

WEST BRANCH COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2004

WEST BRANCH COMMUNITY SCHOOL DISTRICT
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WEST BRANCH COMMUNITY SCHOOL DISTRICT
 Officials
 June 30, 2004

Name	Title	Term Expires
Board of Education		
(Before September 2003 Election)		
Paul Hemingway	Board President	2004
Kent Stuart	Board Member	2003
Steve Nash	Board Member	2004
Jane Hildreth	Board Member	2005
Richard Paulus	Board Member	2005
(After September 2003 Election)		
Paul Hemingway	Board President	2004
Steve Nash	Board Member	2004
Kathy Knoop	Board Member	2005
Richard Paulus	Board Member	2005
Kent Staurt	Board Member	2006
School Officials		
Craig Artist	Superintendent	2004
Angie Walter	District Secretary/Treasurer	2004
C. Joseph Holland	Attorney	2004

KAY L. CHAPMAN, CPA PC

119 Sycamore Street, Suite 100
Muscatine, Iowa 52761
563-264-1385

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
West Branch Community School District
West Branch, Iowa

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

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

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

As described in Note 8 to the financial statements, during the year ended June 30, 2004, West Branch Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosure; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, I have also issued my reports dated September 28, 2004 on my consideration of West Branch Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations and contracts. 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 my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 39 through 40 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise West Branch Community School District's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 5, 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 my audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

Kay L. Chapman, CPA PC
September 28, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$5,675,713 in fiscal 2003 to \$5,657,914 in fiscal 2004, and General Fund expenditures increased from \$5,384,136 in fiscal 2003 to \$5,572,213 in fiscal 2004. The District's General Fund balance increased from \$857,100 in fiscal 2003 to \$943,078 in fiscal 2004, a 10% increase.
- The decrease in General Fund revenues was attributable to a decline in enrollment and in state and federal grant revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits. The district was still able to increase the General fund balance by limiting expenditures in other areas.
- A decline in interest rates during the past three fiscal years, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone decreasing from \$19,885 in fiscal 2003 to \$16,139 in fiscal 2004.

USING THIS ANNUAL REPORT

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

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

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

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

statements provide financial information about activities for which West Branch Community School District acts solely as an agent or custodian for the benefit of those outside of District government.

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

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

Other Supplementary Information provides detailed information about the nonmajor Governmental Funds.

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

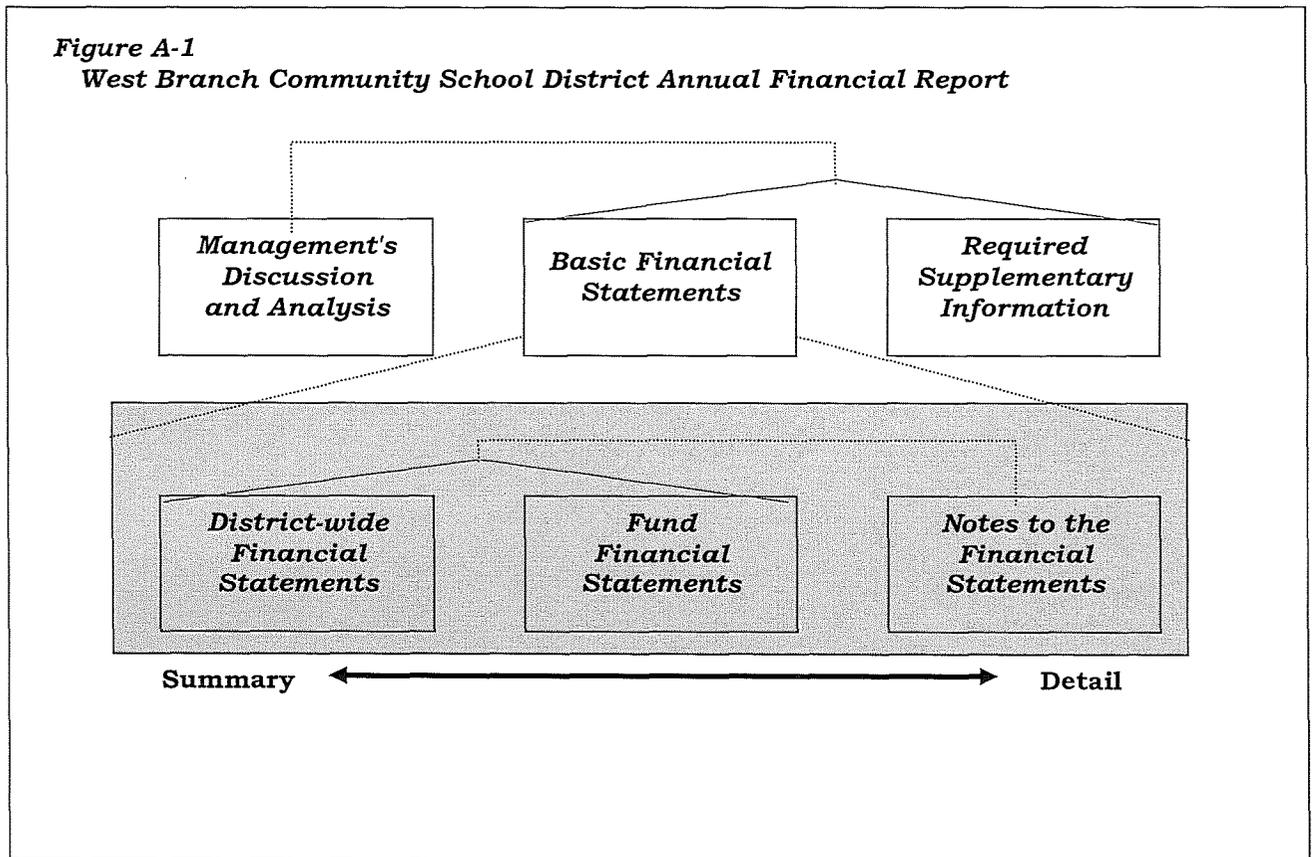


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

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

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

- Agency Funds – These are funds through which the District administers and accounts for a student assistance program and weight room fundraiser.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2004 compared to June 30, 2003.

	Figure A-3		Condensed Statement of Net Assets				
	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2003-2004</u>
Current and other assets	\$ 3,757,924	\$ 3,616,527	\$ 22,612	\$ 10,533	\$ 3,780,536	\$ 3,627,060	4.23%
Capital assets	<u>4,803,095</u>	<u>4,964,799</u>	<u>30,615</u>	<u>34,807</u>	<u>4,833,710</u>	<u>4,999,606</u>	-3.32%
Total assets	<u>8,561,019</u>	<u>8,581,326</u>	<u>53,227</u>	<u>45,340</u>	<u>8,614,246</u>	<u>8,626,666</u>	-0.14%
Long-term obligations	30,888	42,124	-	-	30,888	42,124	0.00%
Other liabilities	<u>2,811,631</u>	<u>2,707,574</u>	<u>41</u>	<u>235</u>	<u>2,811,672</u>	<u>2,707,809</u>	3.84%
Total liabilities	<u>2,842,519</u>	<u>2,749,698</u>	<u>41</u>	<u>235</u>	<u>2,842,560</u>	<u>2,749,933</u>	3.37%
Net assets							
Invested in capital assets, net of related debt	4,803,095	4,964,799	30,615	34,807	4,833,710	4,999,606	-3.32%
Restricted	110,226	100,716	-	-	110,226	100,716	9.44%
Unrestricted	<u>805,179</u>	<u>766,113</u>	<u>22,571</u>	<u>10,298</u>	<u>827,750</u>	<u>776,411</u>	6.61%
Total net assets	<u>\$ 5,718,500</u>	<u>\$ 5,831,628</u>	<u>\$ 53,186</u>	<u>\$ 45,105</u>	<u>\$ 5,771,686</u>	<u>\$ 5,876,733</u>	-1.79%

The District's combined net assets decreased by approximately 1.8%, or \$105,047, from the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less

the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$9,510, or 9.4% over the prior year. The increase was primarily a result of an increase in the management fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$51,399, or 6.6%. This increase was a result of the District increasing its General Fund cash balance by limiting expenditures.

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

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total School</u> <u>District</u>
Revenues			
Program revenues			
Charges for service and sales	\$ 456,963	\$ 201,691	\$ 658,654
Operating grants, contributions and restricted interest	637,660	64,035	701,695
General revenues			
Property tax	2,789,324	-	2,789,324
Unrestricted state grants	2,429,636	-	2,429,636
Unrestricted investment earnings	17,747	497	18,244
Other	<u>1,355</u>	<u>-</u>	<u>1,355</u>
Total revenues	<u>6,332,685</u>	<u>266,223</u>	<u>6,598,908</u>
Program expenses			
Governmental activities			
Instruction	4,044,849	-	4,044,849
Support services	1,670,520	-	1,670,520
Non-instructional programs	-	258,142	258,142
Other expenses	<u>730,444</u>	<u>-</u>	<u>730,444</u>
Total expenses	<u>6,445,813</u>	<u>258,142</u>	<u>6,703,955</u>
Change in net assets	<u>\$ (113,128)</u>	<u>\$ 8,081</u>	<u>\$ (105,047)</u>

Property tax and unrestricted state grants account for 79% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 85% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$6,332,685 and expenses were \$6,445,813. This difference is due in large part to the middle school remodeling project. The district has a short term loan that will be paid during the 2004-05 year.

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

Figure A-5
Total and Net Cost of Governmental Activities

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 4,044,849	\$ 3,178,451
Support services	1,670,520	1,658,722
Other expenses	<u>730,444</u>	<u>514,017</u>
Total expenses	<u>\$ 6,445,813</u>	<u>\$ 5,351,190</u>

- The cost financed by users of the District's programs was \$456,963.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$637,660.
- The net cost of governmental activities was financed with \$2,789,324, in property and other taxes and \$2,429,636 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$266,223 and expenses were \$258,142. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2004, the District had an increase in meal participation and also in Ala carte sales. The breakfast program at the high school was also expanded and participation has increased dramatically. The free and reduced percentage increased slightly giving the district more in state and federal reimbursement dollars.

INDIVIDUAL FUND ANALYSIS

As previously noted, West Branch 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 a combined fund balance of \$946,293, slightly more than last year's ending fund balances of \$908,953.

Governmental Fund Highlights

- The General Fund balance increased from \$857,100 to \$943,078. The District has been able to continue to improve its financial position even though increases in revenues have not matched increases in negotiated salary and benefits. In times of declining enrollment, the District has looked for many ways to decrease expenditures in other areas.
- The Physical Plant and Equipment Levy Fund (PPEL) balance decreased due to the completion of the middle school renovation project. The District has a short term loan that will be paid in 2004-2005.

Proprietary Fund Highlights

Enterprise Fund net assets increased from \$45,105 at June 30, 2003 to \$53,186 at June 30, 2004, representing an increase of approximately 18%. For fiscal year 2004 the District expanded the breakfast program at the high school resulting in dramatic increases in participation numbers. This along with increases in the number of meals served and ala carte sales helped increase the Enterprise fund's net assets. The District has also begun to purchase new equipment for the nutrition department on a rotating basis.

BUDGETARY HIGHLIGHTS

The District's receipts were \$151,065 more than budgeted receipts, a variance of 2%. The most significant variance resulted from the District receiving more in state and federal grants than originally anticipated.

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 actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional programs function due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget. The increased participation in the nutrition program also resulted in larger expenditures which also contributed to the budget being exceeded.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$4,833,710, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 3% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$165,896.

The original cost of the District's capital assets was \$7,640,781. Governmental funds account for \$7,586,102, with the remainder of \$54,679 accounted for in the Proprietary, School Nutrition Fund.

	Figure A-6 Capital Assets, Net of Depreciation							
	Governmental		Business-type		Total		Total	
	Activities		Activities		School District		Change	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2003-2004</u>	
Land	\$ 116,055	\$ 116,055	\$ -	\$ -	\$ 116,055	\$ 116,055	0.00%	
Buildings and improvements	387,541	398,453	-	-	387,541	398,453	-2.74%	
Improvements, other than buildings	2,875,368	2,975,830	-	-	2,875,368	2,975,830	-3.38%	
Furniture and equipment	<u>1,424,131</u>	<u>1,474,461</u>	<u>30,615</u>	<u>34,807</u>	<u>1,454,746</u>	<u>1,509,268</u>	-3.61%	
Totals	<u>\$4,803,095</u>	<u>\$4,964,799</u>	<u>\$30,615</u>	<u>\$34,807</u>	<u>\$4,833,710</u>	<u>\$4,999,606</u>	-3.32%	

Long-Term Debt

At June 30, 2004, the District had \$30,888 in compensated absences and early retirement debt outstanding. This represents a decrease of approximately 27% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 4 to the financial statements.

The District has no other long term debt outstanding at June 30. There is a \$300,000 loan payable to a local bank for the middle school project that will be paid in November of 2004.

Figure A-7
Outstanding Long-term Obligations

	Total		Total
	School District		Change
	2004	2003	2003-2004
Compensated absences	\$ 16,111	\$ 16,840	-4.33%
Early retirement	<u>14,777</u>	<u>25,284</u>	-41.56%
Total	<u>\$ 30,888</u>	<u>\$ 42,124</u>	-26.67%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- In the fall of 2003 a major employer in West Branch announced that it was closing. This will most likely have an effect on valuations as well as enrollment in the district.
- With the increase in rollback of property taxes, the District's taxable valuations actually decreased for 2004-05. In addition the Tax Increment Financing (TIF) valuations tripled for the upcoming year from \$6 million to \$18 million.
- Cedar County passed the School local option sales tax in March of 2004. This tax goes into effect July 1, 2004. This tax will generate approximately \$380/ student that reside in the Cedar County. This money will be used for building repairs, buses, and technology.
- The District negotiated a two year settlement with the West Branch Education association provided that insurance rates do not increase more than 12% for the 2005-06 school year.

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 Angie Walter, Business Manager/Board Secretary/treasurer, West Branch Community School District, 148 North Oliphant Street, West Branch, IA 52358.

Basic Financial Statements

WEST BRANCH COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2004

Exhibit A

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,190,587	\$ 19,167	\$ 1,209,754
Receivables			
Property tax			
Delinquent	62,820	-	62,820
Succeeding year	2,479,728	-	2,479,728
Accounts receivable	442	-	442
Due from other governments	24,347	438	24,785
Inventories	-	3,007	3,007
Capital assets, net of accumulated depreciation	4,803,095	30,615	4,833,710
Total assets	8,561,019	53,227	8,614,246
 LIABILITIES			
Accounts payable	22,756	-	22,756
Salaries and benefits payable	9,147	41	9,188
Short-term bank loan payable	300,000	-	300,000
Deferred revenue - succeeding year property tax	2,479,728	-	2,479,728
Long-term liabilities			
Portion due within one year			
Early retirement	4,289	-	4,289
Compensated absences	16,111	-	16,111
Portion due after one year			
Early retirement	10,488	-	10,488
Total liabilities	2,842,519	41	2,842,560
 NET ASSETS			
Invested in capital assets, net of related debt	4,803,095	30,615	4,833,710
Restricted for			
Management levy	27,598	-	27,598
Other special revenue purposes	82,628	-	82,628
Unrestricted	805,179	22,571	827,750
Total net assets	\$ 5,718,500	\$ 53,186	\$ 5,771,686

See notes to financial statements and Independent Auditor's Report.

WEST BRANCH COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2004

Exhibit B

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental activities							
Instruction							
Regular instruction	\$ 2,834,882	\$ 230,396	\$ 315,884	\$ -	\$ (2,288,602)	\$ -	\$ (2,288,602)
Special instruction	637,515	8,521	87,021	-	(541,973)	-	(541,973)
Other instruction	<u>572,452</u>	<u>211,021</u>	<u>13,555</u>	-	<u>(347,876)</u>	-	<u>(347,876)</u>
	<u>4,044,849</u>	<u>449,938</u>	<u>416,460</u>	-	<u>(3,178,451)</u>	-	<u>(3,178,451)</u>
Support services							
Student services	106,769	-	-	-	(106,769)	-	(106,769)
Instructional staff services	126,215	-	-	-	(126,215)	-	(126,215)
Administration services	593,319	-	-	-	(593,319)	-	(593,319)
Operation and maintenance of plant services	599,204	5,944	-	-	(593,260)	-	(593,260)
Transportation services	<u>245,013</u>	<u>1,081</u>	<u>4,773</u>	-	<u>(239,159)</u>	-	<u>(239,159)</u>
	<u>1,670,520</u>	<u>7,025</u>	<u>4,773</u>	-	<u>(1,658,722)</u>	-	<u>(1,658,722)</u>
Other expenditures							
Facilities acquisition	392,887	-	-	-	(392,887)	-	(392,887)
AEA flowthrough	216,427	-	216,427	-	-	-	-
Depreciation (unallocated) *	<u>121,130</u>	-	-	-	<u>(121,130)</u>	-	<u>(121,130)</u>
	<u>730,444</u>	-	<u>216,427</u>	-	<u>(514,017)</u>	-	<u>(514,017)</u>
Total governmental activities	<u>6,445,813</u>	<u>456,963</u>	<u>637,660</u>	-	<u>(5,351,190)</u>	-	<u>(5,351,190)</u>
Business-type activities							
Non-instructional programs							
Nutrition services	<u>258,142</u>	<u>201,691</u>	<u>64,035</u>	-	-	7,584	7,584
Total	<u>\$ 6,703,955</u>	<u>\$ 658,654</u>	<u>\$ 701,695</u>	\$ -	<u>(5,351,190)</u>	<u>7,584</u>	<u>(5,343,606)</u>

See notes to financial statements and Independent Auditor's Report.

WEST BRANCH COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2004

Exhibit B

	Net (Expense) Revenue and Changes in Net Assets		
	Governmental Activities	Business-type Activities	Total
<u>General Revenues</u>			
Property tax levied for			
General purposes	\$ 2,469,362	\$ -	\$ 2,469,362
Capital projects	319,962	-	319,962
Unrestricted state grants	2,429,636	-	2,429,636
Unrestricted investment earnings	17,747	497	18,244
Other	1,355	-	1,355
Total general revenues	5,238,062	497	5,238,559
Change in net assets	(113,128)	8,081	(105,047)
Net assets, beginning of year, as restated	5,831,628	45,105	5,876,733
Net assets, end of year	\$ 5,718,500	\$ 53,186	\$ 5,771,686

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

See notes to financial statements and Independent Auditor's Report.

WEST BRANCH COMMUNITY SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2004

Exhibit C

		Special Revenue		
	General	Physical Plant and Equipment Levy	Nonmajor	Total
ASSETS				
Cash and pooled investments	\$ 894,658	\$ 173,749	\$ 122,180	\$ 1,190,587
Receivables				
Property tax				
Delinquent	54,644	4,463	3,713	62,820
Succeeding year	2,120,392	194,336	165,000	2,479,728
Accounts receivable	299	-	143	442
Due from other governments	24,347	-	-	24,347
Total assets and other debits	<u>\$ 3,094,340</u>	<u>\$ 372,548</u>	<u>\$ 291,036</u>	<u>\$ 3,757,924</u>
 LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 21,723	\$ -	\$ 1,033	\$ 22,756
Salaries and benefits payable	9,147	-	-	9,147
Bank loan payable - short-term	-	300,000	-	300,000
Deferred revenue				
Succeeding year property tax	2,120,392	194,336	165,000	2,479,728
Total liabilities	<u>2,151,262</u>	<u>494,336</u>	<u>166,033</u>	<u>2,811,631</u>
 Fund balances				
Reserved for				
Phase III	2,119	-	-	2,119
Talented and gifted	72,979	-	-	72,979
Iowa Early Intervention grant	47,241	-	-	47,241
Unreserved, designated for special purpose	55,438	-	-	55,438
Unreserved, undesignated	765,301	(121,788)	125,003	768,516
Total fund balances	<u>943,078</u>	<u>(121,788)</u>	<u>125,003</u>	<u>946,293</u>
Total liabilities and fund balances	<u>\$ 3,094,340</u>	<u>\$ 372,548</u>	<u>\$ 291,036</u>	<u>\$ 3,757,924</u>

See notes to financial statements and Independent Auditor's Report.

WEST BRANCH COMMUNITY SCHOOL DISTRICT
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2004

Exhibit D

Total fund balances of governmental funds	\$ 946,293
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.	4,803,095
Long-term liabilities, including early retirement, bonds payable and notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(30,888)</u>
Net assets of governmental activities	<u>\$ 5,718,500</u>

See notes to financial statements and Independent Auditor's Report.

WEST BRANCH COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004

Exhibit E

		Special Revenue		
		Physical Plant and Equipment		
	General	Levy	Nonmajor	Total
Revenues				
Local sources				
Local tax	\$ 2,326,152	\$ 319,856	\$ 140,878	\$ 2,786,886
Tuition	208,726	-	-	208,726
Other	54,433	-	213,569	268,002
Intermediate sources	13,706	-	-	13,706
State sources	2,914,761	106	85	2,914,952
Federal sources	140,136	-	-	140,136
Total revenues	5,657,914	319,962	354,532	6,332,408
Expenditures				
Current				
Instruction				
Regular instruction	2,807,089	-	26,824	2,833,913
Special instruction	637,515	-	-	637,515
Other instruction	358,716	-	213,295	572,011
	3,803,320	-	240,119	4,043,439
Support services				
Student services	106,769	-	-	106,769
Instructional staff services	124,357	-	-	124,357
Administration services	591,228	-	6,432	597,660
Operation and maintenance of plant services	497,451	-	71,694	569,145
Transportation services	232,661	-	12,000	244,661
	1,552,466	-	90,126	1,642,592
Other expenditures				
Facilities acquisition	-	392,887	-	392,887
AEA flowthrough	216,427	-	-	216,427
	216,427	392,887	-	609,314
Total expenditures	5,572,213	392,887	330,245	6,295,345

See notes to financial statements and Independent Auditor's Report.

WEST BRANCH COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004

Exhibit E

	<u>General</u>	<u>Special Revenue</u>		<u>Total</u>
		<u>Physical Plant and Equipment Levy</u>	<u>Nonmajor</u>	
Excess (deficiency) of revenues over (under) expenditures	\$ 85,701	\$ (72,925)	\$ 24,287	\$ 37,063
Other financing sources				
Sale of materials and supplies	<u>277</u>	<u>-</u>	<u>-</u>	<u>277</u>
Net change in fund balances	85,978	(72,925)	24,287	37,340
Fund balance, beginning of year	<u>857,100</u>	<u>(48,863)</u>	<u>100,716</u>	<u>908,953</u>
Fund balance, end of year	<u>\$ 943,078</u>	<u>\$ (121,788)</u>	<u>\$ 125,003</u>	<u>\$ 946,293</u>

See notes to financial statements and Independent Auditor's Report.

WEST BRANCH COMMUNITY SCHOOL DISTRICT
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances-Governmental Funds
 to the Statement of Activities
 For the Year Ended June 30, 2004

Exhibit F

Net change in fund balances - total governmental funds	\$ 37,340
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Depreciation expense	(161,704)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement	\$ 729	
Compensated absences	<u>10,507</u>	<u>11,236</u>

Change in net assets of governmental activities	<u><u>\$ (113,128)</u></u>
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See notes to financial statements and Independent Auditor's Report.

WEST BRANCH COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
Proprietary Fund
June 30, 2004

Exhibit G

	<u>Nonmajor Enterprise</u>
ASSETS	
Cash and pooled investments	\$ 19,167
Inventories	3,007
Due from other governments	438
Capital assets, net of accumulated depreciation	<u>30,615</u>
Total assets	<u>53,227</u>
 LIABILITIES	
Salaries and benefits payable	<u>41</u>
 NET ASSETS	
Invested in capital assets, net of related debt	30,615
Unreserved retained earnings	<u>22,571</u>
Total net assets	<u><u>\$ 53,186</u></u>

See notes to financial statements and Independent Auditor's Report.

WEST BRANCH COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
For the Year Ended June 30, 2004

Exhibit H

	<u>Nonmajor Enterprise</u>
Operating revenue	
Local sources	
Charges for service	<u>\$ 201,691</u>
Operating expenses	
Non-instructional programs	
Salaries	77,640
Benefits	20,697
Purchased services	3,231
Supplies	152,087
Equipment repairs	295
Depreciation	<u>4,192</u>
Total operating expenses	<u>258,142</u>
Operating loss	<u>(56,451)</u>
Non-operating revenue	
Interest income	497
State sources	3,448
Federal sources	<u>60,587</u>
Total non-operating revenue	<u>64,532</u>
Change in net assets	8,081
Net assets, beginning of year	<u>45,105</u>
Net assets, end of year	<u><u>\$ 53,186</u></u>

See notes to financial statements and Independent Auditor's Report.

WEST BRANCH COMMUNITY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2004

Exhibit I

	<u>Nonmajor Enterprise</u>
Cash flows from operating activities	
Cash received from sale of lunches and breakfasts	\$ 201,711
Cash payments to employees for services	(98,337)
Cash payments to suppliers for goods and services	<u>(143,885)</u>
Net cash used in operating activities	<u>(40,511)</u>
Cash flows from non-capital financing activities	
State grants received	3,448
Federal grants received	<u>48,408</u>
Net cash provided by non-capital financing activities	<u>51,856</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities	
Interest on investments	<u>497</u>
Net increase in cash and cash equivalents	11,842
Cash and cash equivalents, beginning of year	<u>7,325</u>
Cash and cash equivalents, end of year	<u><u>\$ 19,167</u></u>
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ (56,451)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	4,192
Commodities used	11,741
Decrease in accounts receivable	20
Decrease in inventories	181
(Decrease) in accounts payable	<u>(194)</u>
Net cash used in operating activities	<u><u>\$ (40,511)</u></u>

Non-cash investing, capital and financing activities

During the year ended June 30, 2004, the District received \$11,741 of federal commodities.

See notes to financial statements and Independent Auditor's Report.

WEST BRANCH COMMUNITY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2004

Exhibit J

	<u>Agency</u>
Assets	
Cash and pooled investments	\$2,967
Liabilities	
Other payables	<u>2,967</u>
Net assets	<u><u>\$ -</u></u>

See notes to financial statements and Independent Auditor's Report.

WEST BRANCH COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2004

Note 1. Summary of Significant Accounting Policies

The West Branch Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. The geographic area served includes the City of West Branch, Iowa, and the agricultural territory in Cedar and Johnson Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

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

The District does not participate in any jointly governed organizations for which the District is financially accountable or that the nature and significance of the relationship with the District are such that exclusion would cause the District's financial statements to be misleading.

B. Basis of Presentation

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

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

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt 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 or enabling legislation.

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

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

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

The District reports the following major governmental funds:

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

The Physical Plant & Equipment Levy (PPEL) Fund is a special revenue fund used to account for all financial transactions from the levy authorized, whether regular or voter-approved, by Iowa Code section 298.2. This fund is created to deposit and expend money from the PPEL levy. The purpose of the fund is to pay the costs of specified major expenditures related to real property and equipment.

The District reports no major proprietary funds.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

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

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

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and 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.

<u>Asset Class</u>	<u>Amount</u>
Land	\$2,500
Buildings	\$2,500
Improvements other than buildings	\$2,500
Furniture and equipment:	
School Nutrition Fund equipment	\$ 500
Other furniture and equipment	\$2,500

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

<u>Asset Class</u>	<u>Useful Life</u>
Buildings and improvements	20-50 years
Improvements other than buildings	20 years
Furniture and equipment	4-15 years

Salaries and Benefits Payable - Teacher contracts and payroll for hourly employees are paid at June 30, 2004; however, the benefits on these payments are not paid until July. Therefore, these benefits have been accrued as liabilities.

Early Retirement - District employees meeting certain requirements are eligible for early retirement benefits. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2004. The early retirement liability attributable to the governmental activities will be paid primarily from the Management Fund.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of property tax 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.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

Designated Fund Balance - The District has designated a portion of its fund balance for cash flows.

E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, expenditures exceeded the amount budgeted in the Non-instructional Programs function. However, the District did not exceed its General Fund unspent authorized budget.

Note 2. Cash and Pooled Investments

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

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

The District had no investments at June 30, 2004.

Note 3. Capital Assets

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

	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 116,055	\$ -	\$ -	\$ 116,055
Capital assets being depreciated:				
Buildings and improvements	472,418	-	-	472,418
Improvements other than buildings	5,300,087	-	-	5,300,087
Furniture and equipment	<u>1,697,542</u>	-	-	<u>1,697,542</u>
Total capital assets being depreciated	<u>7,470,047</u>	-	-	<u>7,470,047</u>
Less accumulated depreciation for:				
Buildings and improvements	73,965	10,912	-	84,877
Improvements other than buildings	2,324,257	100,462	-	2,424,719
Furniture and equipment	<u>223,081</u>	<u>50,330</u>	-	<u>273,411</u>
Total accumulated depreciation	<u>2,621,303</u>	<u>161,704</u>	-	<u>2,783,007</u>
Total capital assets being depreciated, net	<u>4,848,744</u>	<u>(161,704)</u>	-	<u>4,687,040</u>
Governmental activities capital assets, net	<u>\$ 4,964,799</u>	<u>\$ (161,704)</u>	<u>\$ -</u>	<u>\$ 4,803,095</u>
<u>Business-type activities</u>				
Furniture and equipment	\$ 54,679	\$ -	\$ -	\$ 54,679
Less accumulated depreciation	<u>19,872</u>	<u>4,192</u>	-	<u>24,064</u>
Business-type activities capital assets, net	<u>\$ 34,807</u>	<u>\$ (4,192)</u>	<u>\$ -</u>	<u>\$ 30,615</u>

Depreciation expense was charged to the following functions:

Governmental activities

Instruction	
Regular	\$ 7,187
Other	441
Support services	
Instructional staff	1,858
Administration	677
Operation and maintenance of plant	30,059
Transportation	352
Unallocated	<u>121,130</u>
Total governmental activities depreciation expense	<u>\$ 161,704</u>

Business-type activities

Food services	<u>\$ 4,192</u>
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During the year ended June 30, 2004, the District hired an outside company to perform a physical inventory of its capital assets. Also during the year ended June 30, 2004 the District changed its criteria for determining capitalized assets. Prior to the fiscal year ended June 30, 2004 the District included all assets costing more than \$500 in the General Fixed Asset Account Group. However, beginning in FY04 the District only includes items costing in excess of the limits summarized in Note 1, item D as capital assets. Due to these two changes, the District's beginning balance of capital assets in the year ended June 30, 2004 is less than the amounts reported on the financial statements of the prior fiscal year by \$1,912,828.

Note 4. 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
Compensated absences	\$ 16,840	\$ -	\$ (729)	\$ 16,111	\$ 16,111
Early retirement	<u>25,284</u>	<u>-</u>	<u>(10,507)</u>	<u>14,777</u>	<u>4,289</u>
Totals	<u>\$ 42,124</u>	<u>\$ -</u>	<u>\$ (11,236)</u>	<u>\$ 30,888</u>	<u>\$ 20,400</u>

Early retirement

District employees who have 14 years of continuous service and are 59-64 years of age by June 30, are eligible for early retirement pay. All employees who apply and are approved will receive a fifty percent benefit based of the criteria below.

For teachers, the benefit shall be based upon the Schedule A salary, longevity and extended contracts. Benefits for all other employees shall be based upon the contracted salary. Benefits for part-time employees shall be prorated as determined by the average of full-time equivalency of the last five years of employment.

The full amount of early retirement compensation can be requested in a lump sum payable in July in the year of retirement, in three equal payments in July of each of the three consecutive years beginning in the year of retirement, or used to pay for the employee's insurance premiums if the employee opts to remain on the District's health, accident and major medical insurance policy until they reach age 65.

The employee must notify the Board by the first of February to receive the early retirement pay. Depending upon the economic impact to the District, the Board may limit the number of employees allowed to take early retirement in any fiscal year. At June 30, 2004, the maximum accumulated retirement pay was \$14,777 and one individual was receiving the benefit.

Compensated Absences

District employees accumulate vacation and compensatory hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as expenditures by the District until used or paid. The District's approximate maximum liability for unrecognized accrued employee benefits at June 30, 2004 is \$16,111.

Note 5. 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, IA, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$190,076, \$187,344 and \$186,131 respectively, equal to the required contributions for each year.

Note 6. Risk Management

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

Note 7. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$216,427 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.

Note 8. Accounting Change and Restatements

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

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

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

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

	Fund			
	General	Physical Plant and Equipment <u>Levy</u>	Total Nonmajor Special <u>Revenue</u>	<u>Total</u>
Net assets June 30, 2003, as previously reported	\$ 857,100	\$ (48,863)	\$ 100,716	\$ 908,953
GASB Interpretation 6 adjustments	-	-	-	-
Net assets July 1, 2003, as restated for governmental funds	<u>\$ 857,100</u>	<u>\$ (48,863)</u>	100,716	908,953
GASB 34 adjustments:				
Capital assets, net of accumulated depreciation of \$2,621,303				4,964,799
Long-term liabilities:				
Compensated absences			\$ (16,840)	
Early retirement			<u>(25,284)</u>	<u>(42,124)</u>
Net assets July 1, 2003, as restated				<u>\$ 5,831,628</u>

Note 9. Subsequent Event – Local Option Sales and Services Tax

Cedar County voters authorized the Local Option Sales and Services Tax beginning July 1, 2004. This tax is an additional sales tax of 1% on all taxable sales in Cedar County and will continue for 10 years. The revenue from this tax will be distributed to all school districts with students residing in Cedar County on a per student basis. West Branch Community School District anticipates receiving \$245,000 from this tax annually beginning with the fiscal year ending June 30, 2005.

Note 10. Deficit Balances

The District had an unreserved, undesignated fund deficit of \$121,788 in the Physical Plant and Equipment Levy at June 30, 2004.

Note 11. Unspent Balance

The District's unspent balance as of June 30, 2004 was \$1,067,481.

Note 12. Solvency Ratio

The District's solvency ratio at June 30, 2004 is calculated as follows:

$$\frac{\text{Unreserved General Fund Balance}}{\text{General Fund Revenues}} = \frac{\$765,301}{\$5,657,914} = 13.53$$

Note 13. Related Party Transactions

The District conducted business transactions between the District and a District official, totaling \$3,435 during the year ended June 30, 2004.

Required Supplementary Information

WEST BRANCH COMMUNITY SCHOOL DISTRICT
 Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual
 All Governmental Funds and Proprietary Fund
 Required Supplementary Information
 For the Year Ended June 30, 2004

	Governmental Funds <u>Actual</u>	Proprietary Fund <u>Actual</u>	Total <u>Actual</u>	<u>Budgeted Amounts</u>		Final to Actual <u>Variance</u>
				<u>Original</u>	<u>Final</u>	
Revenues						
Local sources	\$ 3,263,614	\$ 202,188	\$ 3,465,802	\$ 3,463,420	\$ 3,463,420	\$ 2,382
Intermediate sources	13,706	-	13,706	-	-	13,706
State sources	2,914,952	3,448	2,918,400	2,889,423	2,889,423	28,977
Federal sources	140,136	60,587	200,723	95,000	95,000	105,723
Total revenues	<u>6,332,408</u>	<u>266,223</u>	<u>6,598,631</u>	<u>6,447,843</u>	<u>6,447,843</u>	<u>150,788</u>
Expenditures						
Instruction	4,043,439	-	4,043,439	4,520,324	4,520,324	476,885
Support services	1,642,592	-	1,642,592	2,073,077	2,073,077	430,485
Non-instructional programs	-	258,142	258,142	229,500	229,500	(28,642)
Other expenditures	609,314	-	609,314	723,402	723,402	114,088
Total expenditures	<u>6,295,345</u>	<u>258,142</u>	<u>6,553,487</u>	<u>7,546,303</u>	<u>7,546,303</u>	<u>992,816</u>
Excess of revenues over expenditures	37,063	8,081	45,144	(1,098,460)	(1,098,460)	1,143,604
Other financing sources, net	<u>277</u>	<u>-</u>	<u>277</u>	<u>-</u>	<u>-</u>	<u>277</u>
Excess of revenues and other financing sources over expenditures	37,340	8,081	45,421	(1,098,460)	(1,098,460)	1,143,881
Balance, beginning of year	908,953	-	908,953	1,154,560	1,154,560	(245,607)
Balance, end of year	<u>\$ 946,293</u>	<u>\$ 8,081</u>	<u>\$ 954,374</u>	<u>\$ 56,100</u>	<u>\$ 56,100</u>	<u>\$ 898,274</u>

See accompanying Independent Auditor's Report.

WEST BRANCH COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the Year Ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a basis consistent with U.S. generally accepted accounting principles

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. 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 ended June 30, 2004, the District did not amend its budget.

During the year ended June 30, 2004, District expenditures exceeded the amount budgeted in the Non-instructional programs function. However, the General Fund expenditures did not exceed the unspent authorized budget.

Other Supplementary Information

WEST BRANCH COMMUNITY SCHOOL DISTRICT
 Combining Balance Sheet
 Nonmajor Special Revenue Funds
 June 30, 2004

Schedule 1

	<u>Management</u>	<u>Student Activity</u>	<u>Total</u>
ASSETS			
Cash and pooled investments	\$ 38,662	\$ 83,518	\$ 122,180
Receivables			
Property tax			
Delinquent	3,713	-	3,713
Succeeding year	165,000	-	165,000
Accounts receivable	-	143	143
Total assets	<u>\$207,375</u>	<u>\$ 83,661</u>	<u>\$ 291,036</u>
 LIABILITIES AND FUND EQUITY			
Liabilities			
Accounts payable	\$ -	\$ 1,033	\$ 1,033
Deferred revenue			
Succeeding year property tax	165,000	-	165,000
Total liabilities	165,000	1,033	166,033
Fund equity			
Unreserved fund balances	42,375	82,628	125,003
Total liabilities and fund equity	<u>\$207,375</u>	<u>\$ 83,661</u>	<u>\$ 291,036</u>

See accompanying Independent Auditor's Report.

WEST BRANCH COMMUNITY SCHOOL DISTRICT
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2004

Schedule 2

	<u>Management</u>	<u>Student Activity</u>	Total
Revenues			
Local sources			
Local taxes	\$ 140,878	\$ -	\$ 140,878
Other	940	212,629	213,569
State sources	85	-	85
Total revenues	<u>141,903</u>	<u>212,629</u>	<u>354,532</u>
Expenditures			
Current			
Instruction			
Regular program instruction	26,824	-	26,824
Other instruction	-	213,295	213,295
Support services			
Administrative services	6,432	-	6,432
Operation and maintenance of plant services	71,694	-	71,694
Transportation services	12,000	-	12,000
Total expenditures	<u>116,950</u>	<u>213,295</u>	<u>330,245</u>
Excess (deficiency) of revenues over (under) expenditures	24,953	(666)	24,287
Fund balances, beginning of year	<u>17,422</u>	<u>83,294</u>	<u>100,716</u>
Fund balances, end of year	<u>\$ 42,375</u>	<u>\$ 82,628</u>	<u>\$ 125,003</u>

See accompanying Independent Auditor's Report.

WEST BRANCH COMMUNITY SCHOOL DISTRICT
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
For the Year Ended June 30, 2004

Schedule 3

Account	Balance, Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance, End of Year
Drama/speech	\$ 4,004	\$ 857	\$ 3,489	\$ 362	\$ 1,734
Speech/debate	-	-	309	309	-
Arts Angels	-	1,810	-	(1,810)	-
HS art	529	690	907	462	774
Musical	-	2,299	3,968	1,750	81
HS vocal music	50	4,727	381	362	4,758
HS instrumental music	3,466	7,338	9,041	998	2,761
MS instrumental music	3,689	5,700	6,058	362	3,693
Athletics	15,791	53,134	49,340	(4,369)	15,216
Booster club donation	-	22,500	8,923	(13,577)	-
Girls basketball camp	-	795	150	-	645
Cheerleaders	625	1,769	1,973	500	921
Boys' basketball	-	-	30	30	-
Football	-	-	6,480	6,480	-
Football captains	-	376	-	-	376
Middle school football	-	359	-	-	359
Baseball	-	-	2,343	2,343	-
Boys' track	-	-	1,626	1,626	-
Boys' golf	-	-	782	782	-
Wrestling	-	-	582	582	-
Girls' basketball	183	-	1,476	1,293	-
Volleyball	-	-	1,077	1,077	-
Softball	-	-	187	187	-
Softball captains	-	1,638	1,516	-	122
Girls' track	-	-	2,459	2,459	-
Girls' golf	107	-	395	288	-
High school manufacturing	424	903	1,495	168	-
Industrial tech club	680	2,812	3,069	(168)	255
Astronomy club	3	1,498	509	-	992
Spanish club	579	-	98	-	481
High school drill team	-	2,948	3,138	300	110
High school fund	20,378	7,603	9,336	(3,425)	15,220

See accompanying Independent Auditor's Report.

WEST BRANCH COMMUNITY SCHOOL DISTRICT
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts
 For the Year Ended June 30, 2004

Schedule 3

Account	Balance, Beginning of <u>Year</u>	<u>Revenues</u>	<u>Expenditures</u>	Intrafund <u>Transfers</u>	Balance, End of <u>Year</u>
Middle school fund	\$ 1,290	\$ 20,161	\$ 17,143	\$ -	\$ 4,308
Ecology club	659	-	244	-	415
Elementary school fund	4,854	6,673	6,412	-	5,115
HS yearbook	5,148	5,454	4,739	615	6,478
HS student government	554	983	1,326	-	211
Journalism - The Bear	4,415	2,842	2,422	-	4,835
Hoover IMC	313	-	-	-	313
MS IMC	127	-	40	-	87
HS media	324	56	-	-	380
MS pop fund	606	376	526	-	456
Journalism - travel	668	-	-	-	668
Band uniforms	583	99	163	-	519
Family and consumer science	-	1,093	603	-	490
FFA	3,521	25,682	19,647	(5,093)	4,463
MS yearbook	849	2,090	2,247	-	692
National Honor Society	323	294	322	-	295
Hyper club	1,210	1,529	2,510	-	229
Economics club	64	-	-	-	64
Model United Nations	469	-	-	-	469
Ski club	54	11,340	11,252	-	142
Class of					
2002	-	63	-	(63)	-
2003	630	-	15	(615)	-
2004	1,930	1,020	1,400	-	1,550
2005	-	4,344	4,883	540	1
2006	-	-	500	500	-
Interest	2,766	1,608	9,467	5,093	-
Concessions	1,429	7,242	6,721	-	1,950
Totals	<u>\$ 83,294</u>	<u>\$ 212,705</u>	<u>\$ 213,719</u>	<u>\$ 348</u>	<u>\$ 82,628</u>

See accompanying Independent Auditor's Report.

WEST BRANCH COMMUNITY SCHOOL DISTRICT
 Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund
 For the Year Ended June 30, 2004

Schedule 4

	Balance, Beginning of Year	<u>Additions</u>	<u>Deductions</u>	Balance, End of Year
Assets				
Cash	<u>\$ 3,655</u>	<u>\$ 5,550</u>	<u>\$ 6,238</u>	<u>\$ 2,967</u>
Liabilities				
Due to others	<u>\$ 3,655</u>	<u>\$ 5,550</u>	<u>\$ 6,238</u>	<u>\$ 2,967</u>

See accompanying Independent Auditor's Report.

WEST BRANCH COMMUNITY SCHOOL DISTRICT
Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds
For the Last Four Years

Schedule 5

	Modified Accrual Basis			
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues				
Local sources				
Local tax	\$ 2,786,886	\$ 2,572,469	\$ 2,391,323	\$ 2,385,709
Tuition	208,726	219,201	367,414	355,056
Other	268,002	318,573	317,079	346,069
Intermediate sources	13,706	47,500	1,000	2,089
State sources	2,914,952	3,004,047	2,910,928	3,011,380
Federal sources	140,136	116,133	70,439	54,098
Total revenues	<u>\$ 6,332,408</u>	<u>\$ 6,277,923</u>	<u>\$ 6,058,183</u>	<u>\$ 6,154,401</u>
Expenditures				
Instruction				
Regular instruction	2,833,913	2,674,266	2,585,415	2,514,523
Special instruction	637,515	678,188	724,151	697,974
Other instruction	572,011	558,862	492,577	523,799
Support services				
Student services	106,769	102,615	99,056	97,560
Instructional staff services	124,357	122,504	113,401	139,214
Administration services	597,660	598,671	554,889	538,451
Operation and maintenance of plant services	569,145	573,621	499,929	600,115
Transportation services	244,661	225,018	200,723	208,293
Non-instructional programs	-	-	2,000	1,930
Other expenditures				
Facilities acquisition	392,887	594,687	196,818	236,621
Long-term debt				
Principal	-	-	55,000	54,010
Interest and other charges	-	-	3,238	5,991
AEA flowthrough	216,427	231,702	225,752	235,859
Total expenditures	<u>\$ 6,295,345</u>	<u>\$ 6,360,134</u>	<u>\$ 5,752,949</u>	<u>\$ 5,854,340</u>

See accompanying Independent Auditor's Report.

KAY L. CHAPMAN, CPA PC

119 Sycamore Street, Suite 100

Muscatine, Iowa 52761

563-264-1385

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

To the Board of Education
West Branch Community School District
West Branch, Iowa

I have audited the financial statements of the West Branch Community School District as of and for the year ended June 30, 2004, and have issued my report thereon dated September 28, 2004. I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether West Branch Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of noncompliance that are described below.

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 my audit of the financial statements of the District. Since my 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 been resolved, except for items 2, 5, and 11. Current year statutory comments are detailed as follows:

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

2. Certified Budget - Expenditures for the year ended June 30, 2003, exceeded the amounts budgeted in the Non-instructional Programs function.

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

Response - The overexpenditure was due to the reporting of the commodities used and depreciation expense. We will amend our budget before expenditures exceed the budget in the future.

Conclusion - Response accepted.

3. Questionable Disbursements - I noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
4. 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.
5. Business Transactions - Business transactions between the District and a District official are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Steve Nash, board member owner of Nash Tree Service	Grounds maintenance	\$ 3,435

The transactions with the board member appear to represent a conflict of interest since the transactions exceeded \$2,500 for the fiscal year as allowed by Chapter 279.7A of the Code of Iowa.

Recommendation - The District should monitor this situation annually to ensure that they comply with the Code of Iowa.

Response - We will continue to monitor these transactions.

Conclusion - Response accepted.

6. 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.
7. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.

8. Certified Enrollment - No variance in the basic enrollment data certified to the Department of Education were noted.
9. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
10. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely and I noted no significant deficiencies in the amounts reported.
11. Financial Condition - The District had an unreserved, undesignated fund deficit in the Physical Plant and Equipment Levy Fund of \$121,788 at June 30, 2004.

Recommendation - The District should continue to monitor this account and investigate alternatives to eliminate this deficit.

Response - This deficit was due to the construction project that was started during the year ended June 30, 2003. We had expected the project to begin after the fiscal year end and entered into a loan agreement in July 2003 to finance the project. The deficit will be eliminated by tax revenues during the fiscal year ending June 30, 2005.

Conclusion - Response accepted.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered West Branch Community School District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect West Branch Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Prior year reportable conditions have not been resolved. Current year reportable conditions are as follows:

- A. Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that the bank deposits, bank reconciliations, the posting of cash journals, payroll and payroll records are all done by the same person.

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

Response - We will investigate available alternatives and implement as deemed necessary.

Conclusion - Response accepted.

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. My 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, I believe the lack of segregation of duties is a material weakness.

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

I would like to acknowledge the many courtesies and assistance extended to me by the personnel of the West Branch Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Kay L. Chapman, CPA PC
September 28, 2004

WEST BRANCH COMMUNITY SCHOOL DISTRICT
Audit Staff
June 30, 2004

This audit was performed by

Kay Chapman, CPA