

**CARNEY,
ALEXANDER,
MAROLD & CO., L.L.P.**
Certified Public Accountants

500 E. 4th Street, Suite 300
PO Box 1290 Waterloo, Iowa 50704-1290
Telephone (319) 233-3318 Fax (319) 233-1346
E-mail cam@carneycpa.com

This document must be viewed with Adobe Acrobat Reader 6.0. If you do not have Adobe Acrobat Reader 6.0 on your computer, you may not be able to read the complete document. To get Adobe Acrobat Reader 6.0, you must go to www.adobe.com and download the free software.

This message may contain information that is confidential and/or protected by law. If the reader of this message is not the intended recipient, you are hereby notified that any dissemination, distribution, copying or communication of this message is strictly prohibited. If you have received this communication in error, please contact Carney, Alexander, Marold & Co., L.L.P., immediately and delete the message. Please note that, although we will take all commercially reasonable efforts to prevent viruses from being transmitted from our systems, it is the responsibility of the recipient to check for and prevent adverse action by viruses on its own systems.

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

 **CARNEY,
ALEXANDER,
MAROLD & Co., L.L.P.**
Certified Public Accountants

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

Table of Contents	Page
Officials	1
Independent Auditors' Report	2 - 3
Management's Discussion and Analysis (MD&A)	4 - 13
Basic Financial Statements:	
District-Wide Financial Statements:	
Statement of Net Assets	14
Statement of Activities	15 - 16
Governmental Fund Financial Statements:	
Balance Sheet	17
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	18
Statement of Revenues, Expenditures and Changes in Fund Balances	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Proprietary Fund Financial Statements:	
Statement of Net Assets	21
Statement of Revenues, Expenses, and Changes in Net Assets	22
Statement of Cash Flows	23
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Assets	24
Statement of Changes in Fiduciary Net Assets	25
Notes to Financial Statements	26 - 39
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund	40
Budgetary Comparison Schedule - Budget to GAAP Reconciliation	41
Notes to Required Supplementary Information - Budgetary Reporting	42
Other Supplementary Information:	
Nonmajor Governmental Funds:	
Combining Balance Sheet	43
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	44
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Funds	45
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	46
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	47
Schedule of Expenditures of Federal Awards	48 - 49
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting	50 - 51
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance	52 - 53
Schedule of Findings and Questioned Costs	54 - 58

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Paul Hess	President	2004
Craig Loffredo	Vice President	2005
Leo Moriarty	Board Member	2005
Dr. Subhash Sahai	Board Member	2004
Jack Foster	Board Member	2003

Board of Education (After September 2003 Election)		
Craig Loffredo	President	2005
Leo Moriarty	Vice President	2005
Dr. Subhash Sahai	Board Member	2004
Judy Maubach	Board Member	2004
Loween Clayberg	Board Member	2006

School Officials

L. Kay Forsythe, PhD.	Superintendent	2004
Cathi Hildebrand	District Secretary/Treasurer	2004
Charles W. McManigal	Attorney	Indefinite

Webster City Community School District

Independent Auditors' Report

To the Board of Education of the
Webster City 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 Webster City Community School District, Iowa, 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 an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 basic 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 Webster City Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our reports dated August 27, 2004 on our consideration of Webster City Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 40 through 42 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Webster City Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinions on those financial statements. The supplementary information included on pages 43 through 49, 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.

Carney, Alexander, Harold & Co., L.L.P.

August 27, 2004

Management Discussion and Analysis

This section of the Webster City Community School District's Annual Financial Report presents its discussion and analysis of the District's financial performance during the fiscal year ending June 30, 2004. The analysis focuses on the District's financial performance as a whole. Please read it in conjunction with the District's financial statements, which immediately follows this section.

Financial Highlights

- General Fund revenues decreased from \$11,850,579 in fiscal 2003 to \$11,653,154 in fiscal 2004, while General Fund expenditures also decreased from \$11,519,282 in fiscal 2003 to \$11,502,454 in fiscal 2004. This resulted in an increase in the District's General Fund balance from \$1,269,696 in fiscal 2003 to \$1,420,396 in fiscal 2004, a 12 percent increase from the prior year.
- The decrease in General Fund revenues was attributable to decreases in property tax revenue, regular education and special education tuition. The decrease in expenditures was due to reducing equipment expenditures by over 50%.
- During Fiscal Year 2004 the District completed window replacement projects at Sunset Heights and Pleasant View Elementary Schools at a cost of \$269,844. These projects were paid for with grant money and a 50% match coming out of PPEL (Physical Plant and Equipment Levy) funds.
- A renovation project was completed at Riverview Elementary School partially funded by the City of Webster City. The District's share of the expenditures totaled \$76,079. Money from an Iowa Demonstration Construction Grant paid \$24,850 with the balance paid out of PPEL funds.

Overview of the Financial Statements

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

- The first two statements are *District-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the District-wide statements.
- The statements for *Governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *Proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- The statements for *Fiduciary funds* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

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

Figure A-1

Organization of Webster City Community School District
Annual Financial Report

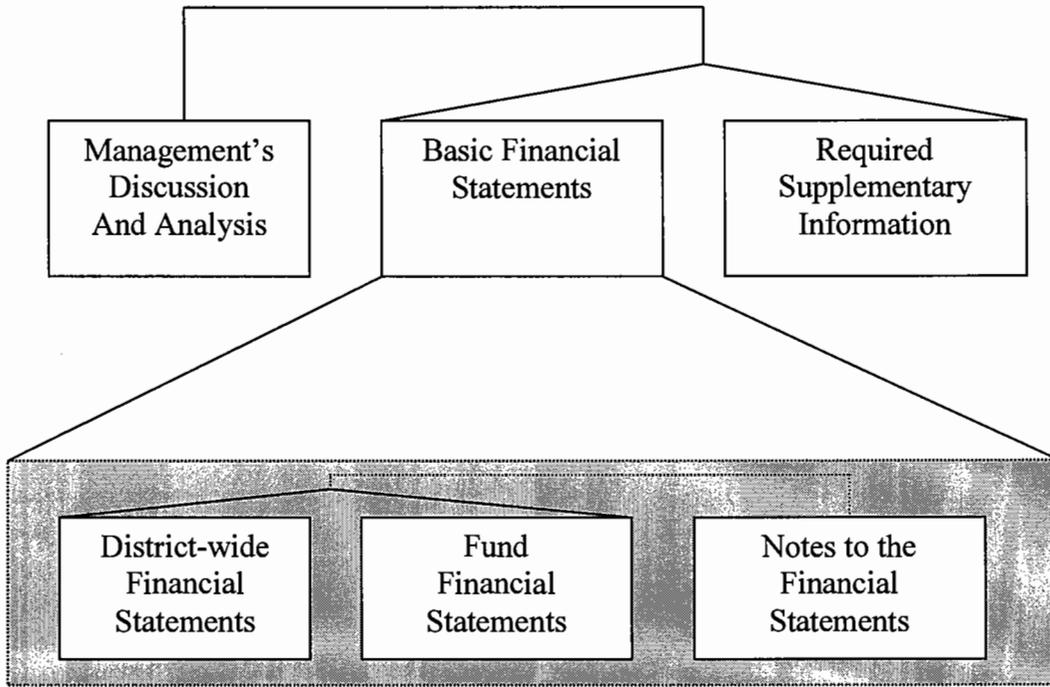


Figure A-2 below summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2: Major Features of the District Wide and Fund Financial Statements				
	District-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services is included here	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

District-wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the District’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two District-wide statements report the District’s *net assets* and how they have changed. Net assets – the difference between the District’s assets and liabilities – are one way to measure the District’s financial health or *position*.

- Over time, increases or decreases in the District’s net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District’s overall health, you need to consider additional non-financial factors such as changes in the District’s property tax base and the condition of school building and other facilities.

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

- *Governmental activities*: Most of the District’s basic services are included here, such as regular and special education, transportation and administration. Property taxes and state aid finance most of these activities.
- *Business-type activities*: The District charges fees to help it cover the costs of certain services it provides. The District’s food service program and the building trades program would be included here.

Fund Financial Statements

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

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

The District has three kinds of funds:

- *Governmental funds*: Most of the District’s basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District’s programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental funds statements explains the relationship or differences between the two statements. The District’s governmental funds include the General Fund, Debt Service Fund, Capital Projects Fund and Special Revenue Funds.
- *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements.
 - The District’s *enterprise funds*, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, school nutrition and building trades fund.
 - *Internal service funds*, (the other kind of proprietary fund) are optional and available to report activities that provide supplies and services for other District programs and activities. At this time the District chooses not to use any internal service funds.
- *Fiduciary funds*: The District is the trustee, or *fiduciary*, for assets that belong to others, such as a scholarship fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Net assets. Figure A-3 below provides a summary of the District's net assets as of June 30, 2004 and 2003.

<u>Figure A-3</u>							
<u>Condensed Statement of Net Assets</u>							
(expressed in thousands)							
	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>		<u>Total</u> <u>Percentage</u> <u>Change</u>
	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>	<u>2003</u>	<u>2004</u>	
	2003	2004	2003	2004	2003	2004	
Current and other assets	11,814	9,104	42	117	11,856	9,221	-22.2%
Capital assets	10,429	10,293	81	87	10,510	10,380	-1.2%
Total assets	22,243	19,397	123	204	22,366	19,601	-12.4%
Long-term obligations	9,090	5,222	0	0	9,090	5,222	-42.6%
Other liabilities	6,615	7,051	3	60	6,618	7,111	7.4%
Total liabilities	15,705	12,273	3	60	15,708	12,333	-21.5%
Net assets:							
Invested in capital assets,							
Net of related debt	1,339	5,128	81	87	1,420	5,215	267.3%
Restricted	3,923	903	0	0	3,923	903	-77.0%
Unrestricted	1,276	1,093	39	57	1,315	1,150	-12.6%
Total Net Assets	6,538	7,124	120	144	6,658	7,268	9.1%

The District's combined net assets were significantly larger on June 30, 2004, than they were the year before, increasing, more than 9%. Most of this improvement in the District's financial position came from its governmental activities, the net assets of which grew .5 million to \$7.1 million. The net assets of the District's business-type activities increased 19.2% to \$144 thousand.

The District's improved financial position is the product of many factors. The various sources of tax revenue, grants, and charges for services exceeded related expenditures. General Obligation School Building Bonds in the amount of \$3,410,000 were called on June 1, 2004. These bonds were paid off with proceeds from investments that were purchased with General Obligation Refunding Bonds issued in 1998, reducing our long-term obligations.

Changes in net assets – Figure A-4 shows the changes in net assets for the years ended June 30, 2004 and 2003.

Figure A-4
Changes in Net Assets (expressed in thousands)

	Governmental Activities		Business-type Activities		Total School District		Percentage Change 2003-2004
	2003	2004	2003	2004	2003	2004	
Revenues							
Program revenues							
Charges for service and sales	1,337	1,270	574	676	1,911	1,946	1.8%
Operating Grants & Contributions	1,351	1,251	228	238	1,579	1,489	-5.7%
Capital Grants & Contributions	46	227	0	0	46	227	393.5%
General revenues							
Property taxes	5,074	5,037	0	0	5,074	5,037	-.7%
Unrestricted state grants	5,776	5,655	0	0	5,776	5,655	-2.1%
Unrestricted investment earnings	184	171	0	0	184	171	-7.1%
Other	24	13	0	0	24	13	-45.8%
Total revenues	\$13,792	\$13,624	\$802	\$914	\$14,594	\$14,538	-.4%
Program expenses							
Governmental activities							
Instruction	8,015	8,195	0	0	8,015	8,195	2.2%
Support services	3,646	3,586	0	0	3,646	3,586	-1.6%
Non-instructional programs	10	10	764	873	774	883	14.1%
Other expenses	1,309	1,247	16	18	1,325	1,265	-4.5%
Total expenses	\$12,980	\$13,038	\$780	\$891	\$13,760	\$13,929	1.2%
Change in net assets	\$812	\$586	\$22	\$23	\$834	\$609	-27.1%

Property tax and unrestricted state grants account for 75 percent of the total revenue. The District's expenses primarily relate to instruction and support services which account for 85 percent of the total expenses.

Governmental Activities

Revenues for governmental activities were \$13,624,013 and expenses \$13,038,011. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

Figure A-5 presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

Figure A-5
Total and Net Cost of Governmental
Activities
 (expressed in thousands)

	Total Cost of Services		Percentage Change	Net Cost Of Services		Percentage Change
	2003	2004	2003-2004	2003	2004	2003-2004
Instruction	8,015	8,195	2.2%	5,367	5,714	6.5%
Support services	3,646	3,586	-1.6%	3,607	3,546	-1.7%
Non-instructional programs	10	10	0%	10	10	0%
Other expenses	1,309	1,247	-4.7%	1,263	1,020	-19.2%
Totals	\$12,980	\$13,038	.45%	\$10,247	\$10,290	.4%

- The cost of all governmental activities this year was \$13.0 million.
- Some of the cost (\$1.2 million) was financed by users of the District's programs.
- The federal and state governments and private contributors subsidized certain programs with grants and contributions of \$1.2 million.
- Most of the District's costs (\$10.7 million), however, were financed by District taxpayers and the taxpayers of our state.
- The net cost portion of governmental activities was financed with \$5.0 million in property taxes, \$5.7 million in unrestricted state grants, \$171 thousand in interest income, and \$13 thousand in miscellaneous income.

Business-Type Activities

Revenues of the District's business-type activities were \$914,658 and expenses were \$891,260. The District's business-type activities include the School Nutrition Fund and Building Trades Fund. Revenues of these activities were comprised of charges for service, reimbursement for supplies, federal and state reimbursements and investment income.

Financial Analysis of the District's Funds

As previously noted, Webster City 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 balances of \$2,001,651, which is well below last year's ending fund balance of \$5,081,862 due for the most part to the change in Debt Service Fund assets when the General Obligation School Building Bonds were called on June 1, 2004.

Governmental Budgetary Highlights

- The General Fund balance increased from \$1,269,696 to \$1,420,396 due to innovative management changes.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$96,415 to \$198,726 due to grant funds received and the fact the District did not purchase a new vehicle in 2003-2004.
- The Capital Projects Fund increased from \$74,311 to \$111,112 due for the most part to revenue received from Webster County Local Option Sales Tax dollars.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$119,155 at June 30, 2003 to \$149,742 at June 30, 2004, representing an increase of approximately 25.7 percent. The District continues to provide students at the High School with an A La Carte line which has resulted in an increase in meals served and a related increase in revenue and net assets.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except its private-purpose trust and agency funds. Although the budget document presents functional area expenditures of expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report.

Legal Budgetary Highlights

The District's total actual receipts were approximately \$204,000 less than the total budgeted receipts, a variance of 1.4%. This year the District received less in various components of state and federal aid than anticipated and more from local sources which includes property taxes.

Total expenditures were less than budgeted due 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 the actual expenditures during the year.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2004, the District had invested more than \$16.6 million (\$10.4 million net of depreciation) in a broad range of capital assets including land, buildings, athletic facilities, computer and audiovisual equipment, maintenance equipment, and transportation equipment. (See Figure A-6) This amount represents a net decrease of 1.2 percent from last year.

Figure A-6
Capital Assets, net of Depreciation
 (expressed in thousands)

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change 2003-2004
	2004	2003	2004	2003	2004	2003	
Land	470	470	0	0	470	470	0
Construction in progress	6	52	0	0	6	52	-88.5%
Buildings	9,321	9,347	0	0	9,321	9,347	-2.9%
Improvements other than Buildings	84	67	0	0	84	67	25.4%
Machinery and equipment	412	493	87	81	499	574	-13.1%
TOTALS	10,293	10,429	87	81	10,380	10,510	-1.2%

The District has no major “construction in progress” activities at this time.

Long-Term Debt

At June 30, 2004, the District had \$5.2 million in general obligation bonds and other long-term debt outstanding. This represents a decrease of 42.6% over the previous fiscal year as can be seen in Figure A-7 below

Figure A-7
Outstanding Long-Term Obligations
 (expressed in thousands)

	Total School District		Total Percentage Change 2003-2004
	<u>2004</u>	<u>2003</u>	
Compensated Absences	57	0	n/a
Capital Leases	0	79	n/a
Capital Loan Note	615	736	-16.4%
Bonds Payable	<u>4,550</u>	<u>8,275</u>	<u>-45.0%</u>
Total	5,222	9,090	-42.6%

The District retired \$3.9 million of its obligations in 2004. There are no current plans to issue additional debt in 2005.

Factors Bearing on the District's Future

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

- District enrollment declined in fiscal year 2003-2004 by 16.4 students, or .9% of 1662 in total budgeted enrollment. Under Iowa's school funding formula, District funding is highly dependant upon District enrollments. Future enrollment stability is a critical element in maintaining a sound financial foundation.
- Hamilton and Wright counties passed their Local Option Sales Tax which will mean more money for infrastructure, however, this money cannot be used in the General Fund for salaries and benefits which account for over 80 percent of the General Fund budget. 75 percent of Hamilton County Local Option Sales Tax dollars will go towards tax relief by paying down outstanding bonds issued for construction of Webster City Middle School.

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 Cathi Hildebrand, Business Manager/Board Secretary, Webster City Community School District, 825 Beach Street, Webster City, Iowa 50595.

Basic Financial Statements

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

**Statement of Net Assets
June 30, 2004**

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents:			
ISCAP	\$ 930,074	\$ -	\$ 930,074
Other	3,067,803	86,166	3,153,969
Receivables:			
Property tax:			
Delinquent	43,011	-	43,011
Succeeding year	4,737,430	-	4,737,430
Accounts	3,127	20,965	24,092
Due from other governments	323,087	-	323,087
Inventories	-	9,565	9,565
Capital assets, net of accumulated depreciation	10,293,093	86,995	10,380,088
Total assets	<u>19,397,625</u>	<u>203,691</u>	<u>19,601,316</u>
Liabilities			
Accounts payable	118,948	17,632	136,580
Excess of warrants issued over bank balance	1,139,528	42,355	1,181,883
Accrued interest payable	20,500	-	20,500
Salaries payable	1,887	-	1,887
Early retirement payable	95,237	-	95,237
Deferred revenue, succeeding year property tax	4,737,430	-	4,737,430
ISCAP warrants payable	938,000	-	938,000
Long-term liabilities:			
Due within one year	532,149	-	532,149
Due after one year	4,690,000	-	4,690,000
Total liabilities	<u>12,273,679</u>	<u>59,987</u>	<u>12,333,666</u>
Net assets			
Invested in capital assets, net of related debt	5,128,093	86,995	5,215,088
Restricted for:			
Categorical aid	321,333	-	321,333
Debt service	134,736	-	134,736
Physical plant and equipment levy	198,726	-	198,726
Other special revenue purposes	247,793	-	247,793
Unrestricted	1,093,265	56,709	1,149,974
Total net assets	<u>\$ 7,123,946</u>	<u>\$ 143,704</u>	<u>\$ 7,267,650</u>

See notes to financial statements.

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grant, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities				
Instruction:				
Regular instruction	\$ 4,595,822	\$ 457,984	\$ 1,189,829	\$ -
Special instruction	2,341,171	301,391	3,772	-
Vocational instruction	609,652	-	-	-
Other instruction	648,581	487,307	40,885	-
	<u>8,195,226</u>	<u>1,246,682</u>	<u>1,234,486</u>	<u>-</u>
Support services:				
Student services	495,245	-	-	-
Instructional staff services	541,890	-	-	-
General administration services	207,397	-	-	-
School administration services	720,024	-	-	-
Business services	221,241	-	-	-
Operation and maintenance	991,936	21,615	16,083	-
Transportation services	407,793	2,189	-	-
	<u>3,585,526</u>	<u>23,804</u>	<u>16,083</u>	<u>-</u>
Noninstructional programs	<u>10,454</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	29,099	-	-	226,985
Long-term debt interest	461,563	-	-	-
AEA flowthrough	489,209	-	-	-
Depreciation (unallocated)	266,934	-	-	-
	<u>1,246,805</u>	<u>-</u>	<u>-</u>	<u>226,985</u>
Total governmental activities	<u>13,038,011</u>	<u>1,270,486</u>	<u>1,250,569</u>	<u>226,985</u>
Business-Type Activities				
Noninstructional programs:				
Nutrition services	662,625	454,479	238,429	-
House project	228,635	221,750	-	-
	<u>891,260</u>	<u>676,229</u>	<u>238,429</u>	<u>-</u>
Total	<u>\$ 13,929,271</u>	<u>\$ 1,946,715</u>	<u>\$ 1,488,998</u>	<u>\$ 226,985</u>

Continued on following page.

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (2,948,009)	\$ -	\$ (2,948,009)
(2,036,008)	-	(2,036,008)
(609,652)	-	(609,652)
(120,389)	-	(120,389)
<u>(5,714,058)</u>	<u>-</u>	<u>(5,714,058)</u>
(495,245)	-	(495,245)
(541,890)	-	(541,890)
(207,397)	-	(207,397)
(720,024)	-	(720,024)
(221,241)	-	(221,241)
(954,238)	-	(954,238)
(405,604)	-	(405,604)
<u>(3,545,639)</u>	<u>-</u>	<u>(3,545,639)</u>
<u>(10,454)</u>	<u>-</u>	<u>(10,454)</u>
197,886	-	197,886
(461,563)	-	(461,563)
(489,209)	-	(489,209)
(266,934)	-	(266,934)
<u>(1,019,820)</u>	<u>-</u>	<u>(1,019,820)</u>
<u>(10,289,971)</u>	<u>-</u>	<u>(10,289,971)</u>
-	30,283	30,283
-	<u>(6,885)</u>	<u>(6,885)</u>
<u>-</u>	<u>23,398</u>	<u>23,398</u>
<u>(10,289,971)</u>	<u>23,398</u>	<u>(10,266,573)</u>

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grant, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
General Revenues:				
Taxes:				
Property taxes, levied for general purposes				
Local option taxes, levied for capital outlay				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues and transfers				
Change in net assets				
Net assets beginning of year				
Net assets end of year				

See notes to financial statements.

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
4,981,562	-	4,981,562
55,456	-	55,456
5,654,444	-	5,654,444
171,337	304	171,641
13,174	-	13,174
<u>10,875,973</u>	<u>304</u>	<u>10,876,277</u>
586,002	23,702	609,704
<u>6,537,944</u>	<u>120,002</u>	<u>6,657,946</u>
<u>\$ 7,123,946</u>	<u>\$ 143,704</u>	<u>\$ 7,267,650</u>

Required Supplementary Information

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

**Balance Sheet
Governmental Funds
June 30, 2004**

	General	Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and pooled investments:				
ISCAP	\$ 930,074	\$ -	\$ -	\$ 930,074
Other	2,529,185	129,400	409,218	3,067,803
Receivables:				
Property tax:				
Delinquent	32,615	5,336	5,060	43,011
Succeeding year	3,603,024	600,033	534,373	4,737,430
Accounts	2,329	-	798	3,127
Interfund receivable	68	-	-	68
Due from other governments	187,916	-	135,171	323,087
	<u>187,916</u>	<u>-</u>	<u>135,171</u>	<u>323,087</u>
Total assets	<u>\$ 7,285,211</u>	<u>\$ 734,769</u>	<u>\$ 1,084,620</u>	<u>\$ 9,104,600</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 110,525	\$ -	\$ 8,423	\$ 118,948
Excess of warrants issued over bank balance	1,139,528	-	-	1,139,528
Salaries payable	1,887	-	-	1,887
Interfund payable	-	-	68	68
Early retirement payable	-	-	95,237	95,237
ISCAP warrants payable	938,000	-	-	938,000
Deferred revenue:				
Succeeding year property tax	3,603,024	600,033	534,373	4,737,430
Other	71,851	-	-	71,851
Total liabilities	<u>5,864,815</u>	<u>600,033</u>	<u>638,101</u>	<u>7,102,949</u>
Fund balance:				
Reserved for:				
Categorical aid	321,333	-	-	321,333
Debt service	-	134,736	-	134,736
Unreserved:				
Undesignated	1,099,063	-	-	1,099,063
Reported in nonmajor governmental funds	-	-	446,519	446,519
Total fund balances	<u>1,420,396</u>	<u>134,736</u>	<u>446,519</u>	<u>2,001,651</u>
Total liabilities and fund balances	<u>\$ 7,285,211</u>	<u>\$ 734,769</u>	<u>\$ 1,084,620</u>	<u>\$ 9,104,600</u>

See notes to financial statements.

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

**Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2004**

Total governmental fund balances	\$ 2,001,651
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.	10,293,093
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the governmental funds.	71,851
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(20,500)
Long-term liabilities, including compensated absences and bonds payable, are not due and payable in the current period and therefore are not reported in the funds	<u>(5,222,149)</u>
Net assets of governmental activities	<u>\$ 7,123,946</u>

See notes to financial statements.

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year ended June 30, 2004**

	General	Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property and other local taxes	\$ 3,799,195	\$ 608,442	\$ 629,381	\$ 5,037,018
Other local sources	914,812	152,013	412,311	1,479,136
State sources	6,544,597	14,037	12,766	6,571,400
Federal sources	389,772	-	226,985	616,757
Total revenues	<u>11,648,376</u>	<u>774,492</u>	<u>1,281,443</u>	<u>13,704,311</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	4,465,077	-	81,177	4,546,254
Special instruction	2,335,725	-	-	2,335,725
Vocational instruction	578,846	-	-	578,846
Other instruction	252,305	-	395,167	647,472
	<u>7,631,953</u>	<u>-</u>	<u>476,344</u>	<u>8,108,297</u>
Support services:				
Student services	487,729	-	1,284	489,013
Instructional staff services	590,907	-	973	591,880
General administration services	195,128	-	466	195,594
School administration services	707,536	-	1,703	709,239
Business services	189,699	300	25,543	215,542
Operation and maintenance	870,318	-	95,367	965,685
Transportation services	339,975	-	20,319	360,294
	<u>3,381,292</u>	<u>300</u>	<u>145,655</u>	<u>3,527,247</u>
Noninstructional programs	-	-	10,454	10,454
Other expenditures:				
Facilities acquisition and construction	-	-	247,769	247,769
Debt service:				
Principal	-	3,925,044	-	3,925,044
Interest and other charges	-	482,457	-	482,457
AEA flowthrough	489,209	-	-	489,209
	<u>489,209</u>	<u>4,407,501</u>	<u>247,769</u>	<u>5,144,479</u>
Total expenditures	<u>11,502,454</u>	<u>4,407,801</u>	<u>880,222</u>	<u>16,790,477</u>
Excess (deficiency) of revenues over (under) expenditures	<u>145,922</u>	<u>(3,633,309)</u>	<u>401,221</u>	<u>(3,086,166)</u>
Other financing sources (uses):				
Operating transfers in	-	236,030	-	236,030
Operating transfers out	-	-	(236,030)	(236,030)
Proceeds from sale of fixed assets	4,778	-	1,177	5,955
Total other financing sources (uses)	<u>4,778</u>	<u>236,030</u>	<u>(234,853)</u>	<u>5,955</u>
Net change in fund balances	150,700	(3,397,279)	166,368	(3,080,211)
Fund balances beginning of year	1,269,696	3,532,015	280,151	5,081,862
Fund balances end of year	<u>\$ 1,420,396</u>	<u>\$ 134,736</u>	<u>\$ 446,519</u>	<u>\$ 2,001,651</u>

See notes to financial statements.

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

**Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year ended June 30, 2004**

Net change in fund balances - total governmental funds		\$ (3,080,211)
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, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as depreciation expense in the statement of activities. This is the amount by which capital outlays exceed depreciation in the period.		
Capital outlays	\$ 333,229	
Depreciation expense	<u>(469,552)</u>	(136,323)
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.		3,925,044
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, however, interest expense is recognized as the interest accrues, regardless of when it is due.		20,894
Certain revenue not collected for several months after year end is not considered available in the governmental funds and is deferred. However, it is recorded as revenue in the statement of activities.		(86,253)
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:		
Compensated absences		<u>(57,149)</u>
Change in net assets of governmental activities		<u>\$ 586,002</u>

See notes to financial statements.

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

**Statement of Net Assets
Proprietary Funds
June 30, 2004**

Assets	School Nutrition	Building Trades	Total
Current assets:			
Cash and pooled investments	\$ 86,166	\$ -	\$ 86,166
Receivables:			
Accounts	610	20,355	20,965
Inventories	9,565	-	9,565
	<u>96,341</u>	<u>20,355</u>	<u>116,696</u>
Total current assets			
Noncurrent assets:			
Capital assets, net of accumulated depreciation	<u>86,995</u>	<u>-</u>	<u>86,995</u>
	<u>183,336</u>	<u>20,355</u>	<u>203,691</u>
Total assets			
 Liabilities			
Current liabilities:			
Accounts payable	-	17,632	17,632
Excess of warrants issued over bank balance	<u>33,594</u>	<u>8,761</u>	<u>42,355</u>
	<u>33,594</u>	<u>26,393</u>	<u>59,987</u>
Total current liabilities			
Total liabilities	<u>33,594</u>	<u>26,393</u>	<u>59,987</u>
 Net assets			
Invested in capital assets, net of related debt	86,995	-	86,995
Unrestricted	<u>62,747</u>	<u>(6,038)</u>	<u>56,709</u>
	<u>\$ 149,742</u>	<u>\$ (6,038)</u>	<u>\$ 143,704</u>

See notes to financial statements.

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

**Statement of Revenues, Expenses and Changes in Net Assets
Propriety Funds
Year ended June 30, 2004**

	School Nutrition	Building Trades	Total
Operating revenue:			
Local sources:			
Charges for service	<u>\$ 454,479</u>	<u>\$ 221,750</u>	<u>\$ 676,229</u>
Operating expenses:			
Noninstructional programs:			
Salaries and benefits	223,351	-	223,351
Benefits	108,825	-	108,825
Purchased services	6,587	-	6,587
Supplies	304,795	219,250	524,045
Depreciation	13,455	-	13,455
Other	5,612	9,385	14,997
	<u>662,625</u>	<u>228,635</u>	<u>891,260</u>
Operating loss	<u>(208,146)</u>	<u>(6,885)</u>	<u>(215,031)</u>
Nonoperating revenue:			
State sources	8,460	-	8,460
Federal sources	229,869	-	229,869
Contributions	100	-	100
Interest on investments	304	-	304
Total non-operating revenue	<u>238,733</u>	<u>-</u>	<u>238,733</u>
Change in net assets	30,587	(6,885)	23,702
Net assets beginning of year	<u>119,155</u>	<u>847</u>	<u>120,002</u>
Net assets end of year	<u><u>\$ 149,742</u></u>	<u><u>\$ (6,038)</u></u>	<u><u>\$ 143,704</u></u>

See notes to financial statements.

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

**Statement of Cash Flows
Propriety Funds
Year ended June 30, 2004**

	School Nutrition	Building Trades	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 454,429	\$ -	\$ 454,429
Cash received from sale of houses	-	204,981	204,981
Cash payments to employees for services	(332,176)	-	(332,176)
Cash payments to suppliers for goods or services	<u>(278,817)</u>	<u>(211,926)</u>	<u>(490,743)</u>
Net cash used in operating activities	<u>(156,564)</u>	<u>(6,945)</u>	<u>(163,509)</u>
Cash flows from noncapital financing activities:			
Contributions received	100	-	100
State grants received	8,459	-	8,459
Federal grants received	<u>192,949</u>	<u>-</u>	<u>192,949</u>
Net cash provided by noncapital financing activities	<u>201,508</u>	<u>-</u>	<u>201,508</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	<u>(19,347)</u>	<u>-</u>	<u>(19,347)</u>
Cash flows from investing activities:			
Interest on investments	<u>332</u>	<u>-</u>	<u>332</u>
Net increase (decrease) in cash and cash equivalents	25,929	(6,945)	18,984
Cash and cash equivalents beginning of year	<u>26,643</u>	<u>(1,816)</u>	<u>24,827</u>
Cash and cash equivalents end of year	<u>\$ 52,572</u>	<u>\$ (8,761)</u>	<u>\$ 43,811</u>
Cash and cash equivalents consist of the following:			
Cash and pooled investments	\$ 86,166	\$ -	\$ 86,166
Excess of warrants issued over bank balance	<u>(33,594)</u>	<u>(8,761)</u>	<u>(42,355)</u>
Total cash and cash equivalents	<u>\$ 52,572</u>	<u>\$ (8,761)</u>	<u>\$ 43,811</u>
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	\$ (208,146)	\$ (6,885)	\$ (215,031)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Commodities used	36,919	-	36,919
Depreciation	13,455	-	13,455
(Increase) in receivables	49	(16,768)	(16,719)
(Increase) in inventories	1,752	-	1,752
(Decrease) in accounts payable and accrued liabilities	<u>(493)</u>	<u>16,708</u>	<u>16,215</u>
Net cash used in operating activities	<u>\$ (156,464)</u>	<u>\$ (6,945)</u>	<u>\$ (163,409)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$36,919 of federal commodities.

See notes to financial statements.

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004**

	Private Purpose Trust- Nonexpendable Scholarships	Agency Funds		
		Private Purpose Trust- Expendable Scholarships	Other Agency Funds	Total Agency Funds
Assets				
Cash and investments	\$ 1,736,591	\$ 286,756	\$ 9,165	\$ 295,921
Accounts receivable - other	<u>3,355</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 1,739,946</u>	<u>\$ 286,756</u>	<u>\$ 9,165</u>	<u>\$ 295,921</u>
Liabilities				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to others	<u>-</u>	<u>286,756</u>	<u>9,165</u>	<u>295,921</u>
Total liabilities	<u>\$ -</u>	<u>\$ 286,756</u>	<u>\$ 9,165</u>	<u>\$ 295,921</u>
Net assets				
Reserved for scholarships	<u>\$ 1,739,946</u>			

See notes to financial statements.

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

**Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year ended June 30, 2004**

	Private Purpose Trust- Nonexpendable Scholarships
Additions:	
Local sources:	
Investment income	<u>\$ 85,328</u>
Total additions	85,328
Transfers	<u>(62,824)</u>
Change in net assets	22,504
Net assets beginning of year	<u>1,717,442</u>
Net assets end of year	<u><u>\$ 1,739,946</u></u>

See notes to financial statements.

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

The Webster City Community School District, which was incorporated under Chapter 274 of the State Code of Iowa, is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreation courses. The geographic area served includes the city of Webster City, Iowa and the predominate agricultural territory in Hamilton, Webster, and Wright Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

A. Reporting Entity

For financial reporting purposes, the 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 District has no component units which meet the Governmental Accounting Standards Board criteria.

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 services.

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 asset use are either externally imposed or imposed by law through constitutional provisions of enabling legislation.

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

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

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

Fund Financial Statements - Separate financial statements are provided for the 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 Debt Service Fund accounts for the accumulation of resources for, and the payment of interest and principal on the District's general long-term debt.

The District reports the following major proprietary funds:

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

The Building Trades Fund accounts for house building projects of the building and trade classes of the District.

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund includes the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

C. Measurement Focus and Basis of Accounting

The Government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus". The Government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 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 funds 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 Principals 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 for customer's 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.

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

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

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 nonnegotiable 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.

Receivables - Receivables are expected to be collected within twelve months of the end of the year

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 from the current and prior year. 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 Board of Education is required to certify its budget to the County Auditor by April 15 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 becomes due and collectible in September and March of the fiscal year with a 1 1/2% 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 - Inventory items are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories are accounted for using the consumption method whereby inventory acquisitions are recorded in inventory accounts when purchased or received by other means and charged to operations when consumed or sold. The single inventory method is used, therefore, purchased and commodity items are accounted for in the same manner.

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

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

Land	\$ 1,000
Buildings and improvements	1,000
Improvements other than buildings	1,000
Machinery and equipment:	
School Nutrition Fund equipment	1,000
Other machinery and equipment	1,000

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

Buildings and improvements	50 years
Improvements other than buildings	20 years
Machinery and equipment	5 - 20 years

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

Deferred revenue 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.

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent uses or for payment upon termination, retirement or death. A liability is recorded when incurred in the Government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The compensated absences liability attributable to the governmental activities will be paid primarily by the Management Fund. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Salaries and Benefits Payable - Payroll and related payroll taxes and benefits for employees with annual contracts corresponding to the current school year which are payable as of the end of the fiscal year, have been accrued as liabilities.

Long-term obligations - In the Government-wide financial statement, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

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

The District reserves the following fund balances:

Reserved for categorical aid - Accounts used to segregate a portion of the fund balance for amounts which are legally restricted.

Reserved for debt service - Accounts used to segregate a portion of the fund balance for debt service.

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, total expenditures did not exceed the amount budgeted in any functional area, the total certified budget, nor the legally-authorized budget.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures and expenses, as appropriate during the reporting period. Actual results could differ from those estimates.

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

(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. During the year ended June 30, 2004, the District invested in certificates of deposit and with the Iowa Schools Joint Investment Trust.

Investments are categorized into these three categories of credit risk:

1. Insured or registered in the District's name, or securities held by the District or its agent in the District's name.
2. Uninsured and registered, with securities held by the counterparty's trust department or agent in the District's name.
3. Uninsured and registered, with securities held by the counterparty or by its trust department or agent but not in the District's name.

The carrying amount and market value of the District's investments at June 30, 2004 are as follows:

Type	Category			Fair Value	Amortized Cost
	1	2	3		
Stocks and treasury notes	\$ -	\$ -	\$ 664,485	\$ 664,485	\$ -
Iowa Schools Joint Investment Trust (ISJIT)	-	-	-	-	2,942,098
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 664,485</u>	<u>\$ 664,485</u>	<u>\$ 2,942,098</u>

The District's investment in the Iowa Schools Joint Investment Trust ("ISJIT") is valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940. ISJIT is a common law trust fund established under Iowa law pursuant to Chapter 28E and Section 279.29 of the Code of Iowa which authorizes Iowa schools to jointly invest moneys pursuant to a joint investment agreement. GASB Statement 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. The District's fair value of the investment pool is the same as the amortized cost.

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

(3) 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 flow 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. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co., N.A., is the trustee for the program.

A summary of the District's participation in ISCAP as of June 30, 2004 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2003-04A	6/20/2003	6/18/2004	\$ -	\$ -	\$ -	\$ -
2004-05A	6/30/2004	6/30/2005	930,074	-	938,000	-
			<u>\$ 930,074</u>	<u>\$ -</u>	<u>\$ 938,000</u>	<u>\$ -</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. ISCAP advance activity in the General Fund for the year ended June 30, 2004 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2003-04A	\$ -	\$ 540,000	\$ 540,000	\$ -

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

Series	Interest Rates on Warrants	Interest Rates on Investments
2003-04A	2.00%	1.0501%
2004-05A	3.00%	2.4630%

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

(4) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 470,000	\$ -	\$ -	\$ 470,000
Construction in progress	<u>52,398</u>	<u>194,919</u>	<u>241,317</u>	<u>6,000</u>
Total capital assets not being depreciated	<u>522,398</u>	<u>194,919</u>	<u>241,317</u>	<u>476,000</u>
Capital assets being depreciated:				
Buildings and improvements	13,444,538	241,317	-	13,685,855
Improvements other than buildings	149,970	24,750	-	174,720
Machinery and equipment	<u>2,210,690</u>	<u>113,560</u>	<u>31,038</u>	<u>2,293,212</u>
Total capital assets being depreciated	<u>15,805,198</u>	<u>379,627</u>	<u>31,038</u>	<u>16,153,787</u>
Less accumulated depreciation for:				
Buildings and improvements	4,097,631	266,934	-	4,364,565
Improvements other than buildings	82,484	8,735	-	91,219
Machinery and equipment	<u>1,718,065</u>	<u>193,883</u>	<u>31,038</u>	<u>1,880,910</u>
Total accumulated depreciation	<u>5,898,180</u>	<u>469,552</u>	<u>31,038</u>	<u>6,336,694</u>
Total capital assets being depreciated, net	<u>9,907,018</u>	<u>(89,925)</u>	<u>-</u>	<u>9,817,093</u>
Governmental activities capital assets, net	<u>\$ 10,429,416</u>	<u>\$ 104,994</u>	<u>\$ 241,317</u>	<u>\$ 10,293,093</u>
Business-type activities:				
Furniture, equipment, vehicles	\$ 154,529	\$ 19,347	\$ -	\$ 173,876
Less accumulated depreciation	<u>73,426</u>	<u>13,455</u>	<u>-</u>	<u>86,881</u>
Business-type activities capital assets, net	<u>\$ 81,103</u>	<u>\$ 5,892</u>	<u>\$ -</u>	<u>\$ 86,995</u>

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$ 54,948
Special	5,446
Vocational	30,806
Other	1,109

Support services:

Student	3,868
Instructional staff	52,391
General administration	726
School administration	2,893
Business	932
Operation and maintenance	7,102
Transportation	42,397

	<u>202,618</u>
Unallocated depreciation	<u>266,934</u>

Total governmental activities depreciation expense	<u>\$ 469,552</u>
--	-------------------

Business-type activities:

School nutrition	<u>\$ 13,455</u>
------------------	------------------

Total business-type activities depreciation expense	<u>\$ 13,455</u>
---	------------------

(5) Capital Leases

The District had entered into two lease agreements to finance energy conservation improvements. These leases qualified as capital leases for accounting purposes and were paid off during the year ended June 30, 2004. The following is a summary of property acquired by the District under capital lease agreements as of June 30, 2004:

Energy Conservation Improvements	<u>\$ 614,285</u>
----------------------------------	-------------------

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

(6) Bonds Payable

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

Year Ending June 30,	Series 1999			Series 1995			Total
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	
2005	4.25%	\$ 50,000	\$ 152,870	5.90%	\$ 335,000	\$ 275,331	\$ 813,201
2006	4.25%	55,000	150,745	6.00%	355,000	255,566	816,311
2007	4.25%	55,000	148,408	6.00%	375,000	234,266	812,674
2008	4.25%	460,000	146,070	-	-	-	606,070
2009	4.30%	480,000	126,520	-	-	-	606,520
2010	4.35%	505,000	105,880	-	-	-	610,880
2011	4.40%	525,000	83,913	-	-	-	608,913
2012	4.45%	550,000	60,812	-	-	-	610,812
2013	4.50%	580,000	36,338	-	-	-	616,338
2014	4.55%	225,000	10,237	-	-	-	235,237
Total		<u>\$ 3,485,000</u>	<u>\$ 1,021,793</u>		<u>\$1,065,000</u>	<u>\$ 765,163</u>	<u>\$ 6,336,956</u>

During the year ended June 30, 2004, the District retired \$3,725,000 of the above bond issues.

(7) Capital Loan Notes

Details of the District's June 30, 2004, capital loan notes indebtedness are as follows:

Year Ending June 30,	Series 2001			Series 1999			Total
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	
2005	4.65-4.70%	\$ 90,000	\$ 28,521	-	\$ -	\$ -	\$ 118,521
2006	4.70-4.75%	95,000	24,303	-	-	-	119,303
2007	4.75-4.80%	100,000	19,683	-	-	-	119,683
2008	4.80-4.85%	105,000	14,895	-	-	-	119,895
2009	4.85-4.90%	110,000	9,694	-	-	-	119,694
2010	4.90-4.95%	115,000	4,317	-	-	-	119,317
		<u>\$ 615,000</u>	<u>\$ 101,413</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 716,413</u>

During the year ended June 30, 2004, the District retired \$121,000 of the above capital loan notes.

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

(8) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Capital leases	\$ 79,044	\$ -	\$ 79,044	\$ -	\$ -
Capital loan note	736,000	-	121,000	615,000	90,000
Bonds payable	8,275,000	-	3,725,000	4,550,000	385,000
Compensated absences	-	57,149	-	57,149	57,149
Total	\$ 9,090,044	\$ 57,149	\$ 3,925,044	\$ 5,222,149	\$ 532,149

The annual debt service requirements, including principal and interest, for long-term debt as June 30, 2004, are as follows:

Year Ending June 30,	Total
2005	\$ 988,871
2006	935,614
2007	932,357
2008	725,965
2009	726,214
After 2009	<u>2,801,497</u>
Total Principal and Interest	7,110,518
Less Interest	<u>(1,888,369)</u>
Liability as of June 30, 2004	<u>\$ 5,222,149</u>

(9) Deficit Fund Equity

The management fund had a deficit fund balance of \$8,985 and the building trades fund had a deficit fund balance of \$6,038 at June 30, 2004. The District plans to review timing of payment of early retirement incentives and other alternatives to eliminate the deficits.

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

(10) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$433,138, \$431,894, and \$442,348, respectively, equal to required contributions for each year.

(11) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and education services provided through the area education agency. The District's actual amount for this purpose totaled \$489,209 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.

(12) Contingencies and Risk Management

At June 30, 2004, the District is involved in various claims and lawsuits against the District that arise in the normal course of operations, many of which are covered by insurance. The outcome and eventual liability of the District, if any, from these claims and any unasserted claims is not known at this time. It has been the District's experience that such claims are settled for amounts substantially less than claimed amounts. District management estimates that the potential claims against the District, not covered by various insurance policies, would not materially affect the financial condition of the District. The District is also exposed to various risks of loss related to torts; theft; damage to and destruction of assets; error and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for all risks of loss, including Workers' Compensation and employee health and accident insurance. There has been no reduction in insurance coverage from the prior year. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(13) Early Retirement Plans and Postemployment Benefits Other than Pension Benefits

The District maintains an early retirement plan covering substantially all employees. To be eligible for the early retirement plan, an employee must have been employed on a full-time basis for a minimum of 15 years of continuous service in the District. Certain part-time employees are eligible for benefits on a basis commensurate with the amount of time their position entails. Employees who submit a written request for early retirement to the District prior to January 1 of the school year in which they intend to retire shall be eligible for early retirement provided all other eligibility requirements have been met. Benefits are computed based on years of service at retirement and are financed either as a lump sum payment, two payments within a 12 month period, or pay as you go by applying early retirement compensation monies toward the District's group health and hospital insurance policy.

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

(14) Transfers Within the Reporting Entity

Interfund transfers were as follows:

	Transfer In:
Transfer Out:	Debt Service Fund
Physical Plant and Equipment Levy	<u>\$ 236,030</u>

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

**Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund
Required Supplementary Information
Year ended June 30, 2004**

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 6,666,766	\$ 659,841
Intermediate sources	9,100	-
State sources	6,596,809	8,460
Federal sources	470,385	192,949
Total receipts	<u>13,743,060</u>	<u>861,250</u>
Disbursements:		
Instruction	8,064,868	211,926
Support services	3,507,173	-
Noninstructional programs	10,454	630,340
Other expenditures	5,162,567	-
Total disbursements	<u>16,745,062</u>	<u>842,266</u>
Excess (deficiency) of receipts over (under) disbursements	(3,002,002)	18,984
Other financing sources, net	<u>4,778</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(2,997,224)	18,984
Balance beginning of year	<u>4,925,499</u>	<u>24,827</u>
Balance end of year	<u><u>\$ 1,928,275</u></u>	<u><u>\$ 43,811</u></u>

See accompanying independent auditors' report.

Total Actual	Budgeted Amounts		Final to Actual Variance- Positive (Negative)
	Original	Final	
\$ 7,326,607	\$ 7,036,959	\$ 7,036,959	\$ 289,648
9,100	15,000	15,000	(5,900)
6,605,269	6,836,332	6,836,332	(231,063)
663,334	920,000	920,000	(256,666)
<u>14,604,310</u>	<u>14,808,291</u>	<u>14,808,291</u>	<u>(203,981)</u>
8,276,794	9,892,656	9,892,656	1,615,862
3,507,173	3,814,700	3,814,700	307,527
640,794	1,205,603	1,205,603	564,809
5,162,567	5,165,087	5,165,087	2,520
<u>17,587,328</u>	<u>20,078,046</u>	<u>20,078,046</u>	<u>2,490,718</u>
(2,983,018)	(5,269,755)	(5,269,755)	2,286,737
<u>4,778</u>	<u>(198,500)</u>	<u>(198,500)</u>	<u>203,278</u>
(2,978,240)	(5,468,255)	(5,468,255)	2,490,015
<u>4,950,326</u>	<u>6,530,583</u>	<u>6,530,583</u>	<u>(1,580,257)</u>
<u>\$ 1,972,086</u>	<u>\$ 1,062,328</u>	<u>\$ 1,062,328</u>	<u>\$ 909,758</u>

WEBSTER CITY 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	Modified Accrual Basis
Revenues	\$ 13,743,060	\$ (38,749)	\$ 13,704,311
Expenditures	16,745,062	45,415	16,790,477
Net	(3,002,002)	(84,164)	(3,086,166)
Other financing sources (uses)	4,778	1,177	5,955
Beginning fund balances	4,925,499	156,363	5,081,862
Ending fund balances	<u>\$ 1,928,275</u>	<u>\$ 73,376</u>	<u>\$ 2,001,651</u>

	Proprietary Fund Type Enterprise		
	Cash Basis	Accrual Adjust- ments	Accrual Basis
Revenues	\$ 861,250	\$ 53,712	\$ 914,962
Expenses	842,266	48,994	891,260
Net	18,984	4,718	23,702
Other financing sources (uses)	-	-	-
Beginning net assets	24,827	95,175	120,002
Ending net assets	<u>\$ 43,811</u>	<u>\$ 99,893</u>	<u>\$ 143,704</u>

See accompanying independent auditors' report.

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting 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 in 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, noninstructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that district expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District did not amend the budget.

During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted in any functional area and the District did not exceed its General Fund unspent authorized budget.

Other Supplementary Information

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

**Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004**

	Special Revenue			
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue
Assets				
Cash and pooled investments	\$ 84,476	\$ 147,359	\$ 70,479	\$ 302,314
Receivables:				
Property tax:				
Delinquent	1,776	-	3,284	5,060
Succeeding year	196,410	-	337,963	534,373
Accounts	-	798	-	798
Due from other governments	-	-	130,963	130,963
Total assets	<u>\$ 282,662</u>	<u>\$ 148,157</u>	<u>\$ 542,689</u>	<u>\$ 973,508</u>
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	\$ -	\$ 2,423	\$ 6,000	\$ 8,423
Interfund payable	-	68	-	68
Early retirement payable	95,237	-	-	95,237
Deferred revenue:				
Succeeding year property tax	196,410	-	337,963	534,373
Total liabilities	<u>291,647</u>	<u>2,491</u>	<u>343,963</u>	<u>638,101</u>
Fund equity:				
Unreserved, undesignated fund balance	<u>(8,985)</u>	<u>145,666</u>	<u>198,726</u>	<u>335,407</u>
Total liabilities and fund equity	<u>\$ 282,662</u>	<u>\$ 148,157</u>	<u>\$ 542,689</u>	<u>\$ 973,508</u>

See accompanying independent auditors' report.

	Capital Projects Fund	Total
\$	106,904	\$ 409,218
	-	5,060
	-	534,373
	-	798
	<u>4,208</u>	<u>135,171</u>
\$	<u>111,112</u>	<u>\$ 1,084,620</u>

\$	-	\$ 8,423
	-	68
	-	95,237
	-	534,373
	<u>-</u>	<u>638,101</u>

	<u>111,112</u>	<u>446,519</u>
\$	<u>111,112</u>	<u>\$ 1,084,620</u>

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

**Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds
Year ended June 30, 2004**

	Special Revenue			Total Special Revenue
	Management Levy	Student Activity	Physical Plant and Equipment Levy	
Revenues:				
Property and other local taxes	\$ 199,438	\$ -	\$ 374,487	\$ 573,925
Other local sources	5,106	403,666	2,984	411,756
State sources	4,127	-	8,639	12,766
Federal sources	-	-	226,985	226,985
Total revenues	208,671	403,666	613,095	1,225,432
Expenditures:				
Current:				
Instruction:				
Regular instruction	81,177	-	-	81,177
Other instruction	-	395,167	-	395,167
Support services:				
Student services	1,284	-	-	1,284
Instructional staff services	973	-	-	973
General administration services	466	-	-	466
School administration services	1,703	-	-	1,703
Business services	25,543	-	-	25,543
Operating and maintenance	47,995	-	47,372	95,367
Transportation services	20,319	-	-	20,319
Noninstructional programs	10,454	-	-	10,454
Other expenditures:				
Facilities acquisition	-	-	228,559	228,559
Total expenditures	189,914	395,167	275,931	861,012
Excess (deficiency) of revenues over (under) expenditures	18,757	8,499	337,164	364,420
Other financing uses:				
Operating transfers out	-	-	(236,030)	(236,030)
Proceeds from sale of fixed assets	-	-	1,177	1,177
Total other financing uses	-	-	(234,853)	(234,853)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	18,757	8,499	102,311	129,567
Fund balances beginning of year	(27,742)	137,167	96,415	205,840
Fund balances end of year	\$ (8,985)	\$ 145,666	\$ 198,726	\$ 335,407

See accompanying independent auditors' report.

	Capital Projects Fund	Total
\$	55,456	\$ 629,381
	555	412,311
	-	12,766
	-	226,985
	<u>56,011</u>	<u>1,281,443</u>
	-	81,177
	-	395,167
	-	1,284
	-	973
	-	466
	-	1,703
	-	25,543
	-	95,367
	-	20,319
	-	10,454
	<u>19,210</u>	<u>247,769</u>
	<u>19,210</u>	<u>880,222</u>
	<u>36,801</u>	<u>401,221</u>
	-	(236,030)
	-	1,177
	-	<u>(234,853)</u>
	36,801	166,368
	<u>74,311</u>	<u>280,151</u>
\$	<u>111,112</u>	<u>\$ 446,519</u>

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

**Schedule of Changes in Fiduciary Assets and Liabilities -
Agency Funds
Year ended June 30, 2004**

Assets	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Cash and investments	<u>\$ 310,538</u>	<u>\$ 274,788</u>	<u>\$ 289,405</u>	<u>\$ 295,921</u>
Total assets	<u><u>\$ 310,538</u></u>	<u><u>\$ 274,788</u></u>	<u><u>\$ 289,405</u></u>	<u><u>\$ 295,921</u></u>
Liabilities				
Accounts payable	\$ 544	\$ -	\$ 544	\$ -
Due to others	<u>309,994</u>	<u>274,788</u>	<u>288,861</u>	<u>295,921</u>
Total liabilities	<u><u>\$ 310,538</u></u>	<u><u>\$ 274,788</u></u>	<u><u>\$ 289,405</u></u>	<u><u>\$ 295,921</u></u>

See accompanying independent auditors' report.

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

**Schedule of Changes in Special Revenue Fund, Student Activity Accounts
Year ended June 30, 2004**

	Balance Beginning of Year	Revenues and Interfund Transfers	Expenditures	Balance End of Year
Athletics clubs and band	\$ (14,403)	\$ 101,354	\$ 101,687	\$ (14,736)
Elementary School	36,032	69,078	80,594	24,516
Middle School	21,088	48,433	54,263	15,258
High School	52,195	125,073	112,560	64,708
Administration	<u>42,255</u>	<u>59,728</u>	<u>46,063</u>	<u>55,920</u>
Total	<u>\$ 137,167</u>	<u>\$ 403,666</u>	<u>\$ 395,167</u>	<u>\$ 145,666</u>

See accompanying independent auditors' report.

WEBSTER CITY 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	\$ 5,037,018	\$ 5,073,782	\$ 4,867,690	\$ 4,599,847
Other	1,479,136	1,544,659	1,586,023	1,680,780
Intermediate sources	-	19,212	13,808	24,613
State sources	6,571,400	6,741,238	6,675,018	6,529,065
Federal sources	616,757	276,157	223,309	290,476
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenues	<u>\$ 13,704,311</u>	<u>\$ 13,655,048</u>	<u>\$ 13,365,848</u>	<u>\$ 13,124,781</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 4,546,254	\$ 4,577,077	\$ 4,680,644	\$ 4,530,080
Special instruction	2,335,725	2,193,091	2,085,021	1,838,220
Vocational instruction	578,846	592,397	546,968	526,846
Other instruction	647,472	561,621	553,337	466,687
Support services:				
Student services	489,013	475,719	554,131	532,647
Instructional staff services	591,880	816,572	835,881	685,807
General administration services	195,594	204,461	199,163	195,476
School administration services	709,239	685,769	690,480	647,721
Business services	215,542	195,425	163,070	185,003
Operation and maintenance	965,685	955,000	879,737	957,817
Transportation services	360,294	381,900	395,862	327,231
Non-instructional programs	10,454	9,916	7,441	5,644
Other expenses:				
Facilities acquisition	247,769	65,016	41,643	652,018
Long-term debt:				
Principal	3,925,044	485,897	436,968	1,044,545
Interest and other charges	482,457	511,087	553,707	549,637
AEA flowthrough	489,209	512,703	514,494	513,603
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenditures	<u>\$ 16,790,477</u>	<u>\$ 13,223,651</u>	<u>\$ 13,138,547</u>	<u>\$ 13,658,982</u>

See accompanying independent auditors' report.

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

**Schedule of Expenditures of Federal Awards
Year ended June 30, 2004**

Grantor/Program	CFDA Number	Grant Number	Expenditures
U.S. Department of Agriculture:			
Indirect:			
Iowa Department of Education:			
Food Donation (Noncash)	10.550	N/A	\$ <u>36,919</u>
Child Nutrition Cluster Programs:			
School Breakfast Program	10.553	N/A	18,917
National School Lunch Program	10.555	N/A	<u>174,033</u>
			<u>192,950</u>
Total U.S. Department of Agriculture			<u>229,869</u>
Indirect:			
Area Education Agency:			
Special Education - Grants to States	84.027	N/A	<u>68,856</u>
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	6867-G-00	671
Title I Grants to Local Educational Agencies	84.010	6867-G-00	99,910
Title I Grants to Local Educational Agencies	84.010	6867-GC-0	<u>78,348</u>
			<u>178,929</u>
Vocational Education - Basic Grants to States	84.048	N/A	<u>10,791</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	N/A	<u>5,666</u>
Fund for the Improvement of Education	84.215	N/A	<u>172,601</u>
Eisenhower Professional Development State Grants	84.281	N/A	<u>2,220</u>
State Grants for Innovative Programs	84.298	N/A	<u>1,732</u>
Comprehensive School Reform Demonstration	84.332	N/A	<u>54,384</u>
Literacy through School Libraries	84.364	N/A	<u>4,500</u>
Improving Teacher Quality State Grants	84.367	N/A	<u>82,880</u>
Grants for State Assessments and Related Activities	84.369	N/A	<u>7,385</u>
Total Department of Education			<u>589,944</u>

(continued)

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

**Schedule of Expenditures of Federal Awards
Year ended June 30, 2004**

Grantor/Program	CFDA Number	Grant Number	Expenditures
U.S. Department of Health and Human Services:			
Indirect:			
Iowa State University:			
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	N/A	26,814
Total U.S. Department of Health and Human Services			26,814
Total			\$ 846,627

- (1) Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Webster City 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 basic financial statements.

See accompanying independent auditors' report.

Internal Controls and Compliance

Independent Auditors' Report on Compliance
and on Internal Control over Financial Reporting

To the Board of Education
Webster City Community School District

We have audited the financial statements of Webster City Community School District, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 27, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 Webster City 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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that are described in Part IV of 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 item IV-K-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Webster City 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 Webster City Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in Part II of 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, we believe the reportable conditions described above are not material weaknesses. Prior year reportable conditions have all been resolved except for 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 Webster City Community School District and other parties to whom Webster City 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 Webster City 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.

Carney, Alexander, Harold & Co., L.L.P.

August 27, 2004

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

To the Board of Education
Webster City Community School District

Compliance

We have audited the compliance of Webster City Community School District, Iowa, 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. Webster City 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 Webster City Community School District's management. Our responsibility is to express an opinion on Webster City Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether 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 Webster City 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 Webster City Community School District's compliance with those requirements.

In our opinion, Webster City 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 Webster City 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 Webster City Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Webster City Community School District's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items III-A-04 and III-B-04.

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 noncompliance with the 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, we believe that the reportable conditions described above are not material weaknesses.

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

Erney Alexander Harold + Co., L.L.P.

August 27, 2004

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

**Schedule of Findings and Questioned Costs
Year ended June 30, 2004**

Part I: Summary of the Independent Auditors' 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 no 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 no material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) Audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a) are reported in this schedule.
- (g) Major programs were as follows:

CFDA Number 84.010 - Title I Grants to Local Educational Agencies

CFDA Number 84.367 - Improving Teacher Quality State Grants

Clustered Programs:
CFDA Number 10.553 School Breakfast Program
CFDA Number 10.555 National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Webster City Community School District did not qualify as a low-risk auditee.

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

**Schedule of Findings and Questioned Costs
Year ended June 30, 2004**

Part II: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the same individual could receive cash, prepare and make bank deposits, post cash receipts to the cash receipts journal, and prepare the bank reconciliation. We also noted the same individual could compute payroll, prepare payroll checks, prepare the payroll journal and distribute payroll checks.

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 - Office personnel will review procedures and divide duties to obtain the best internal control possible.

Conclusion - Response accepted.

II-B-04 Bond Interest - Interest income from a bond investment was not remitted to the District until the bank error was noted during the audit of the District records.

Recommendation - The District should develop procedures to ensure income from investments is received as scheduled.

Response - The District will initiate better controls to monitor all investment income.

Conclusion - Response accepted.

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

**Schedule of Findings and Questioned Costs
Year ended June 30, 2004**

Part III: Findings and Questioned Costs for Federal Awards: (continued)

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

All programs displayed on the Schedule of Expenditures of Federal Awards.

- III-A-04 Segregation of Duties - The same individual could perform duties which were incompatible in the areas of cash receipts and payroll. See audit finding II-A-04.

CFDA Number 10.555: National School Lunch Program

Pass-through Agency Number: FY 04

Federal Award Year: 2004

U.S. Department of Agriculture

Passed through the Iowa Department of Education

- III-B-04 Free and Reduced Price School Meal Applications - Free and reduced price school meal applications were approved as required, however, the applications were not reviewed by a second person.

Recommendation - An individual other than the person approving the free and reduced price school meal applications needs to review the applications. The individual performing the review will need to sign or initial the applications as evidence of the review procedure.

Response - A second individual will review all applications and sign off after each review.

Conclusion - Response accepted.

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

**Schedule of Findings and Questioned Costs
Year ended June 30, 2004**

Part IV: Other Findings Related to Required Statutory Reporting

- IV-A-04 Official Depositories - Official depositories have been adopted by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.
- IV-B-04 Certified Budget - District disbursements for the year ended June 30, 2004, did not exceed the amounts budgeted.
- IV-C-04 Questionable Expenditures - No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- IV-D-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-E-04 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

<u>Name Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Richard Kennedy and James Dyer, owners of Sideline Construction, employees of the District	Construction contract	\$ 11,505

- 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 - No transactions requiring Board approval which had not been approved by the Board were noted.
- IV-H-04 Certified Enrollment - The number of resident public students reported to the Department of Education for September, 2003 included one additional student who should not have been included with the District's certified enrollment. The amount reported on line 7 of the certified enrollment summary was reported as 1662.70 students but should have been reported as 1661.70 students.

Recommendation - The Department of Education and the Department of Management need to be contacted in order to resolve this matter.

Response - The Department of Management has been contacted regarding this matter. The District's auditor will forward a letter of explanation to the Department of Management.

Conclusion - Response accepted.

- IV-I-04 Deposits and Investments - 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 were noted.
- 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's undesignated management fund deficit, as shown on the combining balance sheet-nonmajor governmental funds, was \$8,985 at June 30, 2004. The District's building trades unrestricted net asset deficit, as shown on the statement of net assets-proprietary funds, was \$6,038 at June 30, 2004.

Recommendation - The District needs to seek alternatives in eliminating the deficit balances.

Response - The Management Fund levy will be increased to eliminate any future deficit fund balance. All building and trades reimbursements will be requested on or before June 30th.

Conclusion - Response accepted.