

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

JUNE 30, 2004

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Wayne Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Douglas Downs	President	2004
Darrell Clark	Vice President	2005
Leslie Blackford	Board Member	2003
Kirk Mourer	Board Member	2003
Melisa Niday	Board Member	2005
Board of Education (After September 2003 Election)		
Douglas Downs	President	2004
Darrell Clark	Vice President	2005
Susan Henderson	Board Member	2006
Kirk Mourer	Board Member	2006
Melisa Niday	Board Member	2005
School Officials		
Robert Newsum	Superintendent	2004
Denise Larson	District Secretary/Treasurer and Business Manager	2004
Sue Seitz	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
Wayne 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 Wayne 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 Wayne 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 11 to the financial statements, during the year ended June 30, 2004, Wayne 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 - State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation Number 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated October 11, 2004 on our consideration of the Wayne Community School District's internal control over financial

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reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 36 through 39 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 Wayne 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 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

October 11, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,293,982 in fiscal 2003 to \$5,318,968 in fiscal 2004, while General Fund expenditures decreased from \$4,876,791 in fiscal 2003 to \$4,848,980 in fiscal 2004. This resulted in an increase in the District's General Fund balance from \$113,178 in fiscal 2003 to a balance of \$583,166 in fiscal 2004, a 415.26% increase from the prior year.
- The overall increase in the General Fund revenue was accomplished with an increase in both property tax and tuition to offset the decrease in the state funding. The expenditures decreased for the year. This resulted from a decrease in staff and other expenditures that balanced out the increase in insurance of 7.95%.

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 Wayne 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 Wayne 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 Wayne 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.

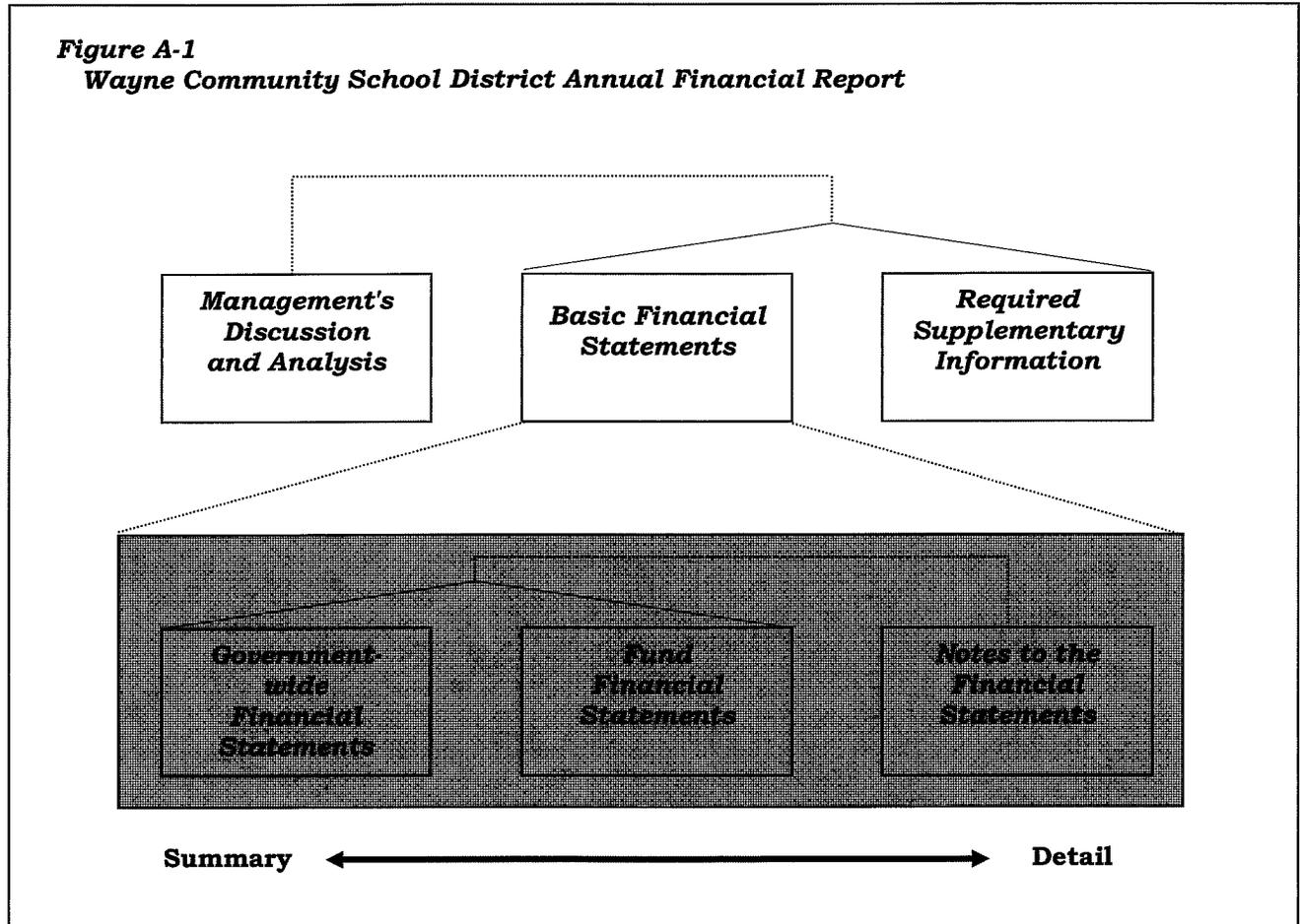


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2			
Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
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	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
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, Debt Service Fund and Capital Projects 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	\$ 5,178,776	16,575	5,195,351
Capital assets	3,446,708	44,459	3,491,167
Total assets	<u>8,625,484</u>	<u>61,034</u>	<u>8,686,518</u>
Long-term obligations	1,932,410	0	1,932,410
Other liabilities	4,147,974	18,277	4,166,251
Total liabilities	<u>6,080,384</u>	<u>18,277</u>	<u>6,098,661</u>
Net assets:			
Invested in capital assets, net of related debt	1,606,956	44,459	1,651,415
Restricted	276,366	0	276,366
Unrestricted	661,778	(1,702)	660,076
Total net assets	<u>\$ 2,545,100</u>	<u>42,757</u>	<u>2,587,857</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	\$ 503,337	112,331	615,668
Operating grants and contributions and restricted interest	995,169	157,982	1,153,151
General revenues:			
Property tax	2,073,029	0	2,073,029
Local option sales and services tax	49,808	0	49,808
Unrestricted state grants	2,266,990	0	2,266,990
Other	22,495	255	22,750
Total revenues	5,910,828	270,568	6,181,396
Program expenses:			
Governmental activities:			
Instructional	3,547,555	0	3,547,555
Support services	1,424,714	0	1,424,714
Non-instructional programs	0	255,488	255,488
Other expenses	362,415	0	362,415
Total expenses	5,334,684	255,488	5,590,172
Changes in net assets	\$ 576,144	15,080	591,224

Property tax, local option sales and services tax and unrestricted state grants account for 71% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 90% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$5,910,828 and expenses were \$5,334,684.

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	\$ 3,547,555	2,232,326
Support services	1,424,714	1,424,714
Other expenses	362,415	179,138
Totals	\$ 5,334,684	3,836,178

- The cost financed by users of the District's programs was \$503,337.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$995,169.

-
- The net cost of governmental activities was financed with \$2,073,029 in property tax, \$49,808 in local option sales and services tax, \$2,266,990 in state foundation aid and \$22,495 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$270,568 and expenses were \$255,488. 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 Wayne 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 \$932,003, above last year's ending fund balances of a \$398,423. However, the primary reason for the increase in combined fund balances in fiscal 2004 is due to controlled spending in the General Fund.

Governmental Fund Highlights

- The District's improving General Fund financial position from \$113,178 to \$469,988 is the product of many factors:
 - Reduction in state aid was offset by an increase in the tax levy during the year resulting in an increase in revenue.
 - The increase in negotiated salary and benefits settlement was offset with staff reductions and controlled in the general expenditures lead to an overall reduction in expenditures for the year.
- The Capital Projects Fund balance increased from \$0 in fiscal 2003 to \$49,949 in fiscal 2004. This is the first year the District received local option sales and services tax. There were also no expenditures.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$27,677 at June 30, 2003 to \$42,757 at June 30, 2004, representing an increase of 54.49%.

BUDGETARY HIGHLIGHTS

Over the course of the year, Wayne Community School District amended its annual budget one time to reflect additional expenditures associated with the other expenditures.

The District's revenues were \$108,018 more than budgeted revenues, a variance of 1.77%. The most significant variance resulted from the District receiving more in local 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.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$819,967, 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 8.72% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$180,143.

The original cost of the District's capital assets was \$7.1 million. Governmental funds account for \$6.9 million with the remainder of \$0.2 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$2,460,326 at June 30, 2004, compared to \$2,867,093 reported at June 30, 2003. This decrease resulted from the write off of fully depreciated items that were disposed, but were never removed from the computer system.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities	Business-type Activities	Total School District
	2004	2004	2004
Land	\$ 22,500	0	22,500
Buildings	3,079,492	0	3,079,492
Land improvements	46,416	0	46,416
Machinery and equipment	298,300	44,459	342,759
Total	<u>\$ 3,446,708</u>	<u>44,459</u>	<u>3,491,167</u>

Long-Term Debt

At June 30, 2004, the District had \$1,932,410 in general obligation and other long-term debt outstanding. This represents a decrease of 8.7% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had total outstanding General obligation bonds payable of \$1,880,000 at June 30, 2004.

The District had total outstanding Loan payable from the Special Revenue – Physical Plant and Equipment Levy Fund of \$33,150 at June 30, 2004.

The District had total outstanding Early Retirement payable from the Special Revenue - Management Fund of \$19,260 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
General obligation bonds	\$ 1,880,000	2,060,000	-8.7%
Loan	33,150	40,950	-19.0%
Early retirement	19,260	16,058	19.9%
Totals	\$ 1,932,410	2,117,008	-8.7%

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:

- The District has experienced declining enrollment for several years (98 students since fiscal year 1995) and the District projections show a continued decrease for the next 5 years.
- 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.
- The voters of Wayne County passed by 86% the Local Option Sales and Services Tax for School Infrastructure (SILO). This 1 cent tax on sales and services will greatly benefit the District in maintaining their buildings and purchasing equipment. The funding will begin in September 2004.

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 Denise Larson, District Secretary/Treasurer and Business Manager, Wayne Community School District, 102 North DeKalb, Corydon, Iowa, 50060.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP(Note 5)	\$ 1,356,505	0	1,356,505
Other	1,302,741	6,178	1,308,919
Receivables:			
Property tax:			
Delinquent	38,921	0	38,921
Succeeding year	2,200,972	0	2,200,972
Income surtax	103,079	0	103,079
Interfund	2,998	0	2,998
Accounts	0	3,086	3,086
Accrued ISCAP interest (Note 5)	3,226	1,541	4,767
Due from other governments	170,334	0	170,334
Inventories	0	5,770	5,770
Capital assets, net of accumulated depreciation (Note 6)	3,446,708	44,459	3,491,167
TOTAL ASSETS	8,625,484	61,034	8,686,518
LIABILITIES			
Interfund payable	2,998	0	2,998
Accounts payable	58,500	358	58,858
Salaries and benefits payable	514,493	17,919	532,412
Interest payable	4,280	0	4,280
ISCAP warrants payable (Note 5)	1,359,000	0	1,359,000
ISCAP interest payable (Note 5)	4,892	0	4,892
ISCAP unamortized premiums	2,839	0	2,839
Deferred revenue:			
Succeeding year property tax	2,200,972	0	2,200,972
Long-term liabilities (Note 7):			
Portion due within one year:			
General obligation bonds payable	190,000	0	190,000
Loan payable	7,800	0	7,800
Early retirement payable	9,630	0	9,630
Portion due after one year:			
General obligation bonds payable	1,690,000	0	1,690,000
Loan payable	25,350	0	25,350
Early retirement payable	9,630	0	9,630
TOTAL LIABILITIES	6,080,384	18,277	6,098,661
NET ASSETS			
Investment in capital assets, net of related debt	1,606,956	44,459	1,651,415
Restricted for:			
Phase III	9,690	0	9,690
Talented and gifted	14,351	0	14,351
Teacher compensation	426	0	426
Capital projects	49,949	0	49,949
Management levy	114,026	0	114,026
Physical plant and equipment levy	31,222	0	31,222
Other special revenue purposes	56,702	0	56,702
Unrestricted	661,778	(1,702)	660,076
TOTAL NET ASSETS	\$ 2,545,100	42,757	2,587,857

SEE NOTES TO FINANCIAL STATEMENTS.

WAYNE 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	\$ 2,162,427	253,249	784,257
Special instruction	909,259	32,298	27,635
Other instruction	475,869	217,790	0
	<u>3,547,555</u>	<u>503,337</u>	<u>811,892</u>
Support services:			
Student services	75,588	0	0
Instructional staff services	71,042	0	0
Administration services	536,818	0	0
Operation and maintenance of plant services	479,929	0	0
Transportation services	248,972	0	0
Central support services	12,365	0	0
	<u>1,424,714</u>	<u>0</u>	<u>0</u>
Other expenditures:			
Facilities acquisitions	26,162	0	0
Long-term debt interest	63,342	0	0
AEA flowthrough	183,277	0	183,277
Depreciation (unallocated)*	89,634	0	0
	<u>362,415</u>	<u>0</u>	<u>183,277</u>
Total governmental activities	5,334,684	503,337	995,169
Business-Type activities:			
Non-instructional programs:			
Nutrition services	255,488	112,331	157,982
Total business-type activities	<u>255,488</u>	<u>112,331</u>	<u>157,982</u>
Total	<u>\$ 5,590,172</u>	<u>615,668</u>	<u>1,153,151</u>

General Revenues:

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

Total general revenues

Changes in net assets

Net assets beginning of year, as restated (Note 11)

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
(1,124,921)	0	(1,124,921)
(849,326)	0	(849,326)
(258,079)	0	(258,079)
<u>(2,232,326)</u>	<u>0</u>	<u>(2,232,326)</u>
(75,588)	0	(75,588)
(71,042)	0	(71,042)
(536,818)	0	(536,818)
(479,929)	0	(479,929)
(248,972)	0	(248,972)
(12,365)	0	(12,365)
<u>(1,424,714)</u>	<u>0</u>	<u>(1,424,714)</u>
(26,162)	0	(26,162)
(63,342)	0	(63,342)
0	0	0
(89,634)	0	(89,634)
<u>(179,138)</u>	<u>0</u>	<u>(179,138)</u>
(3,836,178)	0	(3,836,178)
0	14,825	14,825
0	14,825	14,825
<u>(3,836,178)</u>	<u>14,825</u>	<u>(3,821,353)</u>
\$ 1,794,566	0	1,794,566
26,432	0	26,432
252,031	0	252,031
49,808	0	49,808
2,266,990	0	2,266,990
22,495	255	22,750
<u>4,412,322</u>	<u>255</u>	<u>4,412,577</u>
576,144	15,080	591,224
1,968,956	27,677	1,996,633
<u>\$ 2,545,100</u>	<u>42,757</u>	<u>2,587,857</u>

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

	General	Other Governmental Funds	Total
ASSETS			
Cash and pooled investments:			
ISCAP(Note 5)	\$ 1,356,505	0	1,356,505
Other	973,639	329,102	1,302,741
Receivables:			
Property tax			
Delinquent	31,925	6,996	38,921
Succeeding year	1,812,465	388,507	2,200,972
Income surtax	103,079	0	103,079
Interfund	0	2,998	2,998
Accrued ISCAP interest(Note 5)	3,226	0	3,226
Due from other governments	159,106	11,228	170,334
TOTAL ASSETS	\$ 4,439,945	738,831	5,178,776
LIABILITIES AND FUND BALANCES			
Liabilities:			
Interfund payable	\$ 2,998	0	2,998
Accounts payable	57,013	1,487	58,500
Salaries and benefits payable	514,493	0	514,493
ISCAP warrants payable(Note 5)	1,359,000	0	1,359,000
ISCAP interest payable(Note 5)	4,892	0	4,892
ISCAP unamortized premiums	2,839	0	2,839
Deferred revenue:			
Succeeding year property tax	1,812,465	388,507	2,200,972
Income surtax	103,079	0	103,079
Total liabilities	<u>3,856,779</u>	<u>389,994</u>	<u>4,246,773</u>
Fund balances:			
Reserved for:			
Debt service	0	44,528	44,528
Phase III	9,690	0	9,690
Talented and gifted	14,351	0	14,351
Teacher compensation	426	0	426
Unreserved:			
Undesignated:			
General	558,699	0	558,699
Management levy	0	133,286	133,286
Other special revenue purposes	0	56,702	56,702
Physical plant and equipment levy	0	64,372	64,372
Capital projects	0	49,949	49,949
Total fund balances	<u>583,166</u>	<u>348,837</u>	<u>932,003</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,439,945	738,831	5,178,776

SEE NOTES TO FINANCIAL STATEMENTS.

WAYNE 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)	\$ 932,003
<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 reported as assets in in the governmental funds.	3,446,708
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	103,079
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(4,280)
Long-term liabilities, including early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(1,932,410)</u>
Net assets of governmental activites (page 14)	<u><u>\$ 2,545,100</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

WAYNE 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	\$ 1,708,106	406,873	2,114,979
Tuition	285,547	0	285,547
Other	64,834	175,451	240,285
State sources	2,716,654	1,678	2,718,332
Federal sources	543,827	0	543,827
Total revenues	<u>5,318,968</u>	<u>584,002</u>	<u>5,902,970</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	2,102,497	0	2,102,497
Special instruction	912,150	0	912,150
Other instruction	349,175	138,560	487,735
	<u>3,363,822</u>	<u>138,560</u>	<u>3,502,382</u>
Support services:			
Student services	74,557	0	74,557
Instructional staff services	71,042	0	71,042
Administration services	536,818	0	536,818
Operation and maintenance of plant services	377,474	104,229	481,703
Transportation services	229,625	0	229,625
Central support services	12,365	0	12,365
	<u>1,301,881</u>	<u>104,229</u>	<u>1,406,110</u>
Other expenditures:			
Facilities acquisitions	0	26,162	26,162
Long-term debt:			
Principal	0	187,800	187,800
Interest and fiscal charges	0	63,659	63,659
AEA flowthrough	183,277	0	183,277
	<u>183,277</u>	<u>277,621</u>	<u>460,898</u>
Total expenditures	<u>4,848,980</u>	<u>520,410</u>	<u>5,369,390</u>
Excess of revenues over expenditures	469,988	63,592	533,580
Other financing sources(uses):			
Transfers in	0	7,800	7,800
Transfers out	0	(7,800)	(7,800)
Total other financing sources(uses)	<u>0</u>	<u>0</u>	<u>0</u>
Net change in fund balances	469,988	63,592	533,580
Fund balance beginning of year	113,178	285,245	398,423
Fund balance end of year	<u>\$ 583,166</u>	<u>348,837</u>	<u>932,003</u>

SEE NOTES TO FINANCIAL STATEMENTS.

WAYNE 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) \$ 533,580

***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. Depreciation expense exceeded capital outlay expenditures in the current year are as follows:

Expenditures for capital assets	\$ 86,019	
Depreciation expense	<u>(236,228)</u>	(150,209)

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. 187,800

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. 317

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds. 7,858

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

Early Retirement	<u>(3,202)</u>	
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Changes in net assets of governmental activities (page 16) \$ 576,144

SEE NOTES TO FINANCIAL STATEMENTS.

WAYNE COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 JUNE 30, 2004

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 6,178
Receivables:	
Accounts	3,086
Due from other governments	1,541
Inventories	5,770
Capital assets, net of accumulated depreciation (Note 6)	<u>44,459</u>
TOTAL ASSETS	<u>61,034</u>
LIABILITIES	
Accounts payable	358
Salaries and benefits payable	<u>17,919</u>
TOTAL LIABILITIES	<u>18,277</u>
NET ASSETS	
Investment in capital assets, net of related debt	44,459
Unrestricted	<u>(1,702)</u>
TOTAL NET ASSETS	<u>\$ 42,757</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 112,331
TOTAL OPERATING REVENUES	112,331
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	80,610
Benefits	35,099
Services	7,843
Supplies	124,421
Depreciation	7,515
TOTAL OPERATING EXPENSES	255,488
OPERATING LOSS	(143,157)
NON-OPERATING REVENUES:	
State sources	3,879
Federal sources	154,103
Interest on investments	255
TOTAL NON-OPERATING REVENUES	158,237
Change in net assets	15,080
Net assets beginning of year, as restated (Note 11)	27,677
Net assets end of year	\$ 42,757

SEE NOTES TO FINANCIAL STATEMENTS.

WAYNE 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	\$ 108,113
Cash received from miscellaneous sources	595
Cash payments to employees for services	(119,239)
Cash payments to suppliers for goods or services	(116,514)
Net cash used in operating activities	(127,045)
Cash flows from non-capital financing activities:	
State grants received	3,879
Federal grants received	136,575
Net cash provided by non-capital financing activities	140,454
Cash flows from capital and related financing activities:	
Purchase of capital assets	(734)
Net cash used in capital and related financing activities	(734)
Cash flows from investing activities:	
Interest on investments	255
Net cash provided by investing activities	255
Net increase in cash and cash equivalents	12,930
Cash and cash equivalents at beginning of year	(6,752)
Cash and cash equivalents at end of year	\$ 6,178
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (143,157)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	15,987
Depreciation	7,515
Increase in inventories	(595)
Increase in accounts receivable	(1,418)
Increase in accounts payable	358
Decrease in salaries and benefits payable	(3,530)
Decrease in deferred revenue	(2,205)
Net cash used in operating activities	\$ (127,045)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 6,178

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2004, the District received Federal commodities valued at \$15,987.

SEE NOTES TO FINANCIAL STATEMENTS.

WAYNE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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

The Wayne 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 Corydon, Iowa, and the predominate agricultural territory in Wayne and Lucas 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, Wayne 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 Wayne 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 Wayne and Lucas Counties Assessors' Conference Board.

B. Basis of Presentation

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

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The District reports the following nonmajor proprietary funds:

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

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary 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 governmental-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	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

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

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

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

Long-term obligations - 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.

(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 and the Treasurer of the State of Iowa; 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 \$28,140 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Number 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment trust is not subject to risk categorization.

(3) **Interfund Receivables and Payables**

Individual interfund receivable and payable balances at June 30, 2004 are as follows:

Receivable Fund	Payable Fund	Amount
Special Revenue - Physical Plant and Equipment Levy	General	\$ 2,998

The General fund is repaying a loan from the Special Revenue - Physical Plant and Equipment Levy fund. The balance will be repaid by June 30, 2005.

(4) Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Special Revenue - Physical Plant and Equipment Levy	<u>\$ 7,800</u>

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

(5) Iowa School Cash Anticipation Program (ISCAP)

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

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
2003-04B	1/30/04	1/28/05	\$ 593,011	3,226	589,000	4,892
2004-05A	6/30/04	6/30/05	763,494	0	770,000	0
Total			<u>\$ 1,356,505</u>	<u>3,226</u>	<u>1,359,000</u>	<u>4,892</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In 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. No ISCAP advance activity in the General Fund was noted for the year ended June 30, 2004.

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

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

(6) Capital Assets

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

	Balance Beginning of Year, as restated (Note 11)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 22,500	0	0	22,500
Total capital assets not being depreciated	22,500	0	0	22,500
Capital assets being depreciated:				
Buildings	7,327,847	0	0	7,327,847
Land improvements	262,425	0	446	261,979
Machinery and equipment	2,867,093	86,019	492,786	2,460,326
Total capital assets being depreciated	10,457,365	86,019	493,232	10,050,152
Less accumulated depreciation for:				
Buildings	4,167,369	80,986	0	4,248,355
Land improvements	207,361	8,648	446	215,563
Machinery and equipment	2,508,218	146,594	492,786	2,162,026
Total accumulated depreciation	6,882,948	236,228	493,232	6,625,944
Total capital assets being depreciated, net	3,574,417	(150,209)	0	3,424,208
Governmental activities capital assets, net	\$ 3,596,917	(150,209)	0	3,446,708
Business-type activities:				
Machinery and equipment	\$ 160,679	734	0	161,413
Less accumulated depreciation	109,439	7,515	0	116,954
Business-type activities capital assets, net	\$ 51,240	(6,781)	0	44,459

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 82,218
Special		4,586
Other		11,434
Support services:		
Instructional staff		1,031
Operation and maintenance of plant		343
Transportation		46,982
		<u>146,594</u>
Unallocated depreciation		<u>89,634</u>
Total governmental activities depreciation expense		<u>\$ 236,228</u>
Business-type activities:		
Food services		\$ 7,515
Total business-type activities depreciation expense		<u>\$ 7,515</u>

(7) 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 bonds	\$ 2,060,000	0	180,000	1,880,000	190,000
Loan	40,950	0	7,800	33,150	7,800
Early retirement	16,058	19,260	16,058	19,260	9,630
Total	<u>\$ 2,117,008</u>	<u>19,260</u>	<u>203,858</u>	<u>1,932,410</u>	<u>207,430</u>

General Obligation Bonds Payable

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

Year Ending June 30,	Bond issue of May 1, 2003			
	Interest Rates	Principal	Interest	Total
2005	2.00 %	\$ 190,000	53,263	243,263
2006	2.00	195,000	49,413	244,413
2007	2.30	200,000	45,162	245,162
2008	2.65	200,000	40,213	240,213
2009	3.00	205,000	34,487	239,487
2010	3.25	215,000	27,919	242,919
2011	3.50	220,000	20,575	240,575
2012	3.60	225,000	12,675	237,675
2013	3.75	230,000	4,312	234,312
Total		<u>\$ 1,880,000</u>	<u>288,019</u>	<u>2,168,019</u>

Loan Payable

The District entered into a no interest loan agreement with Alliant Energy to replace a boiler. Details of the Districts June 30, 2004, loan indebtedness is as follows:

Year Ending June 30,	Principal
2005	\$ 7,800
2006	7,800
2007	7,800
2008	7,800
2009	1,950
Total	<u>\$ 33,150</u>

Early Retirement

The District offers a voluntary early retirement plan to its administrators and certified employees. Eligible employees must be at least age fifty-five and employees must have completed thirty years of service to the District. Employees must complete an application which is required to be approved by the Board of Education. The District will pay the retiree an incentive equal to the retirees previous contract less the base salary times 75%. Early retirement benefits paid during the year ended June 30, 2004, totaled \$16,058. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund the early retirement incentives.

(8) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, 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 covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$176,501, \$182,802 and \$156,303 respectively, equal to the required contributions for each year.

(9) Risk Management

Wayne 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.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$183,277 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.

(11) Accounting Change and Restatements

Governmental Accounting Standards Board(GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absences and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board(GASB) Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement Number 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments; Omnibus, Statement Number 38, Certain Financial Statement Note Disclosures, and Statement Number 41, Budgetary Comparison Schedule - Perspective Differences; were implemented during the year ended June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include Government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The Government-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount 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 \$7,299,865 were restated to \$10,479,865. The restatement primarily added assets that were previously calculated inaccurate on the appraisal.

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

	Fund		Total
	General	Other Nonmajor Governmental Funds	
Net assets, June 30, 2003, as previously reported	\$ 113,178	285,245	398,423
GASB Interpretation 6 adjustments	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	<u>\$ 113,178</u>	<u>285,245</u>	<u>398,423</u>
GASB 34 adjustments:			
Capital assets, net of accumulated depreciation of \$6,882,948			3,596,917
Income surtax			95,221
Long-term liabilities:			
General obligation bonds payable	\$ 2,060,000		
Loan payable	40,950		
Early retirement payable	16,058		(2,117,008)
Interest payable			(4,597)
Net assets, July 1, 2003, as restated			<u>\$ 1,968,956</u>

	Fund
	School Nutrition
Net assets, June 30, 2003, as previously reported	\$ 12,647
Capital assets not previously included	15,030
Net assets, July 1, 2003, as restated	<u>\$ 27,677</u>

(12) Deficit Net Assets

The Enterprise, Nutrition fund has a deficit unrestricted fund balance of \$1,702 at June 30, 2004.

REQUIRED SUPPLEMENTAL INFORMATION

WAYNE 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	\$ 2,607,564	108,963
State sources	2,708,230	3,879
Federal sources	521,211	152,562
Total receipts	<u>5,837,005</u>	<u>265,404</u>
Disbursements:		
Instruction	3,471,721	0
Support services	1,377,523	0
Non-instructional programs	0	252,474
Other expenditures	460,898	0
Total disbursements	<u>5,310,142</u>	<u>252,474</u>
Excess(deficiency) of receipts over(under) disbursements	526,863	12,930
Balance beginning of year	<u>775,878</u>	<u>(6,752)</u>
Balance end of year	<u>\$ 1,302,741</u>	<u>6,178</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
2,716,527	2,601,121	2,601,121	115,406
2,712,109	2,723,270	2,723,270	(11,161)
673,773	670,000	670,000	3,773
<u>6,102,409</u>	<u>5,994,391</u>	<u>5,994,391</u>	<u>108,018</u>
3,471,721	3,936,248	3,936,248	464,527
1,377,523	1,766,335	1,766,335	388,812
252,474	443,292	443,292	190,818
460,898	494,686	494,686	33,788
<u>5,562,616</u>	<u>6,640,561</u>	<u>6,640,561</u>	<u>1,077,945</u>
539,793	(646,170)	(646,170)	1,185,963
769,126	605,711	605,711	163,415
<u>1,308,919</u>	<u>(40,459)</u>	<u>(40,459)</u>	<u>1,349,378</u>

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

	Governmental Fund Types		
	Cash Basis	Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 5,837,005	65,965	5,902,970
Expenses	5,310,142	59,248	5,369,390
Net	526,863	6,717	533,580
Beginning fund balances	775,878	(377,455)	398,423
Ending fund balances	\$ 1,302,741	(370,738)	932,003

	Proprietary Fund Type		
	Cash Basis	Enterprise Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 265,404	5,164	270,568
Expenses	252,474	3,014	255,488
Net	12,930	2,150	15,080
Beginning retained earnings, as restated(Note 11)	(6,752)	34,429	27,677
Ending retained earnings	\$ 6,178	36,579	42,757

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WAYNE 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

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

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Projects	Debt Service	
ASSETS							
Cash and pooled investments	\$ 132,203	57,716	60,551	250,470	38,721	39,911	329,102
Receivables:							
Property tax							
Current year delinquent	1,556	0	823	2,379	0	4,617	6,996
Succeeding year	103,002	0	40,042	143,044	0	245,463	388,507
Interfund	0	0	2,998	2,998	0	0	2,998
Due from other governments	0	0	0	0	11,228	0	11,228
TOTAL ASSETS	\$ 236,761	57,716	104,414	398,891	49,949	289,991	738,831
LIABILITIES AND FUND EQUITY							
Liabilities:							
Accounts payable	\$ 473	1,014	0	1,487	0	0	1,487
Deferred revenue							
Succeeding year property tax	103,002	0	40,042	143,044	0	245,463	388,507
	103,475	1,014	40,042	144,531	0	245,463	389,994
Fund equity:							
Fund balances:							
Reserved for Debt Service	0	0	0	0	0	44,528	44,528
Unreserved, undesignated	133,286	56,702	64,372	254,360	49,949	0	304,309
	133,286	56,702	64,372	254,360	49,949	44,528	348,837
TOTAL LIABILITIES AND FUND EQUITY	\$ 236,761	57,716	104,414	398,891	49,949	289,991	738,831

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue Funds			Total Special Revenue Funds	Capital Projects	Debt Service	Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy				
REVENUES:							
Local sources:							
Local tax:	\$ 78,602	0	26,432	105,034	49,808	252,031	406,873
Other	10,948	153,663	7,808	172,419	141	2,891	175,451
Federal sources	377	0	197	574	0	1,104	1,678
TOTAL REVENUES	89,927	153,663	34,437	278,027	49,949	256,026	584,002
EXPENDITURES:							
Current:							
Instruction:							
Other instruction	0	138,560	0	138,560	0	0	138,560
Support services:							
Operation and maintenance of plant services	104,229	0	0	104,229	0	0	104,229
Other expenditures:							
Facilities acquisitions	0	0	26,162	26,162	0	0	26,162
Long-term debt:							
Principal	0	0	0	0	0	187,800	187,800
Interest and fiscal charges	0	0	0	0	0	63,659	63,659
TOTAL EXPENDITURES	104,229	138,560	26,162	268,951	0	251,459	520,410
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(14,302)	15,103	8,275	9,076	49,949	4,567	63,592
OTHER FINANCING SOURCES (USES):							
Transfer in	0	0	0	0	0	7,800	7,800
Transfer out	0	0	(7,800)	(7,800)	0	0	(7,800)
TOTAL OTHER FINANCING SOURCES (USES)	0	0	(7,800)	(7,800)	0	7,800	0
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(14,302)	15,103	475	1,276	49,949	12,367	63,592
FUND BALANCE BEGINNING OF YEAR	147,588	41,599	63,897	253,084	0	32,161	285,245
FUND BALANCE END OF YEAR	\$ 133,286	56,702	64,372	254,360	49,949	44,528	348,837

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WAYNE 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 Change	Balance End of Year
Secondary students fund	\$ 1,129	12,847	11,729	(1,005)	1,242
Activity tickets	0	5,425	0	(3,339)	2,086
Publication/plays fund	776	2,296	1,957	0	1,115
HS music club	148	1,202	2,001	0	(651)
JH music club	(465)	2,307	2,622	0	(780)
Coaches/misc. sports	0	0	346	346	0
Cross country	16	385	378	0	23
Golf	0	231	754	523	0
Boys basketball	1,798	4,682	2,407	0	4,073
Football	0	10,136	10,211	75	0
Baseball	(3,040)	8,779	9,497	2,896	(862)
Boys track	524	1,388	960	0	952
Wrestling	0	5,367	5,476	109	0
Girls basketball	0	5,774	3,814	0	1,960
Volleyball	911	3,568	3,249	0	1,230
Softball	(189)	5,279	5,485	221	(174)
Girls track	536	1,307	1,942	99	0
Class of 2004	0	259	1,588	1,818	489
Class of 2005	2,973	6,633	7,174	(1,523)	909
Class of 2006	215	10	41	(151)	33
Class of 2007	(1)	145	41	(94)	9
Alternative school class	0	1,626	1,395	10	241
Yearbook	7,501	9,128	5,364	0	11,265
NHS	(181)	607	347	393	472
FBLA	2,077	150	354	0	1,873
FFA	700	10,324	10,692	0	332
FCCLA	177	5,966	5,835	0	308
At risk student fund	129	2,248	2,374	8	11
HS student council	957	2,316	915	(165)	2,193
Art club	1,079	2,224	2,158	0	1,145
FEA club	445	649	196	105	1,003
Science club	393	0	0	(393)	0
Spanish club	37	31	14	0	54
HS tech club	36	1,055	633	0	458
Cheerleaders	(907)	1,875	1,045	0	(77)
JH/HS liabrary club	(128)	1,937	1,876	67	0
History club	0	166	18	0	148
Teen leadership	770	190	178	0	782
JH clubs/organizations	3,993	5,554	8,249	0	1,298
JH student council	203	0	52	0	151
Elem. clubs/organizations	16,332	23,566	19,448	0	20,450
Elem. Library fund	655	6,031	5,745	0	941
Live classroom	2,000	0	0	0	2,000
Total	\$ 41,599	153,663	138,560	0	56,702

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WAYNE 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	\$ 2,114,979	1,896,605	1,840,816	1,647,433
Tuition	285,547	235,248	182,128	148,285
Other	240,285	174,965	253,645	286,951
State sources	2,718,332	2,933,030	2,840,673	2,714,204
Federal sources	543,827	514,266	463,790	183,240
Total	<u>\$ 5,902,970</u>	<u>5,754,114</u>	<u>5,581,052</u>	<u>4,980,113</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 2,102,497	1,998,950	1,739,725	1,404,916
Special instruction	912,150	1,016,046	1,499,578	1,375,133
Other instruction	487,735	486,768	489,290	472,866
Support services:				
Student services	74,557	122,545	121,317	115,584
Instructional staff services	71,042	81,667	76,880	80,764
Administration services	536,818	552,230	531,254	465,070
Operation and maintenance of plant services	481,703	396,869	476,285	794,069
Transportation services	229,625	245,663	254,795	347,696
Central support services	12,365	0	0	0
Non-instructional programs	0	1,230	21,040	13,482
Other expenditures:				
Facilities acquisitions	26,162	15,679	58,409	13,401
Long-term debt:				
Principal	187,800	167,800	162,800	152,800
Interest and other charges	63,659	135,442	117,727	123,818
AEA flow-through	183,277	199,087	197,889	190,816
Total	<u>\$ 5,369,390</u>	<u>5,419,976</u>	<u>5,746,989</u>	<u>5,550,415</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WAYNE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DIRECT:			
DEPARTMENT OF EDUCATION:			
21ST CENTURY COMMUNITY LEARNING CENTER GRANT			
	84.287	FY 04	\$ <u>113,939</u>
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION (non-cash)			
	10.550	FY 04	<u>15,987</u>
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM			
	10.553	FY 04	24,976
NATIONAL SCHOOL LUNCH PROGRAM			
	10.555	FY 04	113,140
NUTRITION COALITION			
	10.555	FY 04	<u>2,401</u>
			<u>140,517</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES			
	84.010	6854-G	<u>143,928</u>
INNOVATIVE EDUCATION PROGRAM STRATEGIES(TITLE V PROGRAM)			
	84.298	FY 04	<u>5,242</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS			
	84.186	FY 04	<u>4,885</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM			
	84.367	FY 04	<u>31,955</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES			
	84.369	FY 04	<u>542</u>
EVEN START - STATE EDUCATION AGENCIES			
	84.213	FY 04	<u>101,784</u>
FUND FOR THE IMPROVEMENT OF EDUCATION			
	84.215	FY 04	<u>50,000</u>

WAYNE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2004

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES(SUCCESS 4)	84.027	FY 04	<u>2,750</u>
SPECIAL EDUCATION - GRANTS TO STATES(PART B)	84.027	FY 04	<u>27,635</u>
CHARITON COMMUNITY SCHOOL DISTRICT:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 04	<u>9,261</u>
DEPARTMENT OF HUMAN SERVICES:			
LEARN AND SERVE AMERICA - SCHOOLS AND COMMUNITY BASED PROGRAMS (COMSERV)	94.004	FY 04	<u>2,250</u>
TOTAL			<u><u>\$ 650,675</u></u>

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

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

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

We have audited the financial statements of Wayne Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated October 11, 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 Wayne 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 and Questioned Costs.

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

Internal Control Over Financial Reporting

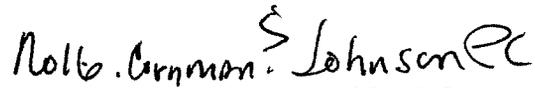
In planning and performing our audit, we considered Wayne Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over 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 and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that 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 II-A-04 is a material weakness. Prior year reportable conditions have all been resolved except for item II-A-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Wayne Community School District and other parties to whom Wayne 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 Wayne 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.

October 11, 2004

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

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

To the Board of Education of
Wayne Community School District

Compliance

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

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

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

Internal Control Over Compliance

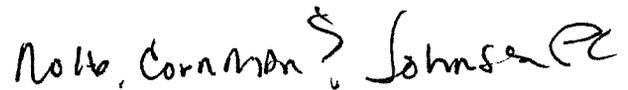
The management of Wayne Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Wayne Community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

We noted certain matters involving the internal control over compliance 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 compliance that, in our

judgment, could adversely affect Wayne Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-A-04 is a material weakness.

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

Handwritten signature in black ink, appearing to read "Nolte, Cornman & Johnson P.C." with a stylized flourish at the end.

NOLTE, CORNMAN & JOHNSON, P.C.

October 11, 2004

WAYNE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Clustered
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.555 - Nutrition Coalition
 - Individual
 - CFDA Number 84.010 - Title I - Grants to Local Educational Agencies
 - CFDA Number 84.287 - 21st Century Community Learning Centers
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Wayne Community School District did not qualify as a low-risk auditee.

WAYNE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-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. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done 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.

II-B-04 Supporting Documents for Payments to Officials - Payments made to officials from the Student Activity fund do not have supporting documentation.

Recommendation - The copy of the contract made for each official should be used as the support for payment.

Response - We will comply with this recommendation.

Conclusion - Response accepted.

WAYNE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 10.553: School Breakfast Program and
CFDA Number 10.555: National School Lunch Program
CFDA Number 10.555: Nutrition Coalition
Federal Award Year: 2004
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Educational Agencies
Agency Numbers: 6854-G
Federal Award Year: 2004
U.S. Department of Education
Passed through the Iowa Department of Education

CFDA Number 84.287: 21st Century Community Learning Center Grant
Federal Award Year: 2004
U.S. Department of Education
Direct Award

III-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. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done 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.

WAYNE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2004

Part IV: Other Findings Related to Statutory Reporting

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

Recommendation - The district should increase their depository limits.

Response - We will raise them in the future.

Conclusion - Response accepted.

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

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

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

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

Name, Title and Business Connection	Transaction Description	Amount
Kirk Mourer, Board Member President of Corydon State Bank	Bank Officer	-

Recommendation - The District should consult legal counsel to determine the disposition of these matters.

Response - We will consult with our attorney.

Conclusion - Response accepted.

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

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

IV-H-04 Certified Enrollment - We noted variances in the basic enrollment data certified to the Department of Education. The number of basic resident students reported were overstated by three.

Recommendation - The District should contract the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact these departments.

Conclusion - Response accepted.

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

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

IV-K-04 Financial Condition - The District had a deficit unrestricted fund balance of \$1,702 in the Enterprise, Nutrition fund. In addition, we noted a few deficit accounts in the Special Revenue, Student Activity fund.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficits. The District should consider a workout plan to bring the Student Activity fund accounts to a solvent position.

Response - We will review these funds and investigate options available to eliminate the deficit balance.

Conclusion - Response accepted.