VILLISCA COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

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Villisca Community School District

Officials

Name	Title	Term Expires
	Board of Education (Before September 2003 Election)	
Stan Schaaf	President	2005
Marvin Smith	Vice President	2003
Harold Hutchinson	Board Member	2005
Janice Herzberg	Board Member	2003
John A. Baker	Board Member	2004
	Board of Education (After September 2003 Election)	
John A. Baker	President	2004
Janice Herzberg	Vice President	2006
Harold Hutchinson	Board Member	2005
Stan Schaaf	Board Member	2005
Kerin Wright	Board Member	2006
	School Officials	
Thomas K. Nugent	Superintendent	2004
Shirley Maxwell	District Secretary and Treasurer	2004
Jeff Millholin and Drew Bracken	Attorney	2004

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

As described in Note 9 to the financial statements, during the year ended June 30, 2004, Villisca 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 report dated August 17, 2004 on our consideration of the Villisca Community School District's internal control over financial reporting and our tests of its compliance with certain

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

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 35 through 37 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Villisca 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 year ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Another firm previously audited, in accordance with the standards referred to in the second paragraph of this report, the general purpose financial statements for the two years ended June 30, 2002 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson PC

NOLTE, CORNMAN & JOHNSON, P.C.

August 17, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from $3,117,866 in fiscal 2003 to $3,103,407 in fiscal 2004, while General Fund expenditures decreased from $3,140,011 in fiscal 2003 to $3,109,774 in fiscal 2004. This resulted in a decrease in the District's General Fund balance from of $531,536 in fiscal 2003 to a balance of $525,169 in fiscal 2004, a decrease of 1.2% from the prior year.

- The decrease in General Fund revenues was attributable to an imposed 2.5 percent across-the-board reduction in State Foundation Aid from the State of Iowa, as well as, a decrease in local tax revenue in fiscal 2004. The biggest decrease was in regular instruction expenditures. Even though, the General Fund balance decrease in expenditures was more than the District's General Fund decrease in revenues for fiscal 2004, expenditures were still more than revenues.

- A decline in interest rates during the past fiscal year, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone to decrease from $10,926 in fiscal year 2003 to $6,852 in fiscal year 2004.

- The District received $20,500 in grants and $3,936 in donations to fund the Before/After School Program.

USING THIS ANNUAL REPORT

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

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

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

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Villisca Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Villisca Community

School District acts solely as an agent or custodial for the benefit of those outside of County government.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

Figure A-1
Villisca Community School District Annual Financial Report

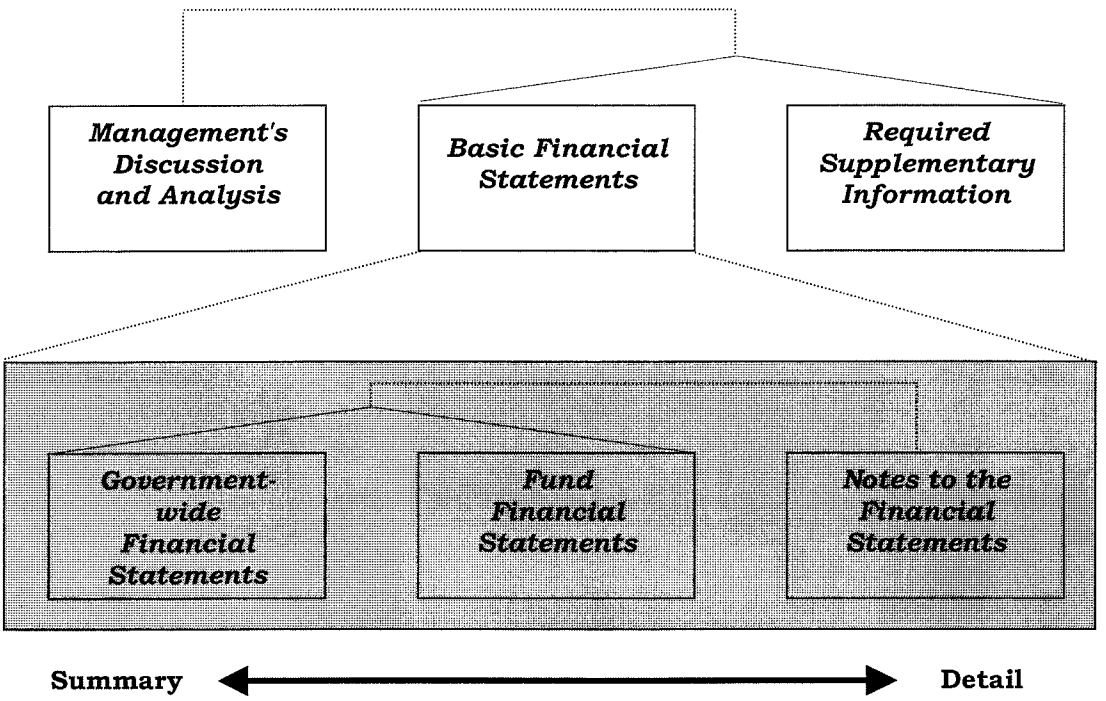

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	• Statement of net assets • Statement of activities	• Balance sheet • Statement of revenues, expenditures, and changes in fund balances	• Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.

- *Business-type activities*: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Current and other assets	$ 3,533,855	35,096	3,568,951
Capital assets	3,781,127	10,735	3,791,862
Total assets	7,314,982	45,831	7,360,813
Long-term obligations	3,020,000	0	3,020,000
Other liabilities	1,739,217	1,209	1,740,426
Total liabilities	4,759,217	1,209	4,760,426
Net assets:			
Invested in capital assets, net of related debt	1,310,816	10,735	1,321,551
Restricted	709,027	0	709,027
Unrestricted	535,922	33,887	569,809
Total net assets	$ 2,555,765	44,622	2,600,387

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

Figure A-4
Changes of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Revenues:			
Program revenues:			
Charges for services	$ 300,714	89,099	389,813
Operating grants and contributions and restricted interest	437,233	71,450	508,683
General revenues:			
Local tax	1,489,096	0	1,489,096
Unrestricted state grants	1,457,804	0	1,457,804
Other	23,853	55	23,908
Total revenues	3,708,700	160,604	3,869,304
Program expenses:			
Governmental activities:			
Instructional	2,185,340	0	2,185,340
Support services	985,792	0	985,792
Non-instructional programs	29,552	151,368	180,920
Other expenses	439,789	0	439,789
Total expenses	3,640,473	151,368	3,791,841
Changes in net assets	68,227	9,236	77,463
Net assets beginning of year	2,487,538	35,386	2,522,924
Net assets end of year	$ 2,555,765	44,622	2,600,387

Property tax and unrestricted state grants account for 76% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 84% of the total expenses.

Governmental Activities

Revenues for governmental activities were $3,708,700 and expenses were $3,640,473. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	$ 2,185,340	1,568,326
Support services	985,792	985,472
Non-instructional	29,552	29,552
Other expenses	439,789	319,176
Totals	$ 3,640,473	2,902,526

- The cost financed by users of the District's programs was $300,714.
- Federal and state governments subsidized certain programs with grants and contributions totaling $437,233.
- The net cost of governmental activities was financed with $1,489,096 in local tax, $1,457,804 in unrestricted state grants, and $23,853 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were $160,604 and expenses were $151,368. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of $1,781,705, above last year's ending fund balances of a $1,775,543.

Governmental Fund Highlights

- The District's decreasing General Fund financial position is the product of many factors. Reduction in the tax levy during the year resulted in a decrease in revenues. The decrease in expenditures was attributable to staff reductions through attrition and resignations. However, revenues were still less than expenditures ensuring the decrease in the financial position of the District.
- The Activity fund and the Expendable Trust fund combined balance increased from $242,106 in 2003, to $242,933 in 2004, due to controlled spending in both funds.
- The Management fund balance increased from $148,030 in 2003, to $153,214 in 2004, due to an increase in revenues. Taxes had been increased in this fund to allow funds for unemployment if more attrition was needed. Since there were resignations late in the year these funds were not needed. Also the district had several workers' compensation claims throughout the year so additional money was levied to offset the increase in premiums.
- The Debt Service fund balance decreased from $38,858 in 2003, to $36,472 in 2004, due to a decrease in revenues.
- The Physical Plant and Equipment Levy (PPEL) fund balance decreased from $318,704 to $282,208, due to an increase in total expenditures for the year. The District spent $14,775 on a new phone system for the elementary building. These funds will be needed for the repairs at the Enarson Building, acquiring new vehicles for our transportation department, and major technology purchases.
- The District's Capital Projects fund increased from $496,309 in 2003, to $541,709 in 2004, due to an increase in local option sales and service tax during the current year. All four counties are now participating in this tax. These funds will be used towards upcoming major roofing repairs, to help decrease the debt service levy.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from $35,386 at June 30, 2003 to $44,622 at June 30, 2004, representing an increase of approximately 26%. For fiscal 2004, the District increased meal prices but most of the additional funds were received from the ala carte program.

BUDGETARY HIGHLIGHTS

The District's revenues were $175,803 less than budgeted revenues, a variance of 4%. The most significant variance resulted from the District receiving less in federal sources than originally anticipated.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested $3.8 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 1.3% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was $141,802.

The original cost of the District's capital assets was $5,404,530. Governmental funds account for $5,348,322 with the remainder of $56,208 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the building category. The District's buildings totaled $3,568,034 at June 30, 2004, compared to $3,652,450 reported at June 30, 2003. This decrease resulted from the current year depreciation expense.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities	Business-type Activities	Total School District
	2004	2004	2004
Land	$ 18,650	0	18,650
Buildings	3,568,034	0	3,568,034
Improvements other than buildings	18,888	0	18,888
Machinery and equipment	175,555	10,735	186,290
Total	$ 3,781,127	10,735	3,791,862

Long-Term Debt

At June 30, 2004, the District had long-term debt outstanding of $3,020,000 in general obligation bonds. This represents a decrease of approximately 3.7% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The board approval of $110,000 of local option sales and service tax income toward payment of outstanding general obligation bonds helped in part to reduce the outstanding general obligation bonds payable this fiscal year by $292,850, consisting $115,000 of principal and $177,850 of interest, leaving a balance of $3,020,000 to be paid through 2020.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total
	2004	2003	Change
General obligation bonds	$ 3,020,000	3,135,000	-3.7%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Although the District has experienced declining enrollment for a few years, the District expects a slight increase in enrollment.

- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten-year period beginning in fiscal year 2005.

- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.

- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Shirley Maxwell, District Board Secretary/Business Manager, Villisca Community School District, 406 E 3rd St., Villisca, Iowa, 50864.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	$ 1,949,072	33,357	1,982,429
Receivables:			
Property tax:			
Delinquent	48,376	0	48,376
Succeeding year	1,403,889	0	1,403,889
Income surtax	41,425	0	41,425
Accounts	3,397	112	3,509
Accrued interest	415	0	415
Due from other governments	87,281	0	87,281
Inventories	0	1,627	1,627
Capital assets, net of accumulated depreciation(Note 4)	3,781,127	10,735	3,791,862
TOTAL ASSETS	7,314,982	45,831	7,360,813
LIABILITIES			
Due to other governments	4,179	0	4,179
Accounts payable	547	0	547
Interest payable	28,492	0	28,492
Salaries and benefits payable	302,110	0	302,110
Deferred revenue:			
Succeeding year property tax	1,403,889	0	1,403,889
Other	0	1,209	1,209
Long-term liabilities(Note 5):			
Portion due within one year:			
General obligation bonds	120,000	0	120,000
Portion due after one year:			
General obligation bonds	2,900,000	0	2,900,000
TOTAL LIABILITIES	4,759,217	1,209	4,760,426
NET ASSETS			
Investment in capital assets, net of related debt	1,310,816	10,735	1,321,551
Restricted for:			
Talented and gifted	25,859	0	25,859
Teacher quality	677	0	677
Phase III	1,052	0	1,052
Wellness	3,084	0	3,084
Physical plant & equipment levy	323,633	0	323,633
Management levy	153,214	0	153,214
Other special revenue purposes	242,933	0	242,933
Unrestricted	494,497	33,887	528,384
TOTAL NET ASSETS	$ 2,555,765	44,622	2,600,387

SEE NOTES TO FINANCIAL STATEMENTS.

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

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants, Contributions and Restricted Interest
Governmental activities:			
Instruction:			
Regular instruction	$ 1,244,619	53,785	312,769
Special instruction	569,350	43,803	0
Other instruction	371,371	203,126	0
	2,185,340	300,714	312,769
Support services:			
Student services	78,347	0	0
Instructional staff services	54,297	0	0
Adminstration services	420,518	0	0
Operation and maintenance of plant services	257,191	0	0
Transportation services	171,153	0	320
Central services	4,286	0	0
	985,792	0	320
Non-instructional services:			
Food services	233	0	0
Community service & education operations	29,319	0	0
	29,552	0	0
Other expenditures:			
Facilities acquisitions	46,122	0	0
Long-term debt interest	177,000	0	0
AEA flowthrough	124,144	0	124,144
Depreciation(unallocated)*	92,523	0	0
	439,789	0	124,144
Total governmental activities	3,640,473	300,714	437,233
Business-Type activities:			
Non-instructional programs:			
Nutrition services	151,368	89,099	71,450
Total business-type activities	151,368	89,099	71,450
Total	$ 3,791,841	389,813	508,683
General Revenues:			
Property tax levied for:			
General purposes			
Debt services			
Capital outlay			
Local option sales and service tax			
Unrestricted state grants			
Unrestricted investment earnings			
Total general revenues			
Changes in net assets			
Net assets beginning of year, as restated (Note 9)			
Net assets end of year			

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(874,534)	0	(874,534)
(525,547)	0	(525,547)
(168,245)	0	(168,245)
(1,568,326)	0	(1,568,326)
(78,347)	0	(78,347)
(54,297)	0	(54,297)
(420,518)	0	(420,518)
(257,191)	0	(257,191)
(170,833)	0	(170,833)
(4,286)	0	(4,286)
(985,472)	0	(985,472)
(233)	0	(233)
(29,319)	0	(29,319)
(29,552)	0	(29,552)
(46,122)	0	(46,122)
(177,000)	0	(177,000)
0	0	0
(96,054)	0	(96,054)
(319,176)	0	(319,176)
(2,902,526)	0	(2,902,526)
0	9,181	9,181
0	9,181	9,181
(2,902,526)	9,181	(2,893,345)
$ 1,100,779	0	1,100,779
120,737	0	120,737
88,585	0	88,585
178,995	0	178,995
1,457,804	0	1,457,804
23,853	55	23,908
2,970,753	55	2,970,808
68,227	9,236	77,463
2,487,538	35,386	2,522,924
$ 2,555,765	44,622	2,600,387

Exhibit C

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

	General	Physical Plant and Equipment Levy	Capital Projects	Other Governmental Funds	Total
ASSETS					
Cash and pooled investments	$ 726,620	281,190	515,132	426,130	1,949,072
Receivables:					
Property tax					
Delinquent	17,681	1,018	26,525	3,152	48,376
Succeeding year	1,140,253	41,274	0	222,362	1,403,889
Income surtax	0	41,425	0	0	41,425
Accounts	0	0	0	3,397	3,397
Accrued interest	0	0	415	0	415
Due from other governments	87,281	0	0	0	87,281
TOTAL ASSETS	$ 1,971,835	364,907	542,072	655,041	3,533,855
LIABILITIES AND FUND BALANCES					
Liabilities:					
Due to other governments	$ 4,179	0	0	0	4,179
Accounts payable	124	0	363	60	547
Salaries and benefits payable	302,110	0	0	0	302,110
Deferred revenue:					
Succeeding year property tax	1,140,253	41,274	0	222,362	1,403,889
Income surtax	0	41,425	0	0	41,425
Total liabilities	1,446,666	82,699	363	222,422	1,752,150
Fund balances:					
Reserved for:					
Talanted and gifted	25,859	0	0	0	25,859
Teacher quality	677	0	0	0	677
Phase III	1,052	0	0	0	1,052
Wellness	3,084	0	0	0	3,084
Unreserved:					
Designated for cash flow	220,000	0	0	0	220,000
Undesignated	274,497	282,208	541,709	432,619	1,531,033
Total fund balances	525,169	282,208	541,709	432,619	1,781,705
TOTAL LIABILITIES AND FUND BALANCES	$ 1,971,835	364,907	542,072	655,041	3,533,855

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit D

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

Total fund balances of governmental funds (page 17)	$	1,781,705
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.		3,781,127
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(28,492)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		41,425
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(3,020,000)
Net assets of governmental activites (page 14)	$	2,555,765

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Physical Plant and Equipment Levy	Capital Projects	Other Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	$ 1,039,828	88,585	0	185,361	1,313,774
LOSST	0	0	178,995	0	178,995
Tuition	97,588	0	0	0	97,588
Other	70,227	6,823	7,237	141,778	226,065
State sources	1,718,901	38	0	149	1,719,088
Federal sources	175,949	0	0	0	175,949
Total revenues	3,102,493	95,446	186,232	327,288	3,711,459
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	1,222,157	0	0	13,453	1,235,610
Special instruction	569,350	0	0	0	569,350
Other instruction	239,666	0	0	131,705	371,371
	2,031,173	0	0	145,158	2,176,331
Support services:					
Student services	78,114	0	0	233	78,347
Instructional staff services	50,165	0	0	58	50,223
Administration services	427,351	0	0	7,220	434,571
Operation and maintenance of plant services	240,733	0	0	24,858	265,591
Transportation services	124,489	52,345	0	22,060	198,894
Other	4,286	0	0	0	4,286
	925,138	52,345	0	54,429	1,031,912
Non-instructional:					
Food service	0	0	0	233	233
Community service & education operations	29,319	0	0	0	29,319
	29,319	0	0	233	29,552
Other expenditures:					
Facilities acquisitions	0	20,290	30,832	0	51,122
Long-term debt:					
Principal	0	0	0	115,000	115,000
Interest and fiscal charges	0	0	0	178,150	178,150
AEA flowthrough	124,144	0	0	0	124,144
	124,144	20,290	30,832	293,150	468,416
Total expenditures	3,109,774	72,635	30,832	492,970	3,706,211
Excess(deficiency) of revenues over(under) expenditures	(7,281)	22,811	155,400	(165,682)	5,248
Other financing sources(uses):					
Transfers in	0	0	0	169,307	169,307
Transfers out	0	(59,307)	(110,000)	0	(169,307)
Sale of equipment	914	0	0	0	914
Total other financing sources(uses)	914	(59,307)	(110,000)	169,307	914
Net change in fund balances	(6,367)	(36,496)	45,400	3,625	6,162
Fund balance beginning of year	531,536	318,704	496,309	428,994	1,775,543
Fund balance end of year	$ 525,169	282,208	541,709	432,619	1,781,705

SEE NOTES TO FINANCIAL STATEMENTS.

VILLISCA 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 19)		$ 6,162
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:		
Capital outlays	$ 88,565	
Depreciation expense	(138,977)	(50,412)
Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.		115,000
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.		1,150
Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		(3,673)
Changes in net assets of governmental activities (page 16)		$ 68,227

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit G

VILLISCA COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	School Nutrition
ASSETS	
Cash and cash equivalents	$ 33,357
Accounts receivable	112
Inventories	1,627
Capital assets, net of accumulated depreciation	10,735
TOTAL ASSETS	45,831
LIABILITIES	
Deferred revenues	1,209
TOTAL LIABILITES	1,209
NET ASSETS	
Invested in capital assets, net of related debt	10,735
Unrestricted	33,887
TOTAL NET ASSETS	$ 44,622

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Other local sources:	
Sale of lunches and breakfasts:	
Students	$ 75,017
Adults	6,644
Miscellaneous	7,438
TOTAL OPERATING REVENUES	89,099
OPERATING EXPENSES:	
Food service operations:	
Salaries	50,690
Benefits	6,306
Services	2,296
Supplies	89,252
Depreciation	2,824
TOTAL OPERATING EXPENSES	151,368
OPERATING LOSS	(62,269)
NON-OPERATING REVENUES:	
Interest	55
State sources	2,121
Federal sources	69,329
TOTAL NON-OPERATING REVENUES	71,505
Net income	9,236
Retained earnings at beginning of year, as restated (Note 9)	35,386
Retained earnings end of year	$ 44,622

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit I

VILLISCA 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	$ 82,918
Cash received from miscellaneous operating activities	7,438
Cash payments to employees for services	(56,996)
Cash payments to suppliers for goods or services	(81,841)
Net cash used in operating activities	(48,481)
Cash flows from non-capital financing activities:	
State grants received	2,121
Federal grants received	60,173
Net cash provided by non-capital financing activities	62,294
Cash flows from investing activities:	
Interest on investments	55
Net cash provided by investing activities	55
Cash flows from capital financing activities:	
Purchase of assets	(1,038)
Net cash used by financing activities	(1,038)
Net increase in cash and cash equivalents	12,830
Cash and cash equivalents at beginning of year	20,527
Cash and cash equivalents at end of year	$ 33,357
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (62,269)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	9,156
Depreciation	2,824
Decrease in inventories	2,005
Decrease in accounts receivable	48
Decrease in accounts payable	(1,454)
Increase in deferred revenue	1,209
Net cash used in operating activities	$ (48,481)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	$ 33,357

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2004, the District received Federal commodities valued at $9,156.

SEE NOTES TO FINANCIAL STATEMENTS.

(1) Summary of Significant Accounting Policies

The Villisca Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Villisca, Iowa, and the predominate agricultural territory in Adams, Montgomery, Page and Taylor Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Villisca Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Villisca Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The Special Revenue - Physical Plant and Equipment Levy(PPEL) Fund is used to account for resources used in building improvements and equipment purchases.

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to

customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

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

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

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

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

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

Asset Class	Estimated Useful Life (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-12 years

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

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

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

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, no expenditures exceeded the amount budgeted.

(2) Cash and Pooled Investments

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

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of $30,843 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) Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	$ 110,000
Debt Service	PPEL	59,307
Total		$ 169,307

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

(4) Capital Assets

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

	Balance Beginning of Year, as restated (Note 9)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 18,650	0	0	18,650
Total capital assets not being depreciated	18,650	0	0	18,650
Capital assets being depreciated:				
Buildings	4,467,723	5,000	0	4,472,723
Land improvements	109,264	0	0	109,264
Machinery and equipment	719,443	83,565	55,323	747,685
Total capital assets being depreciated	5,296,430	88,565	55,323	5,329,672
Less accumulated depreciation for:				
Buildings	815,273	89,416	0	904,689
Land improvements	87,269	3,107	0	90,376
Machinery and equipment	580,999	46,454	55,323	572,130
Total accumulated depreciation	1,483,541	138,977	55,323	1,567,195
Total capital assets being depreciated, net	3,812,889	(50,412)	0	3,762,477
Governmental activities capital assets, net	$ 3,831,539	(50,412)	0	3,781,127

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	$ 56,196	1,038	1,026	56,208
Less accumulated depreciation	43,675	2,824	1,026	45,473
Business-type activities capital assets, net	$ 12,521	(1,786)	0	10,735

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	$ 9,009
Support services:	
Instructional staff services	4,074
Administration services	6,667
Operation and maintenance of plant services	2,100
Transportation	24,604
	46,454
Unallocated depreciation	92,523
Total governmental activities depreciation expense	$ 138,977
Business-type activities:	
Food services	$ 2,824

(5) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation	$ 3,135,000	0	115,000	3,020,000	120,000
Total	$ 3,135,000	0	115,000	3,020,000	120,000

General Obligation

Details of the District's June 30, 2004 General Obligation bonds indebtedness is as follows:

Year Ending June 30,	Interest Rate	Bond issue dated March 9, 1999 Principal	Interest	Total
2005	6.00 %	$ 120,000	170,758	290,758
2006	6.00	130,000	160,758	290,758
2007	6.00	135,000	155,758	290,758
2008	6.00	140,000	150,758	290,758
2009	6.00	155,000	135,758	290,758
2010	5.85	160,000	130,758	290,758
2011	5.25	170,000	120,758	290,758
2012	5.30	180,000	110,758	290,758
2013	5.35	185,000	105,758	290,758
2014	5.40	200,000	90,758	290,758
2015	5.50	210,000	80,758	290,758
2016	5.60	220,000	70,758	290,758
2017	5.65	230,000	60,758	290,758
2018	5.65	245,000	45,758	290,758
2019	5.70	260,000	30,758	290,758
2020	5.75	280,000	10,571	290,571
Subtotal		$ 3,020,000	1,631,941	4,651,941

(6) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were $109,635, $109,626, and $109,108 respectively, equal to the required contributions for each year.

(7) Risk Management

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

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

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were $15,185.

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

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2003, no liability has been recorded in the District's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has

given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

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

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled $124,144 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Accounting Change and Restatements

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

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

Beginning capital assets for governmental activities of $5,280,417 were restated to $5,315,080. The restatement primarily added assets that were not previously reported prior to an inventory count by the District.

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

	Fund				
	General	Physical Plant and Equipment Levy	Capital Projects	Other Governmental Funds	Total
Net assets, June 30, 2003, as previously reported	$ 531,536	318,704	496,309	428,994	1,775,543
GASB Interpretation 6 adjustments	0	0	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	$ 531,536	318,704	496,309	428,994	1,775,543
GASB 34 adjustments:					
Capital assets, net of accumulated depreciation of $1,483,541					3,831,539
Income surtax					45,098
Long-term liabilities:					
General obligation bonds					(3,135,000)
Accrued interest					(29,642)
Net assets July 1, 2003, as restated					$ 2,487,538

	Fund School Nutrition
Net assets, June 30, 2003, as previously reported	$ 33,561
Contributed capital	1,825
Net assets, July 1, 2003, as restated for proprietary funds	$ 35,386

REQUIRED SUPPLEMENTAL INFORMATION

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

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Revenues:		
Local sources	$ 1,816,422	89,154
Intermediate sources	0	0
State sources	1,719,088	2,121
Federal sources	175,949	69,329
Total revenues	3,711,459	160,604
Expenditures:		
Instruction	2,176,331	0
Support services	1,031,912	0
Non-instructional programs	29,552	151,368
Other expenditures	468,416	0
Total expenditures	3,706,211	151,368
Excess(deficiency) of revenues over(under) expenditures	5,248	9,236
Other financing sources, net	914	0
Excess(deficiency) of revenues and other financing sources over(under) expenditures	6,162	9,236
Balance beginning of year	1,775,543	35,386
Balance end of year	$ 1,781,705	44,622

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts Original	Budgeted Amounts Final	Final to Actual Variance - Positive (Negative)
1,905,576	1,862,059	1,862,059	43,517
0	12,000	12,000	(12,000)
1,721,209	1,934,807	1,934,807	(213,598)
245,278	239,000	239,000	6,278
3,872,063	4,047,866	4,047,866	(175,803)
2,176,331	3,206,905	3,206,905	1,030,574
1,031,912	1,032,150	1,032,150	238
180,920	218,989	218,989	38,069
468,416	1,249,714	1,249,714	781,298
3,857,579	5,707,758	5,707,758	1,850,179
14,484	(1,659,892)	(1,659,892)	1,674,376
914	0	0	914
15,398	(1,659,892)	(1,659,892)	1,675,290
1,810,929	1,885,217	1,885,217	(74,288)
1,826,327	225,325	225,325	1,601,002

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

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

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

OTHER SUPPLEMENTAL INFORMATION

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

	Special Revenue Funds					
	Manage-ment	Student Activity	Expendable Trust	Total Special Revenue	Debt Service	Total Nonmajor Governmental Funds
ASSETS						
Cash and pooled investments	$ 152,115	67,364	172,232	391,711	34,419	426,130
Receivables:						
Property tax:						
Current year delinquent	1,099	0	0	1,099	2,053	3,152
Succeeding year	100,000	0	0	100,000	122,362	222,362
Accounts	0	3,397	0	3,397	0	3,397
TOTAL ASSETS	$ 253,214	70,761	172,232	496,207	158,834	655,041
LIABILITIES AND FUND EQUITY						
Liabilities:						
Accounts payable	$ 0	60	0	60	0	60
Deferred revenue:						
Succeeding year property tax	100,000	0	0	100,000	122,362	222,362
	100,000	60	0	100,060	122,362	222,422
Fund equity:						
Fund balances:						
Unreserved:						
Undesignated	153,214	70,701	172,232	396,147	36,472	432,619
Total fund balances	153,214	70,701	172,232	396,147	36,472	432,619
TOTAL LIABILITIES AND FUND EQUITY	$ 253,214	70,761	172,232	496,207	158,834	655,041

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue					
	Manage-ment	Student Activity	Expendable Trust	Total Special Revenue	Debt Service	Total Nonmajor Governmental Funds
REVENUES:						
Local sources:						
Local tax	$ 64,624	0	0	64,624	120,737	185,361
Other	1,273	131,617	8,265	141,155	623	141,778
State sources	52	0	0	52	97	149
TOTAL REVENUES	65,949	131,617	8,265	205,831	121,457	327,288
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	6,103	0	7,350	13,453	0	13,453
Other instruction	0	131,705	0	131,705	0	131,705
	6,103	131,705	7,350	145,158	0	145,158
Support services:						
Student support services	233	0	0	233	0	233
Instructional staff services	58	0	0	58	0	58
Administration services	7,220	0	0	7,220	0	7,220
Operation and maintenance of plant services	24,858	0	0	24,858	0	24,858
Transportation services	22,060	0	0	22,060	0	22,060
	54,429	0	0	54,429	0	54,429
Non-instructional:						
Food service	233	0	0	233	0	233
Other expenditures:						
Long-term debt:						
Principle	0	0	0	0	115,000	115,000
Interest and fiscal charges	0	0	0	0	178,150	178,150
	0	0	0	0	293,150	293,150
TOTAL EXPENDITURES	60,765	131,705	7,350	199,820	293,150	492,970
Excess (deficiency) of revenues over (under) expenditures	5,184	(88)	915	6,011	(171,693)	(165,682)
Other financing sources:						
Operating transfers in	0	0	0	0	169,307	169,307
Excess (deficiency) of revenues and other financing sources over (under) expenditures	5,184	(88)	915	6,011	(2,386)	3,625
Fund balance beginning of year	148,030	70,789	171,317	390,136	38,858	428,994
Fund balance end of year	$ 153,214	70,701	172,232	396,147	36,472	432,619

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 3

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

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Interest	$ 12,577	780	4,650	8,707
Student activity pop	6,547	13,547	13,840	6,254
Activity tickets	575	1,221	0	1,796
Secondary student club	13,695	461	2,407	11,749
Elementary club K-6	11,129	13,666	11,251	13,544
Sports towels	1,866	469	374	1,961
National honor society	0	148	41	107
Annual staff	830	4,952	4,213	1,569
Drama club	1,593	1,141	1,648	1,086
Music boosters	3,451	12,411	11,908	3,954
Dance team	3,263	3,265	2,381	4,147
Athletics	19	288	307	0
Track	0	1,862	1,862	0
Basketball	2,000	9,028	6,866	4,162
Football	0	4,860	4,624	236
Softball/baseball	391	5,575	6,025	(59)
Volleyball	1,000	3,468	3,025	1,443
Y-teens	2,358	7,942	7,195	3,105
FFA	1,580	22,852	23,922	510
Science club	1,696	3,390	3,429	1,657
Cheerleaders	1,195	1,093	1,790	498
Librarians	767	3,351	3,548	570
Student council	1,029	2,402	2,752	679
JH boosters	134	21	54	101
Destination Image	581	423	795	209
T.O.U.C.H	383	0	0	383
Class of 2003	112	0	112	0
Class of 2004	1,742	844	2,586	0
Class of 2005	213	10,982	9,234	1,961
Class of 2006	27	711	442	296
Class of 2007	(21)	464	388	55
Class of 2008	84	0	63	21
Class of 2009	(27)	0	(27)	0
Total	$ 70,789	131,617	131,705	70,701

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

VILLISCA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	$ 1,492,769	1,572,590	1,455,560	1,374,848
Tuition	97,588	61,976	48,216	44,828
Other	226,065	243,744	304,292	377,092
State sources	1,719,088	1,694,874	1,877,059	1,896,514
Federal sources	175,949	214,613	98,671	81,145
Total	$ 3,711,459	3,787,797	3,783,798	3,774,427
Expenditures:				
Instruction:				
Regular instruction	$ 1,235,610	1,403,393	1,338,485	1,244,710
Special instruction	569,350	484,946	418,624	437,006
Other instruction	371,371	365,708	371,297	354,559
Support services:				
Student services	78,347	84,707	74,695	90,189
Instructional staff services	50,223	57,353	61,183	62,643
Administration services	434,571	408,580	388,248	364,810
Operation and maintenance of plant services	265,591	221,152	208,242	207,749
Transportation services	198,894	142,585	223,140	116,403
Central services	4,286	2,274	6,383	4,362
Non-instructional:				
Food service	233	200	166	159
Community service & education operations	29,319	26,965	59,185	43,661
Other expenditures:				
Facilities acquisitions	51,122	70,412	179,536	2,902,201
Long Term Debt:				
Principal	115,000	105,000	100,000	90,000
Interest	178,150	184,450	190,375	196,521
AEA flow-through	124,144	132,057	133,804	136,849
Total	$ 3,706,211	3,689,782	3,753,363	6,251,822

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

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

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

We have audited the financial statements of Villisca Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated August 17, 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 Villisca 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 an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

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

Internal Control Over Financial Reporting

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

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

consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have all been resolved, except I-A-04 and I-B-04.

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

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

Nolte, Cornman & Johnson P.C.

NOLTE, CORNMAN & JOHNSON, P.C.

August 17, 2004

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

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

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

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

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

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

Conclusion - Response accepted.

I-B-04 Student Activity Fund - We noted during our audit that the Student Activity fund included an interest account and a sports towel account.

Recommendation - The interest earned each year should be allocated at least on an annual basis to the individual activity accounts. The sports towel account appears to be more appropriately handled out of the General Fund.

Response - We will accept your recommendation and make the necessary changes.

Conclusion - Response accepted.

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

Part II: Other Findings Related to Statutory Reporting

II-A-04 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

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

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

II-D-04 Travel Expense - 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.

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

Name, Title and Business Connection	Transaction Description	Amount
Dick Wright, sub bus driver Owner of Wrights Parts & Service	Repairs, supplies	$255

In accordance with Attorney General's Opinion dated July 2, 1990, the above transactions with District employees does not appear to be a conflict of interest.

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

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

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

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

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