

WACO COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

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WACO Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Mark Hotchkiss	President	2005
Mark Burnham	Vice President	2004
Mary Bean	Board Member	2004
Jeff Temple	Board Member	2003
Shari Janecek	Board Member	2005
Board of Education (After September 2003 Election)		
Mark Hotchkiss	President	2005
Mark Burnham	Vice President	2004
Mary Bean	Board Member	2004
Jeff Temple	Board Member	2006
Shari Janecek	Board Member	2005
School Officials		
Darrell Smith	Superintendent	2004
Kimberly Sheets	Business Manager	2004
Robert Meyer	District Treasurer	2004
Ron Peeler	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
WACO 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 WACO 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 WACO 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 10 to the financial statements, during the year ended June 30, 2004, WACO 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 September 21, 2004 on our consideration of the WACO Community School District's internal control over financial reporting and our tests of its compliance with certain

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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 37 through 40 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 WACO 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 three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 6, 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.

September 21, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

WACO 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

- An increase in fuel costs was noted in the past year causing greater expense in student transportation and facility operations.
- Negotiated salary increases were greater than new money brought into the system through the school budget formula.
- General Fund revenues increased from \$4,418,310 in fiscal 2003 to \$4,575,710 in fiscal 2004, while General Fund expenditures increased from \$4,451,838 in fiscal 2003 to \$4,669,376 in fiscal 2004. This resulted in a decrease in the District's General Fund balance from of \$579,762 in fiscal 2003 to a balance of \$487,441 in fiscal 2004, a 16% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in local tax and tuition revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits. One reason the General Fund balance decreased is because the negotiated salary and benefits settlement was greater than the increase in the District's General Fund revenue for fiscal 2004.
- 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 \$10,664 in fiscal year 2003 to \$5,093 in fiscal year 2004.

USING THIS ANNUAL REPORT

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

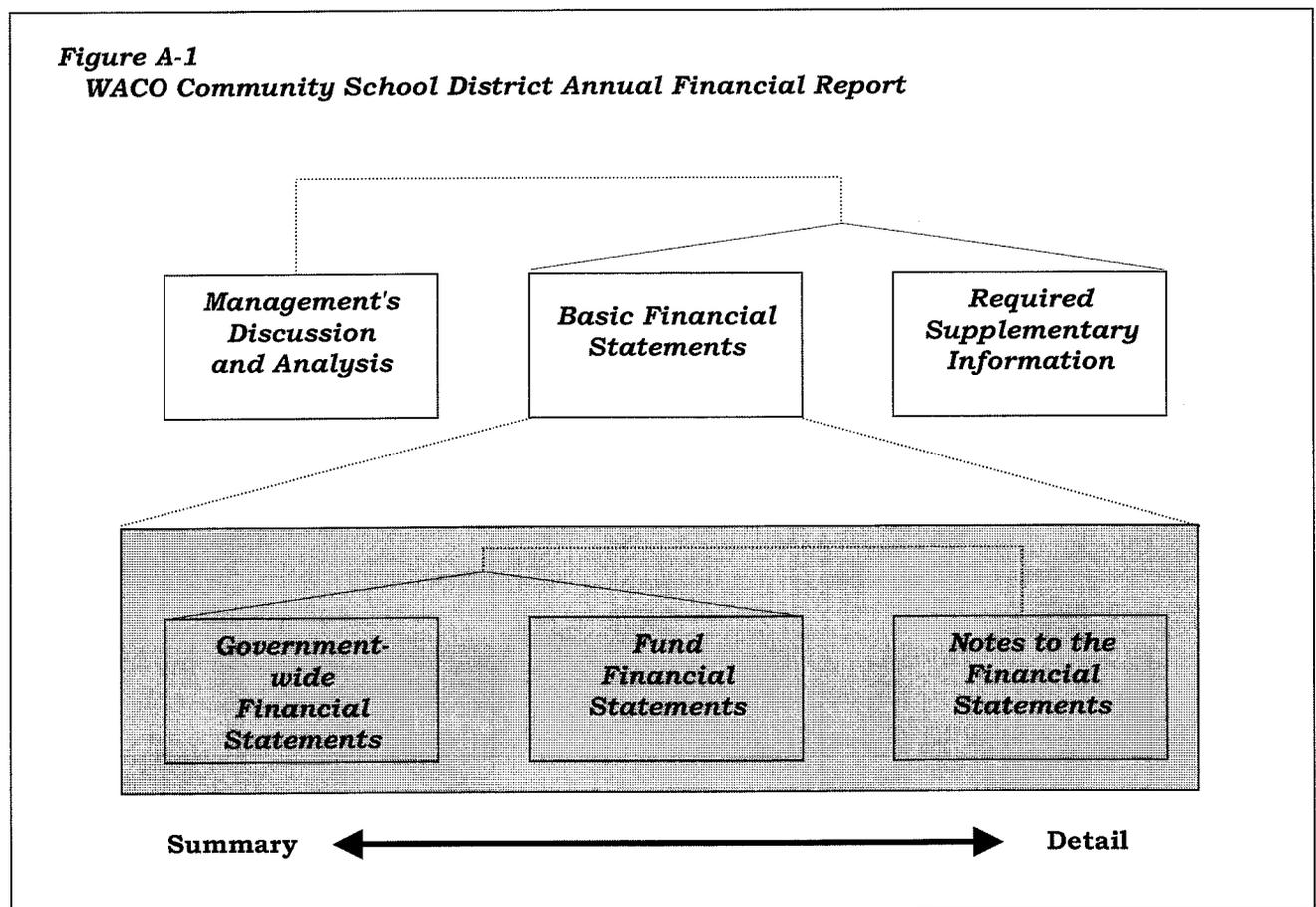


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

- a. Agency Funds - These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenues collected and expenditures paid for groups whose sole purpose is to benefit the District.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets 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	\$ 4,271,295	4,490	4,275,785
Capital assets	6,739,876	31,601	6,771,477
Total assets	<u>11,011,171</u>	<u>36,091</u>	<u>11,047,262</u>
Long-term obligations	3,891,012	0	3,891,012
Other liabilities	3,489,687	2,495	3,492,182
Total liabilities	<u>7,380,699</u>	<u>2,495</u>	<u>7,383,194</u>
Net assets:			
Invested in capital assets, net of related debt	3,045,366	31,601	3,076,967
Restricted	116,234	0	116,234
Unrestricted	468,872	1,995	470,867
Total net assets	<u>\$ 3,630,472</u>	<u>33,596</u>	<u>3,664,068</u>

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

Figure A-4
Changes of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Revenues:			
Program revenues:			
Charges for services	\$ 669,921	100,117	770,038
Operating grants and contributions and restricted interest	490,733	72,381	563,114
General revenues:			
Local tax	2,141,503	0	2,141,503
Unrestricted state grants	1,925,113	0	1,925,113
Other	9,865	393	10,258
Total revenues	<u>5,237,135</u>	<u>172,891</u>	<u>5,410,026</u>
Program expenses:			
Governmental activities:			
Instructional	3,414,669	0	3,414,669
Support services	1,435,125	0	1,435,125
Non-instructional programs	49,007	181,799	230,806
Other expenses	500,711	0	500,711
Total expenses	<u>5,399,512</u>	<u>181,799</u>	<u>5,581,311</u>
Changes in net assets	(162,377)	(8,908)	(171,285)
Net assets beginning of year	<u>3,792,849</u>	<u>42,504</u>	<u>3,835,353</u>
Net assets end of year	<u>\$ 3,630,472</u>	<u>33,596</u>	<u>3,664,068</u>

Property tax and unrestricted state grants account for 75% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 87% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$5,237,135 and expenses were \$5,399,512.

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	\$ 3,414,669	2,417,051
Support services	1,435,125	1,432,133
Non-instructional	49,007	49,007
Other expenses	500,711	340,667
Totals	<u>\$ 5,399,512</u>	<u>4,238,858</u>

- The cost financed by users of the District's programs was \$669,921.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$490,733.

-
- The net cost of governmental activities was financed with \$2,141,503 in local tax, \$1,925,113 in unrestricted state grants, and \$8,520 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$172,891 and expenses were \$181,799. 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 WACO 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 \$758,599, below last year's ending fund balances of a \$802,832. However, the primary reason for the decrease was the increased expenditures in the General Fund.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors. An increase in the tax levy during the year resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures ensuring the financial position of the District decrease.
- The Management, and Activity Fund combined balance increased from \$127,718 in 2003, to \$152,620 in 2004, due to the controlled spending in both funds.
- The Physical Plant and Equipment Levy (PPEL) fund balance increased from \$36,805 to \$64,121, due to a decrease in total expenditures for the year.
- The Debt Service fund balance decreased during the year, from \$58,547, to \$54,417, due to the decrease in local tax.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$42,504 at June 30, 2003 to \$33,596 at June 30, 2004, representing a decrease of approximately 18%.

BUDGETARY HIGHLIGHTS

Over the course of the year, WACO Community School District amended its annual budget one time to reflect additional expenditures associated with the support services functional area.

The District's revenues were \$658,962 less than budgeted revenues, a variance of 11%. The most significant variance resulted from the District receiving less in federal sources than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget exceeded in the non-instructional functional program area.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$6.8 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 3% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$228,380.

The original cost of the District's capital assets was \$9.3 million. Governmental funds account for \$9.2 million with the remainder of \$0.1 million in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the improvements other than buildings category. The District's improvements other than buildings totaled \$22,096 at June 30, 2004, compared to \$26,214 reported at June 30, 2003. This decrease resulted from the current year depreciation expense.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Land	\$ 85,850	0	85,850
Buildings	6,408,823	0	6,408,823
Improvements other than buildings	22,096	0	22,096
Machinery and equipment	223,107	31,601	254,708
Total	\$ 6,739,876	31,601	6,771,477

Long-Term Debt

At June 30, 2004, the District had long-term debt outstanding of \$3,862,085 in general obligation bonds and early retirement. This represents a decrease of approximately 2.7% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding general obligation bonds payable of \$3,720,000 at June 30, 2004.

The District also had total outstanding early retirement payable of \$142,085 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
General obligation bonds	\$ 3,720,000	3,905,000	-4.7%
Early retirement	142,085	65,165	118.0%
Total	<u>\$ 3,862,085</u>	<u>3,970,165</u>	<u>-2.7%</u>

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:

- SILO tax has been passed in both Washington and Henry counties. WACO can expect approximately \$170,000 in revenue per year.
- An increase in of 15.8 students in 2004-05 will generate additional income in FY06.
- A price increase is probable in the Nutrition program.
- Transportation costs should decrease due to bidding out the purchase of gasoline and diesel fuel.
- Increasing academic requirements and programs will have an effect on the budget. Possible changes include the addition of an alternative high school program, increases programming for early childhood, additional advanced placement classes for secondary students, and additional vocational class offerings.
- The completion of Highways 218 and 34 will have an economic impact on southeast Iowa communities.
- The District will experience increased special education costs as the number of identified students increases as well as the needs of individual students have become more complex.
- 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 Kimberly Sheets, District Business Manager, WACO Community School District, 706 N. Pearl St., Wayland, Iowa, 52654.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments			
ISCAP (Note 4)	\$ 1,307,279	0	1,307,279
Other	763,242	(8,032)	755,210
Receivables:			
Property tax:			
Delinquent	35,070	0	35,070
Succeeding year	2,124,124	0	2,124,124
Interfund	0	8,300	8,300
Accounts	2,209	0	2,209
Accrued interest			
ISCAP (Note 4)	4,064	0	4,064
Due from other governments	35,307	0	35,307
Inventories	0	4,222	4,222
Capital assets, net of accumulated depreciation (Note 5)	6,739,876	31,601	6,771,477
TOTAL ASSETS	11,011,171	36,091	11,047,262
LIABILITIES			
Interfund payable	8,300	0	8,300
Due to other governments	19,483	0	19,483
Accounts payable	21,041	0	21,041
Interest payable	28,927	0	28,927
Deferred revenue:			
Succeeding year property tax	2,124,124	0	2,124,124
Other	0	2,495	2,495
ISCAP warrants payable (Note 4)	1,307,000	0	1,307,000
ISCAP accrued interest payable (Note 4)	6,163	0	6,163
ISCAP premiums payable	3,576	0	3,576
Long-term liabilities (Note 6):			
Portion due within one year:			
General obligation bonds	195,000	0	195,000
Early retirement	33,158	0	33,158
Portion due after one year:			
General obligation bonds	3,525,000	0	3,525,000
Early retirement	108,927	0	108,927
TOTAL LIABILITIES	7,380,699	2,495	7,383,194
NET ASSETS			
Investment in capital assets, net of related debt	3,045,366	31,601	3,076,967
Restricted for:			
Early intervention	2,521	0	2,521
Teacher quality	202	0	202
Talented and gifted	7,232	0	7,232
Physical plant & equipment levy	64,121	0	64,121
Other special revenue purposes	42,158	0	42,158
Unrestricted	468,872	1,995	470,867
TOTAL NET ASSETS	\$ 3,630,472	33,596	3,664,068

SEE NOTES TO FINANCIAL STATEMENTS.

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

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Governmental activities:			
Instruction:			
Regular instruction	\$ 2,287,834	337,013	329,588
Special instruction	572,493	106,276	0
Other instruction	554,342	224,741	0
	<u>3,414,669</u>	<u>668,030</u>	<u>329,588</u>
Support services:			
Student services	96,488	0	0
Instructional staff services	102,889	0	0
Administration services	548,604	0	0
Operation and maintenance of plant services	375,179	0	0
Transportation services	311,965	1,891	1,101
	<u>1,435,125</u>	<u>1,891</u>	<u>1,101</u>
Non-instructional:			
Food service operations	49,007	0	0
Other expenditures:			
Long-term debt interest	180,799	0	0
AEA flowthrough	160,044	0	160,044
Depreciation(unallocated)*	159,868	0	0
	<u>500,711</u>	<u>0</u>	<u>160,044</u>
Total governmental activities	5,399,512	669,921	490,733
Business-Type activities:			
Non-instructional programs:			
Nutrition services	181,799	100,117	72,381
Total business-type activities	181,799	100,117	72,381
Total	\$ 5,581,311	770,038	563,114

General Revenues:

Property tax levied for:
 General purposes
 Debt services
 Capital outlay
Unrestricted state grants
Unrestricted investment earnings
Sales of materials

Total general revenues

Changes in net assets

Net assets beginning of year, as restated (Note 10)

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(1,621,233)	0	(1,621,233)
(466,217)	0	(466,217)
(329,601)	0	(329,601)
(2,417,051)	0	(2,417,051)
(96,488)	0	(96,488)
(102,889)	0	(102,889)
(548,604)	0	(548,604)
(375,179)	0	(375,179)
(308,973)	0	(308,973)
(1,432,133)	0	(1,432,133)
(49,007)	0	(49,007)
(180,799)	0	(180,799)
0	0	0
(159,868)	0	(159,868)
(340,667)	0	(340,667)
(4,238,858)	0	(4,238,858)
0	(9,301)	(9,301)
0	(9,301)	(9,301)
(4,238,858)	(9,301)	(4,248,159)
\$ 1,739,696	0	1,739,696
362,140	0	362,140
39,667	0	39,667
1,925,113	0	1,925,113
8,520	393	8,913
1,345	0	1,345
4,076,481	393	4,076,874
(162,377)	(8,908)	(171,285)
3,792,849	42,504	3,835,353
\$ 3,630,472	33,596	3,664,068

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

	General	Other Governmental Funds	Total
ASSETS			
Cash and pooled investments			
ISCAP (Note 4)	\$ 1,307,279	0	1,307,279
Other	474,745	265,488	740,233
Receivables:			
Property tax			
Delinquent	27,291	7,779	35,070
Succeeding year	1,644,692	479,432	2,124,124
Accounts	96	2,113	2,209
Accrued interest			
ISCAP (Note 4)	4,064	0	4,064
Due from other governments	35,307	0	35,307
TOTAL ASSETS	\$ 3,493,474	754,812	4,248,286
LIABILITIES AND FUND BALANCES			
Liabilities:			
Interfund payable	\$ 8,300	0	8,300
Due to other governments	19,483	0	19,483
Accounts payable	16,819	4,222	21,041
ISCAP warrants payable (Note 4)	1,307,000	0	1,307,000
ISCAP accrued interest payable (Note 4)	6,163	0	6,163
ISCAP premiums payable	3,576	0	3,576
Deferred revenue:			
Succeeding year property tax	1,644,692	479,432	2,124,124
Total liabilities	3,006,033	483,654	3,489,687
Fund balances:			
Reserved for:			
Early intervention	2,521	0	2,521
Teacher quality	202	0	202
Talanted and gifted	7,232	0	7,232
Unreserved:			
Undesignated	477,486	271,158	748,644
Total fund balances	487,441	271,158	758,599
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,493,474	754,812	4,248,286

SEE NOTES TO FINANCIAL STATEMENTS.

WACO 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)	\$	758,599
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.		6,739,876
Blending of the Internal Service Funds to be reflected on an entity-wide basis.		23,009
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.		(28,927)
Long-term liabilities, including bonds payable and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(3,862,085)
Net assets of governmental activites (page 14)	\$	<u>3,630,472</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Other Governmental Funds	Total
REVENUES:			
Local sources:			
Local tax	\$ 1,665,518	475,985	2,141,503
Tuition	443,289	0	443,289
Other	50,857	184,095	234,952
Intermediate sources	200	0	200
State sources	2,229,048	0	2,229,048
Federal sources	186,798	0	186,798
Total revenues	<u>4,575,710</u>	<u>660,080</u>	<u>5,235,790</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	2,198,706	0	2,198,706
Special instruction	569,022	0	569,022
Other instruction	375,024	179,318	554,342
	<u>3,142,752</u>	<u>179,318</u>	<u>3,322,070</u>
Support services:			
Student services	95,975	0	95,975
Instructional staff services	102,622	0	102,622
Administration services	494,108	52,627	546,735
Operation and maintenance of plant services	368,170	0	368,170
Transportation services	256,698	12,860	269,558
	<u>1,317,573</u>	<u>65,487</u>	<u>1,383,060</u>
Non-instructional:			
Food service operations	49,007	0	49,007
Other expenditures:			
Long-term debt:			
Principal	0	185,000	185,000
Interest and fiscal charges	0	182,187	182,187
AEA flowthrough	160,044	0	160,044
	<u>160,044</u>	<u>367,187</u>	<u>527,231</u>
Total expenditures	<u>4,669,376</u>	<u>611,992</u>	<u>5,281,368</u>
Excess(deficiency) of revenues over(under) expenditures	(93,666)	48,088	(45,578)
Other financing sources:			
Sales of materials	1,345	0	1,345
Net change in fund balances	(92,321)	48,088	(44,233)
Fund balance beginning of year	579,762	223,070	802,832
Fund balance end of year	<u>\$ 487,441</u>	<u>271,158</u>	<u>758,599</u>

SEE NOTES TO FINANCIAL STATEMENTS.

WACO 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) \$ (44,233)

*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 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 outlays expenditures exceeded depreciation expense in the current year, as follows:

Capital expenditures	\$ 12,859	
Depreciation expense	(219,934)	(207,075)

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. (20,537)

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. 185,000

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. 1,388

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 fund.

Early retirement (76,920)

Changes in net assets of governmental activities (page 16) \$ (162,377)

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

	Business-Type	
	Activities:	
	Enterprise Fund	Governmental Activites:
	School Nutrition	Internal Service Fund
ASSETS		
Cash and cash equivalents	\$ (8,032)	23,009
Interfund receivable	8,300	0
Inventories	4,222	0
Capital assets, net of accumulated depreciation	31,601	0
TOTAL ASSETS	36,091	23,009
LIABILITIES		
Deferred revenues	2,495	0
TOTAL LIABILITES	2,495	0
NET ASSETS		
Invested in capital assets, net of related debt	31,601	0
Unrestricted	1,995	23,009
TOTAL NET ASSETS	\$ 33,596	23,009

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business-Type	
	Activities:	
	Enterprise	Governmental
	Fund	Activities:
	School	Internal
	Nutrition	Service Fund
OPERATING REVENUE:		
Local sources:		
Other local sources:		
Sale of lunches and breakfasts:		
Students	\$ 89,519	0
Adults	9,696	0
Miscellaneous	902	548,529
TOTAL OPERATING REVENUES	100,117	548,529
OPERATING EXPENSES:		
Salaries	62,708	0
Benefits	0	569,066
Services	3,508	0
Supplies	107,137	0
Depreciation	8,446	0
TOTAL OPERATING EXPENSES	181,799	569,066
OPERATING LOSS	(81,682)	(20,537)
NON-OPERATING REVENUES:		
Interest	393	0
State sources	2,870	0
Federal sources	69,511	0
TOTAL NON-OPERATING REVENUES	72,774	0
Net loss	(8,908)	(20,537)
Net assets at beginning of year,	42,504	43,546
Net assets end of year	\$ 33,596	23,009

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business-Type	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 99,489	0
Cash received from miscellaneous operating activities	902	548,529
Cash payments to employees for services	(71,008)	(569,066)
Cash payments to suppliers for goods or services	(105,212)	0
Net cash used in operating activities	(75,829)	(20,537)
Cash flows from non-capital financing activities:		
State grants received	2,870	0
Federal grants received	64,483	0
Net cash provided by non-capital financing activities	67,353	0
Cash flows from investing activities:		
Interest on investments	393	0
Net cash provided by investing activities	393	0
Cash flows from capital financing activities:		
Purchase of assets	(7,057)	0
Net cash used in financing activities	(7,057)	0
Net decrease in cash and cash equivalents	(15,140)	(20,537)
Cash and cash equivalents at beginning of year	7,108	43,546
Cash and cash equivalents at end of year	\$ (8,032)	23,009
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (81,682)	(20,537)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Commodities consumed	5,028	0
Depreciation	8,446	0
General fund permanent transfer for payroll	(8,300)	0
Decrease in inventories	405	0
Increase in deferred revenue	274	0
Net cash used in operating activities	\$ (75,829)	(20,537)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:		
Current assets:		
Cash and pooled investments	\$ (8,032)	23,009
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		

During the year ended June 30, 2004, the District received Federal commodities valued at \$5,028.

SEE NOTES TO FINANCIAL STATEMENTS.

WACO COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUND
YEAR ENDED JUNE 30, 2004

	<u>Agency</u>
ASSETS	
Cash and pooled investments	\$ 39,644
LIABILITIES	
Due to other groups	39,644
NET ASSETS	<u>\$ 0</u>

SEE NOTES TO FINANCIAL STATEMENTS.

WACO COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

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

The WACO Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Wayland, Crawfordsville, and Olds Iowa, and the predominate agricultural territory in Washington, Louisa, Jefferson and Henry 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, WACO 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 WACO 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 Washington, Louisa, Jefferson and Henry 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 clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

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

The District reports the following major governmental funds:

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

The District's proprietary funds are the School Nutrition Fund, and the Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the District's self funded insurance plan.

The District also reports a fiduciary fund that focuses on net assets and changes in net assets. The District's fiduciary fund is as follows:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in

nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The Government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" 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	\$ 5,000
Buildings	5,000
Improvements other than buildings	5,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	5,000

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

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

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, disbursements in the non-instructional functional program area exceeded the amount budgeted.

(2) Cash and Pooled Investments

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

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

The District had no investments at June 30, 2004.

(3) Interfund Receivables and Payables

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Nutrition	General	\$ 8,300

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual

period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2004 is as follows:

Series	Warrant Date	Final Warrant Maturity	Accrued		Warrants Payable	Accrued Interest Payable
			Investments	Interest Receivable		
2003-04B	1/30/04	1/28/05	747,053	4,064	742,000	6,163
2004-05A	6/30/04	6/30/05	560,226	0	565,000	0
Total			\$ 1,307,279	4,064	1,307,000	6,163

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

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2003-04B	2.000%	1.310%
2004-05A	3.000%	2.463%

(5) Capital Assets

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

	Balance			Balance End of Year
	Beginning of Year	Increases	Decreases	
Business-type activities:				
Machinery and equipment	\$ 128,721	7,058	0	135,779
Less accumulated depreciation	95,732	8,446	0	104,178
Business-type activities capital assets, net	\$ 32,989	(1,388)	0	31,601

	Balance Beginning of Year, as restated (Note 10)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 85,850	0	0	85,850
Total capital assets not being depreciated	85,850	0	0	85,850
Capital assets being depreciated:				
Buildings	8,016,457	0	0	8,016,457
Land improvements	107,072	0	0	107,072
Machinery and equipment	907,937	12,859	0	920,796
Total capital assets being depreciated	9,031,466	12,859	0	9,044,325
Less accumulated depreciation for:				
Buildings	1,451,884	155,750	0	1,607,634
Land improvements	80,858	4,118	0	84,976
Machinery and equipment	637,623	60,066	0	697,689
Total accumulated depreciation	2,170,365	219,934	0	2,390,299
Total capital assets being depreciated, net	6,861,101	(207,075)	0	6,654,026
Governmental activities capital assets, net	\$ 6,946,951	(207,075)	0	6,739,876

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 1,200
Support services:		
Operation and maintenance of plant services		3,600
Transportation		55,266
		60,066
Unallocated depreciation		159,868
Total governmental activities depreciation expense		\$ 219,934
Business-type activities:		
Food services		\$ 8,446

(6) 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	\$ 3,905,000	0	185,000	3,720,000	195,000
Early retirement	65,165	82,880	5,960	142,085	33,158
Total	\$ 3,970,165	82,880	190,960	3,862,085	228,158

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 May 1, 1998		
		Principal	Interest	Total
2005	4.500 %	\$ 195,000	173,562	368,562
2006	4.500	205,000	164,788	369,788
2007	4.500	210,000	155,562	365,562
2008	4.500	220,000	146,112	366,112
2009	4.600	230,000	136,212	366,212
2010	4.600	240,000	125,862	365,862
2011	4.625	255,000	114,822	369,822
2012	4.625	265,000	103,028	368,028
2013	4.700	280,000	90,772	370,772
2014	4.750	295,000	77,612	372,612
2015	4.800	305,000	63,600	368,600
2016	4.800	325,000	48,960	373,960
2017	4.800	340,000	33,360	373,360
2018	4.800	355,000	17,040	372,040
Total		\$ 3,720,000	1,451,292	5,171,292

Early Retirement

The District offers a voluntary early retirement plan to its certified employees, classified employees and administrative staff. Eligible employees must have completed fifteen years of continuous service to the District in order to qualify for supplemental benefits. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives for each eligible employee is on the "per diem" basis based on the current contract at the time of retirement. "Per diem" is defined as per day pay based upon contract days and annual salary. Early retirement expenditures for the year ended June 30, 2004 totaled \$5,960.

(7) 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 \$153,501, \$148,584, and \$151,159 respectively, equal to the required contributions for each year.

(8) Risk Management

WACO 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: medical, dental, vision, and prescription drugs.

Each member's contributions to ISEBA funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a 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 \$458,717.

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

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

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

WACO 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.

(9) 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 \$160,044 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis

(10) 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 \$9,792,476 were restated to \$9,130,175. The restatement primarily removed assets below the District's capitalization threshold.

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

	Fund		Total
	General	Other Governmental Funds	
Net assets, June 30, 2003, as previously reported	\$ 579,762	223,070	802,832
GASB Interpretation 6 adjustments	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	\$ 579,762	223,070	802,832
GASB 34 adjustments:			
Capital assets, net of accumulated depreciation of \$2,170,365			6,946,951
Long-term liabilities:			
General obligation bonds		3,905,000	
Early retirement		65,165	(3,970,165)
Accrued interest			(30,315)
Internal Service fund, self-funded insurance			43,546
Net assets July 1, 2003, as restated			\$ 3,792,849

(11) Budget Overexpenditure

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

REQUIRED SUPPLEMENTAL INFORMATION

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

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 2,815,247	100,784
Intermediate sources	200	0
State sources	2,230,848	2,870
Federal sources	189,274	69,511
Total receipts	<u>5,235,569</u>	<u>173,165</u>
Disbursements:		
Instruction	3,239,396	0
Support services	1,379,862	0
Non-instructional programs	111,714	180,005
Other disbursements	527,231	0
Total disbursements	<u>5,258,203</u>	<u>180,005</u>
Excess(deficiency) of receipts over(under) disbursements	(22,634)	(6,840)
Other financing sources, net	<u>1,345</u>	<u>0</u>
Excess(deficiency) of receipts and other financing sources over(under) disbursements	(21,289)	(6,840)
Balance beginning of year	<u>753,222</u>	<u>7,108</u>
Balance end of year	<u>\$ 731,933</u>	<u>268</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
2,916,031	3,419,900	3,419,900	(503,869)
200	1,500	1,500	(1,300)
2,233,718	2,351,296	2,351,296	(117,578)
258,785	295,000	295,000	(36,215)
5,408,734	6,067,696	6,067,696	(658,962)
3,239,396	4,589,693	4,589,693	1,350,297
1,379,862	1,756,788	1,860,000	480,138
291,719	263,307	263,307	(28,412)
527,231	589,797	589,797	62,566
5,438,208	7,199,585	7,302,797	1,864,589
(29,474)	(1,131,889)	(1,235,101)	1,205,627
1,345	0	0	1,345
(28,129)	(1,131,889)	(1,235,101)	1,206,972
760,330	725,049	725,049	35,281
732,201	(406,840)	(510,052)	1,242,253

WACO COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE-
 BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types		
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 5,235,569	221	5,235,790
Expenses	5,258,203	23,165	5,281,368
Net	(22,634)	(22,944)	(45,578)
Other financing sources, net	1,345	0	1,345
Beginning fund balances	753,222	49,610	802,832
Ending fund balances	\$ 731,933	26,666	758,599

	Proprietary Fund Type		
	Enterprise		
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 173,165	(274)	172,891
Expenses	180,005	1,794	181,799
Net	(6,840)	(2,068)	(8,908)
Beginning retained earnings	7,108	35,396	42,504
Ending retained earnings	\$ 268	33,328	33,596

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$103,212.

During the year ended June 30, 2004, disbursements in the non-instructional functional program area exceeded the amounts budgeted.

OTHER SUPPLEMENTAL INFORMATION

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

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Manage- ment	Physical Plant & Levy	Student Activity	Total Special Revenue	Debt Service	
ASSETS						
Cash and pooled investments	\$ 109,247	63,473	44,267	216,987	48,501	265,488
Receivables:						
Property tax:						
Current year delinquent	1,215	648	0	1,863	5,916	7,779
Succeeding year	75,000	35,669	0	110,669	368,763	479,432
Accounts	0	0	2,113	2,113	0	2,113
TOTAL ASSETS	\$ 185,462	99,790	46,380	331,632	423,180	754,812
LIABILITIES AND FUND EQUITY						
Liabilities:						
Accounts payable	\$ 0	0	4,222	4,222	0	4,222
Deferred revenue:						
Succeeding year property tax	75,000	35,669	0	110,669	368,763	479,432
	75,000	35,669	4,222	114,891	368,763	483,654
Fund equity:						
Fund balances:						
Unreserved:						
Undesignated	110,462	64,121	42,158	216,741	54,417	271,158
Total fund balances	110,462	64,121	42,158	216,741	54,417	271,158
TOTAL LIABILITIES AND FUND EQUITY	\$ 185,462	99,790	46,380	331,632	423,180	754,812

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue					Total Normajor Governmental Funds
	Manage- ment	Physical Plant & Equipment Levy	Student Activity	Total Special Revenue	Debt Service	
REVENUES:						
Local sources:						
Local tax	\$ 74,178	39,667	0	113,845	362,140	475,985
Other	1,454	509	181,215	183,178	917	184,095
TOTAL REVENUES	75,632	40,176	181,215	297,023	363,057	660,080
EXPENDITURES:						
Current:						
Instruction:						
Other instruction	0	0	179,318	179,318	0	179,318
Support services:						
Administration services	52,627	0	0	52,627	0	52,627
Transportation services	0	12,860	0	12,860	0	12,860
	52,627	12,860	0	65,487	0	65,487
Other expenditures:						
Long-term debt:						
Principle	0	0	0	0	185,000	185,000
Interest and fiscal charges	0	0	0	0	182,187	182,187
	0	0	0	0	367,187	367,187
TOTAL EXPENDITURES	52,627	12,860	179,318	244,805	367,187	611,992
Excess (deficiency) of revenues over (under) expenditures	23,005	27,316	1,897	52,218	(4,130)	48,088
Fund balance beginning of year	87,457	36,805	40,261	164,523	58,547	223,070
Fund balance end of year	\$ 110,462	64,121	42,158	216,741	54,417	271,158

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Desktop publishing	\$ 733	0	0	733
Parking lot fund	390	0	390	0
School improvements	190	0	190	0
Elementary vending	177	2,761	2,983	(45)
Elementary student leadership	511	0	0	511
Playground fund	50	0	50	0
After school program	4,411	0	28	4,383
6th grade overnight	0	615	776	(161)
Speech and drama	1,740	916	1,615	1,041
Spanish trip	6,337	19,750	24,812	1,275
Musical	589	565	1,116	38
Strings resale	(49)	703	558	96
Instrumental music	0	2,126	2,126	0
Vocal music	304	2,105	1,844	565
Booster club	59	2,245	2,245	59
Safe schools committee	969	4,700	4,535	1,134
Elementary activity	4,201	5,191	3,051	6,341
Secondary activity	1,716	6,010	5,608	2,118
S-T-C activity	183	0	0	183
High school annual	8,125	9,137	5,515	11,747
Class of 2004	1,354	260	1,591	23
Class of 2005	0	14,043	12,573	1,470
Class of 2006	0	58	0	58
Sr high student council	6,292	18,608	14,488	10,412
Leo club	735	64	530	269
After prom committee	401	5,698	5,438	661
National honor society	420	520	772	168
HOSA	38	0	0	38
Electronic media	138	0	0	138
Football cheerleaders	0	5,276	5,439	(163)
Wrestling cheerleaders	0	102	108	(6)
Basketball cheerleaders	0	295	0	295
Drill team	180	4,249	4,052	377
Boys basketball	6,466	8,629	7,610	7,485
Football	(13,551)	16,068	17,335	(14,818)
Baseball	(87)	3,949	5,809	(1,947)
Boys track	0	1,332	1,252	80
Boys golf	0	95	188	(93)
Girls golf	0	56	56	0
Wrestling	0	9,854	11,111	(1,257)
Girls basketball	4,830	9,723	8,855	5,698
Volleyball	0	5,280	4,804	476
Softball	(587)	4,820	3,927	306
Girls track	0	1,314	1,279	35
Interest	104	636	740	0
Activity tickets	(131)	11,969	12,459	(621)
Vending machines	411	1,437	1,404	444
Wooley Scholarship CD	2,543	56	56	2,543
Wagner scholarship	69	0	0	69
Total	\$ 40,261	181,215	179,318	42,158

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WACO 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
Regional Academy Grant Consortium fund				
ASSETS				
Cash and investments	\$ 3,341	0	0	3,341
LIABILITIES				
Due to other groups	\$ 3,341	0	0	3,341
Music Boosters				
ASSETS				
Cash and investments	\$ 7,267	22,627	21,849	8,045
LIABILITIES				
Due to other groups	\$ 7,267	22,627	21,849	8,045
SEISC Super Conference				
ASSETS				
Cash and investments	\$ 17,232	33,576	33,062	17,746
LIABILITIES				
Due to other groups	\$ 17,232	33,576	33,062	17,746
Elementary PTO				
ASSETS				
Cash and investments	\$ 7,130	13,648	15,149	5,629
LIABILITIES				
Due to other groups	\$ 7,130	13,648	15,149	5,629
WACO Wrestling Club				
ASSETS				
Cash and investments	\$ 3,768	8,772	10,041	2,499
LIABILITIES				
Due to other groups	\$ 3,768	8,772	10,041	2,499

WACO 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
Athletic Boosters				
ASSETS				
Cash and investments	\$ 5,400	36,712	39,728	2,384
LIABILITIES				
Due to other groups	\$ 5,400	36,712	39,728	2,384
Totals - All Agency Funds				
ASSETS				
Cash and investments	\$ 44,138	115,335	119,829	39,644
LIABILITIES				
Due to other groups	\$ 44,138	115,335	119,829	39,644

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WACO COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGE IN FUND BALANCE
 INTERNAL SERVICE FUND
 YEAR ENDED JUNE 30, 2004

	Self-funded Health Insurance
OPERATING REVENUES:	
Local sources:	
Employee contributions	\$ 101,148
Board contributions	447,381
TOTAL OPERATING REVENUE	548,529
OPERATING EXPENDITURES	
Non-instructional:	
Benefits	569,066
TOTAL OPERATING EXPENDITURES	569,066
NET LOSS	(20,537)
NET ASSETS BEGINNING OF YEAR	43,546
NET ASSETS END OF YEAR	\$ 23,009

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 2,141,503	2,001,084	2,027,979	1,952,866
Tuition	443,289	327,364	309,166	292,911
Other	234,952	202,284	378,754	370,642
Intermediate sources	200	5,189	1,285	3,509
State sources	2,229,048	2,366,641	2,279,118	2,242,259
Federal sources	186,798	187,373	180,345	90,168
Total	\$ 5,235,790	5,089,935	5,176,647	4,952,355
Expenditures:				
Instruction:				
Regular instruction	\$ 2,198,706	2,132,919	2,284,979	1,935,881
Special instruction	569,022	509,589	499,102	401,681
Other instruction	554,342	525,456	462,400	470,107
Support services:				
Student services	95,975	90,054	95,220	55,804
Instructional staff services	102,622	92,844	109,314	94,302
Administration services	546,735	492,724	563,065	499,215
Operation and maintenance of plant services	368,170	337,437	359,268	410,160
Transportation services	269,558	299,520	268,494	237,359
Non-instructional:				
Food service	49,007	33,616	34,293	43,600
Other expenditures:				
Long Term Debt:				
Principal	185,000	195,000	200,000	190,000
Interest	182,187	191,638	203,840	214,800
AEA flow-through	160,044	172,979	173,664	171,609
Total	\$ 5,281,368	5,073,776	5,253,639	4,969,345

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
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(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
WACO Community School District:

We have audited the financial statements of WACO Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated September 21, 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 WACO 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 WACO 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.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of WACO Community School District and other parties to whom WACO 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 WACO 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 PC
NOLTE, CORNMAN & JOHNSON, P.C.

September 21, 2004

WACO 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 Gate Admissions - The gate admissions were not reconciled to pre-numbered tickets.

Recommendation - The District should establish reconciliation procedures for gate admissions. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the admissions to the number of tickets issued.

Response - We will review our procedures.

Conclusion - Response accepted.

I-C-04 Student Activity Fund - We noted during our audit that the Student Activity fund included a scholarship account.

Recommendation - The scholarship account should be handled in the Expendable Trust fund.

Response - All scholarship transactions are now being handled through the WACO Foundation instead of the Student Activity Fund.

Conclusion - Response accepted.

WACO 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, exceeded the amount budgeted in the non-instructional functional area.

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

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

Conclusion - Response accepted.

II-C-04 Questionable Disbursements - We noted during our audit that there where clothing items purchased for coaches out of the Student Activity Fund which may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review these types of expenditures and document the public purpose served. The District may consider adopting a policy directed to requirements in meeting public purpose criteria. If no public purpose is identified, these types of expenditures should be added to the individuals W-2's or the District should be reimbursed by the individuals who received the items of clothing.

Response - We will either collect reimbursement or add such dollar amounts to the W-2 form of any involved individuals.

Conclusion - Response accepted.

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 - No business transactions between the District and District officials were noted.

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

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.

II-K-04 Financial Condition - During our audit we noted that the District had negative account balances in the Student Activity Fund.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficit.

Response - The District will monitor the Student Activity Fund and try to balance any negative accounts.

Conclusion - Response accepted.