applicable to the major program.

(f) The audit disclosed no findings that are required to be reported in accordance with Section .510(a) of Circular A-133.

(g) Major program was as follows:

- CFDA Number 84.215 Fund for the Improvement of Education

(h) The dollar threshold used to distinguish between Type A and Type B programs was $ 300,000.

(i) Valley Community School District did not qualify as a low-risk auditee.

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2004

Part II - Findings Related to the General Purpose Financial Statements

INSTANCES OF NON-COMPLIANCE
No matters were noted.

REPORTABLE CONDITIONS
No matters were noted.

VALLEY 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 noted.

REPORTABLE CONDITIONS
No matters were noted.

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
Year Ended June 30, 2004

Part IV: Other Findings Related To Statutory Reporting

IV-A-03 **Official Depositories** - A resolution naming official depositories has been approved by the District. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

IV-B-03 **Certified Budget** - Disbursements for the year ended June 30, 2004 did not exceed the amounts budgeted.

IV-C-03 **Questionable Disbursements** - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-D-03 **Travel Expenses** - 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-03 **Business Transactions** - No business transactions between the District and District officials or employees were noted.

IV-F-03 **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-03 **Board Minutes** - We noted no transactions requiring Board approval which had not been approved by the Board.

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

IV-I-03 **Deposits and Investments** - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy were noted.

IV-J-03 **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.