

ADAIR-CASEY COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

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Adair-Casey Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2004 Election)		
Robert Kreimeyer	President	2006
Barry Orness	Vice-President	2004
Brian Plowman	Board Member	2004
Nita Fagan	Board Member	2005
Jim Moore	Board Member	2005

Board of Education  
(After September 2004 Election)

Robert Kreimeyer	President	2006
Barry Orness	Vice President	2007
Brian Plowman	Board Member	2007
Nita Fagan	Board Member	2005
Jim Moore	Board Member	2005

School Officials

James Simmelink	Superintendent	2005
Theresa Elgin	District Secretary and District Treasurer	2005
Rick Engel	Attorney	2005

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Adair-Casey Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Adair-Casey Community School District, Adair, Iowa as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, the business type activities, each major fund and the aggregate remaining fund information of Adair-Casey Community School District at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated September 21, 2005 on our consideration of Adair-Casey Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of these reports are to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 37 through 40 are not required parts of the basic financial statements, but are supplementary

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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 required supplementary information. 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 Adair-Casey Community School District's basic financial statements. Another auditor 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, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

September 21, 2005

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Adair-Casey 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, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2005 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$2,757,101 in fiscal 2004 to \$2,821,531 in fiscal 2005, while General Fund expenditures increased from \$2,679,508 in fiscal 2004 to \$2,747,139 in fiscal 2005. This resulted in an increase in the District's General Fund balance from \$393,693 in fiscal 2004 to a balance of \$410,765 in fiscal 2005, a 4% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in state and federal sources in fiscal 2005. The increase in expenditures was due primarily to an increase in instruction and support services functional areas.

### **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 Adair-Casey 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 Adair-Casey 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 Adair-Casey Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

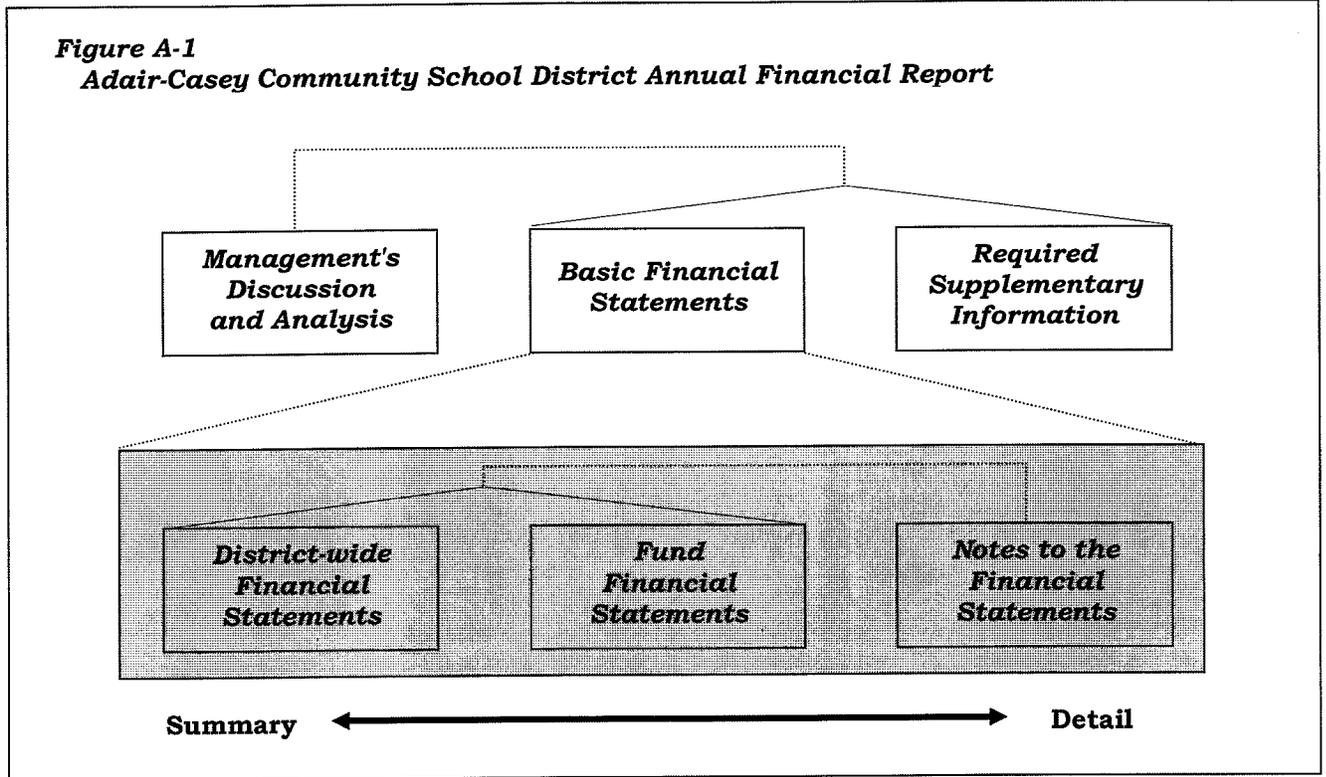


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-Wide and Fund Financial Statements</b>				
	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, e.g., food service	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"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

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## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

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

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

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

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

### Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

- 3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Funds.

Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

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 for the year ended June 30, 2005 compared to June 30, 2004.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Current and other assets	\$ 2,291,122	2,201,861	28,137	42,678	2,319,259	2,244,539	3.33%
Capital assets	1,526,069	1,666,901	24,818	22,472	1,550,887	1,689,373	-8.20%
Total assets	3,817,191	3,868,762	52,955	65,150	3,870,146	3,933,912	-1.62%
Long-term obligations	758,774	936,288	0	0	758,774	936,288	-18.96%
Other liabilities	1,522,749	1,441,528	1,201	1,425	1,523,950	1,442,953	5.61%
Total liabilities	2,281,523	2,377,816	1,201	1,425	2,282,724	2,379,241	-4.06%
Net assets:							
Invested in capital assets, net of related debt	1,114,259	746,201	24,818	22,472	1,139,077	768,673	48.19%
Restricted	221,701	246,124	0	0	221,701	246,124	-9.92%
Unrestricted	199,708	498,621	26,936	41,253	226,644	539,874	-58.02%
Total net assets	\$ 1,535,668	1,490,946	51,754	63,725	1,587,422	1,554,671	2.11%

The District's combined net assets increased by 2.11%, or \$32,751, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The

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

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$24,423, or 9.92% over the prior year.

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 – decreased \$313,230, or 58.02%. This increase in unrestricted net assets was a result of the District's increase in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2005 compared to June 30, 2004.

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Revenues:							
Program revenues:							
Charges for services	\$ 305,029	330,392	93,476	95,421	398,505	425,813	-6.41%
Operating grants and contributions and restricted interest	372,289	352,536	61,858	65,898	434,147	418,434	3.76%
Capital grants and contributions and restricted interest	5,355	19,645	0	0	5,355	19,645	-72.74%
General revenues:							
Property tax	1,241,970	1,357,898	0	0	1,241,970	1,357,898	-8.54%
Local option sales and services tax	83,432	0	0	0	83,432	0	100.00%
Unrestricted state grants	1,191,828	1,117,495	0	0	1,191,828	1,117,495	6.65%
Other	7,638	7,163	69	49	7,707	7,212	6.86%
Total revenues	3,207,541	3,185,129	155,403	161,368	3,362,944	3,346,497	0.49%
Program expenses:							
Governmental activities:							
Instructional	1,875,341	1,836,291	0	0	1,875,341	1,836,291	2.13%
Support services	1,042,467	1,006,484	0	0	1,042,467	1,006,484	3.58%
Non-instructional programs	0	0	165,916	154,551	165,916	154,551	7.35%
Other expenses	246,866	249,978	0	0	246,866	249,978	-1.24%
Total expenses	3,164,674	3,092,753	165,916	154,551	3,330,590	3,247,304	2.56%
Change in net assets before other financing sources(uses)	42,867	92,376	(10,513)	6,817	32,354	99,193	-67.38%
Other financing sources(uses)	1,855	0	(1,458)	0	397	0	100.00%
Change in net assets	44,722	92,376	(11,971)	6,817	32,751	99,193	-66.98%
Beginning net assets	1,490,946	1,398,570	63,725	56,908	1,554,671	1,455,478	6.82%
Ending net assets	\$ 1,535,668	1,490,946	51,754	63,725	1,587,422	1,554,671	2.11%

Property tax and unrestricted state grants account for 72% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 88% of the total expenses.

Changes in revenues will be a result of changes in student participation, whether in the regular, special or extracurricular programs. Fluctuations in basic enrollment will significantly impact the state revenues, as well as property tax revenues, keeping in mind that neither source of funding will ever be fully realized with current law and funding structure as set by the legislature.

The most significant fluctuation in expenditure levels will be caused by increased salary and benefit obligations, in large part resulting from collective bargaining agreements. With a declining enrollment comes lesser ability to fund various programs required by the state and constant evaluation of staffing needs becomes a priority. Even with certain staff reductions there may still be an increase in expenditures due to the salary and benefit requirements.

The District makes a continual effort to be a good steward of public funds and maintains a philosophy of providing the best education possible, exploring every avenue available to fund the programs, while making certain to keep watch for services that could be merged with other programs.

**Governmental Activities**

Revenues for governmental activities were \$3,207,541 and expenses were \$3,164,674. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District’s major governmental activities: instruction, support services and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 1,875,341	1,299,767
Support services	1,042,467	1,042,467
Other expenses	246,866	139,767
Totals	<u>\$ 3,164,674</u>	<u>2,482,001</u>

- The cost financed by users of the District’s programs was \$305,029.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$377,644.
- The net cost of governmental activities was financed with \$1,241,970 in property tax, \$83,432 in local option sales and services tax, \$1,191,828 in state foundation aid and \$7,638 in interest income.

**Business-Type Activities**

Revenues of the District’s business-type activities were \$155,403 and expenses were \$167,374. The District’s business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

**INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$683,963, above last year’s ending fund balance of \$638,348. The primary reason for the

increase in combined fund balance in fiscal 2005 is due to the local option sales and services tax monies.

**Governmental Fund Highlights**

- The District’s improving General Fund financial position is the product of many factors:
  - The increase in revenues during fiscal year 2005 helped to increase the General Fund financial position.

**Proprietary Fund Highlights**

The Proprietary Fund net assets decreased from \$63,725 at June 30, 2004 to \$51,754 at June 30, 2005, representing a decrease of 19%.

**BUDGETARY HIGHLIGHTS**

The District’s revenues were \$93,361 less than budgeted revenues, a variance of 2.69%. The most significant variance resulted from the District receiving less in local sources than originally anticipated.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At June 30, 2005, the District had invested \$1,550,887, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 9% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$154,826.

The original cost of the District’s capital assets was \$4,508,236. Governmental funds account for \$4,415,046 with the remainder of \$93,190 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District’s machinery and equipment totaled \$142,125 at June 30, 2005, compared to \$197,764 reported at June 30, 2004.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Land	\$ 3,714	3,714	0	0	3,714	3,714	0.00%
Buildings	371,733	401,186	0	0	371,733	401,186	-7.92%
Land improvements	1,033,315	1,086,709	0	0	1,033,315	1,086,709	-5.17%
Machinery and equipment	117,307	175,292	24,818	22,472	142,125	197,764	-39.15%
Total	\$ 1,526,069	1,666,901	24,818	22,472	1,550,887	1,689,373	-8.93%

**Long-Term Debt**

At June 30, 2005, the District had \$758,774 in long-term debt outstanding. This represents a decrease of 19% from last year. (See Figure A-7) More detailed information about the District’s long-term liabilities is available in Note 5 to the financial statements.

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The District had outstanding capital loan note payable of \$141,000 at June 30, 2005.

The District had total outstanding energy capital loan notes payable of \$570,585 at June 30, 2005.

The District had capital leases payable of \$41,820 at June 30, 2005.

The District had early retirement payable of \$5,369 at June 30, 2005.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	2005	2004	
Capital loan note	\$ 141,000	172,500	-18.3%
Energy capital loan notes	570,585	666,200	-14.4%
Capital lease	41,820	82,000	-49.0%
Early Retirement	5,369	15,588	-65.6%
Totals	\$ 758,774	936,288	-19.0%

### **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

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

- The District is expected to remain in good financial health far into the future. Budgeting practices such as making sure disbursements do not exceed receipts, even during challenging years like FY 05, combined with a solid foundation of cash balance and unspent balance, allow the District to provide the resources needed for excellent student achievement while still keeping the tax burden reasonable. However, costs outside the Board's control such as continual increases in health insurance and utility costs are worrisome, and employee contract settlements will also have an effect on the District's financial viability.

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## **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 James Simmelink, Superintendent, Adair-Casey Community School District, 3384 Indigo Avenue, Adair, Iowa, 50002.

BASIC FINANCIAL STATEMENTS

ADAIR-CASEY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2005

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments			
Other	\$ 819,111	25,330	844,441
Receivables:			
Property tax:			
Delinquent	24,087	0	24,087
Succeeding year	1,211,718	0	1,211,718
Income surtax	90,398	0	90,398
Accounts	2,176	58	2,234
Due from other governments	88,632	0	88,632
Inventories	0	2,749	2,749
Prepaid insurance	55,000	0	55,000
Capital assets, net of accumulated depreciation(Note 4)	1,526,069	24,818	1,550,887
<b>TOTAL ASSETS</b>	<b>3,817,191</b>	<b>52,955</b>	<b>3,870,146</b>
<b>LIABILITIES</b>			
Accounts payable	38,339	55	38,394
Salaries and benefits payable	236,054	0	236,054
Accrued interest payable	5,988	0	5,988
Deferred revenue:			
Succeeding year property tax	1,211,718	0	1,211,718
Other	30,650	1,146	31,796
Long-term liabilities(Note 5):			
Portion due within one year:			
Capital loan notes payable	131,546	0	131,546
Capital leases payable	41,820	0	41,820
Early retirement payable	5,369	0	5,369
Portion due after one year:			
Capital loan notes payable	580,039	0	580,039
<b>TOTAL LIABILITIES</b>	<b>2,281,523</b>	<b>1,201</b>	<b>2,282,724</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	1,114,259	24,818	1,139,077
Restricted for:			
Technology	1,531	0	1,531
Early intervention	28,851	0	28,851
Talented and gifted	883	0	883
Salary improvement program	190	0	190
Management levy	127,962	0	127,962
Other special revenue purposes	62,284	0	62,284
Unrestricted	199,708	26,936	226,644
<b>TOTAL NET ASSETS</b>	<b>\$ 1,535,668</b>	<b>51,754</b>	<b>1,587,422</b>

SEE NOTES TO FINANCIAL STATEMENTS.

ADAIR-CASEY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2005

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Governmental activities:</b>				
Instruction:				
Regular instruction	\$ 1,168,579	269,879	252,514	0
Special instruction	303,304	35,150	18,031	0
Other instruction	403,458	0	0	0
	<u>1,875,341</u>	<u>305,029</u>	<u>270,545</u>	<u>0</u>
Support services:				
Student services	32,459	0	0	0
Instructional staff services	86,793	0	0	0
Administration services	374,093	0	0	0
Operation and maintenance of plant services	305,662	0	0	0
Transportation services	243,460	0	0	0
	<u>1,042,467</u>	<u>0</u>	<u>0</u>	<u>0</u>
Other expenditures:				
Facilities and acquisitions	8,881	0	0	5,355
Long-term debt interest	42,159	0	0	0
AEA flowthrough	101,744	0	101,744	0
Depreciation(unallocated)*	94,082	0	0	0
	<u>246,866</u>	<u>0</u>	<u>101,744</u>	<u>5,355</u>
Total governmental activities	3,164,674	305,029	372,289	5,355
<b>Business-Type activities:</b>				
Non-instructional programs:				
Nutrition services	165,916	93,476	61,858	0
Total business-type activities	<u>165,916</u>	<u>93,476</u>	<u>61,858</u>	<u>0</u>
Total	<u>\$ 3,330,590</u>	<u>398,505</u>	<u>434,147</u>	<u>5,355</u>

**General Revenues:**

Local tax for:  
 General purposes  
 Capital outlay  
 Local option sales and services tax  
 Unrestricted state grants  
 Unrestricted investment earnings  
 Compensation for loss of fixed assets  
 Gain on sale of equipment

Total general revenues

Changes in net assets before other financing uses

Other financing uses:

Loss on disposal of assets

Change in net assets

Net assets beginning of year

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(646,186)	0	(646,186)
(250,123)	0	(250,123)
(403,458)	0	(403,458)
<u>(1,299,767)</u>	<u>0</u>	<u>(1,299,767)</u>
(32,459)	0	(32,459)
(86,793)	0	(86,793)
(374,093)	0	(374,093)
(305,662)	0	(305,662)
(243,460)	0	(243,460)
<u>(1,042,467)</u>	<u>0</u>	<u>(1,042,467)</u>
(3,526)	0	(3,526)
(42,159)	0	(42,159)
0	0	0
(94,082)	0	(94,082)
<u>(139,767)</u>	<u>0</u>	<u>(139,767)</u>
(2,482,001)	0	(2,482,001)
0	(10,582)	(10,582)
0	(10,582)	(10,582)
<u>(2,482,001)</u>	<u>(10,582)</u>	<u>(2,492,583)</u>
\$ 1,118,374	0	1,118,374
123,596	0	123,596
83,432	0	83,432
1,191,828	0	1,191,828
7,638	69	7,707
1,505	0	1,505
350	0	350
<u>2,526,723</u>	<u>69</u>	<u>2,526,792</u>
44,722	(10,513)	34,209
0	(1,458)	(1,458)
44,722	(11,971)	32,751
<u>1,490,946</u>	<u>63,725</u>	<u>1,554,671</u>
<u>\$ 1,535,668</u>	<u>51,754</u>	<u>1,587,422</u>

ADAIR-CASEY COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

	General	Management	Other Nonmajor Governmental Funds	Total
<b>ASSETS</b>				
Cash and pooled investments	\$ 625,001	77,412	116,440	818,853
Receivables:				
Property tax:				
Delinquent	21,798	919	1,370	24,087
Succeeding year	1,066,817	75,000	69,901	1,211,718
Income surtax	40,177	0	50,221	90,398
Accounts	2,116	0	60	2,176
Due from other governments	63,085	0	25,547	88,632
Prepaid insurance	0	55,000	0	55,000
<b>TOTAL ASSETS</b>	<b>\$ 1,818,994</b>	<b>208,331</b>	<b>263,539</b>	<b>2,290,864</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 34,531	0	3,550	38,081
Salaries and benefits payable	236,054	0	0	236,054
Deferred revenue:				
Succeeding year property tax	1,066,817	75,000	69,901	1,211,718
Income surtax	40,177	0	50,221	90,398
Other	30,650	0	0	30,650
Total liabilities	1,408,229	75,000	123,672	1,606,901
Fund balances:				
Reserved for:				
Technology	1,531	0	0	1,531
Early intervention	28,851	0	0	28,851
Talented and gifted	883	0	0	883
Salary improvement program	190	0	0	190
Prepaid insurance	0	55,000	0	55,000
Unreserved:				
General	379,310	0	0	379,310
Management	0	78,331	0	78,331
Capital Projects	0	0	39,967	39,967
Physical plant and equipment levy	0	0	37,616	37,616
Other special revenue purposes	0	0	62,284	62,284
Total fund balances	410,765	133,331	139,867	683,963
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,818,994</b>	<b>208,331</b>	<b>263,539</b>	<b>2,290,864</b>

SEE NOTES TO FINANCIAL STATEMENTS.

ADAIR-CASEY COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2005

<b>Total fund balances of governmental funds (page 17)</b>	\$	683,963
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.		1,526,069
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.		90,398
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.		(5,988)
Long-term liabilities, including early retirement and capital loan notes payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(758,774)</u>
<b>Net assets of governmental activites (page 14)</b>	<b>\$</b>	<b><u><u>1,535,668</u></u></b>

SEE NOTES TO FINANCIAL STATEMENTS.

ADAIR-CASEY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2005

	General	Management	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 1,112,227	45,087	207,028	1,364,342
Tuition	98,993	0	0	98,993
Other	46,038	974	166,506	213,518
Intermediate sources	156	0	0	156
State sources	1,427,746	0	0	1,427,746
Federal sources	136,371	0	5,355	141,726
Total revenues	2,821,531	46,061	378,889	3,246,481
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular instruction	1,172,618	5,110	0	1,177,728
Special instruction	303,304	0	0	303,304
Other instruction	217,286	13,482	172,690	403,458
	1,693,208	18,592	172,690	1,884,490
Support services:				
Student services	32,459	0	0	32,459
Instructional staff services	86,793	0	0	86,793
Administration services	350,279	23,814	0	374,093
Operation and maintenance of plant services	304,581	12,316	0	316,897
Transportation services	178,075	8,470	0	186,545
	952,187	44,600	0	996,787
Other expenditures:				
Facilities acquisitions	0	0	8,881	8,881
Long-term debt:				
Principal	0	0	167,295	167,295
Interest and fiscal charges	0	0	43,524	43,524
AEA flowthrough	101,744	0	0	101,744
	101,744	0	219,700	321,444
Total expenditures	2,747,139	63,192	392,390	3,202,721
Excess(deficiency) of revenues over(under) expenditures	74,392	(17,131)	(13,501)	43,760
Other financing sources(uses):				
Operating transfers in	0	0	210,819	210,819
Operating transfers out	(59,175)	0	(151,644)	(210,819)
Compensation for loss of fixed assets	1,505	0	0	1,505
Sale of equipment	350	0	0	350
Total other financing sources(uses)	(57,320)	0	59,175	1,855
Net change in fund balances	17,072	(17,131)	45,674	45,615
Fund balance beginning of year	393,693	150,462	94,193	638,348
Fund balance end of year	\$ 410,765	133,331	139,867	683,963

SEE NOTES TO FINANCIAL STATEMENTS.

ADAIR-CASEY COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2005

<b>Net change in fund balances - total governmental funds (page 19)</b>	\$	45,615
 <b>Amounts reported for governmental activities in the statement of activities are different because:</b>		
<p>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:</p>		
Capital outlays	\$ 11,235	
Depreciation expense	<u>(152,067)</u>	(140,832)
<p>Repayment of long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.</p>		
		167,295
<p>Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.</p>		
		1,365
<p>Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.</p>		
		495
<p>Deferred revenues not collected for several months after the District's fiscal year ends are not considered available revenues in the governmental funds. They are, however, recorded as revenues in the statement of activities.</p>		
		(39,435)
<p>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.</p>		
Early retirement		<u>10,219</u>
<b>Changes in net assets of governmental activities (page 16)</b>	<b>\$</b>	<b><u><u>44,722</u></u></b>

SEE NOTES TO FINANCIAL STATEMENTS.

ADAIR-CASEY COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF NET ASSETS  
 PROPRIETARY FUND  
 JUNE 30, 2005

	Business-Type	
	Enterprise:	Governmental
	Fund	Activities:
	School	Internal
	Nutrition	Service Fund
ASSETS		
Cash and pooled investments	\$ 25,330	258
Accounts receivable	58	
Inventories	2,749	0
Capital assets, net of accumulated depreciation (Note 4)	24,818	0
<b>TOTAL ASSETS</b>	<b>52,955</b>	<b>258</b>
LIABILITIES		
Accounts payable	55	258
Deferred revenue:		
Other	1,146	0
<b>TOTAL LIABILITIES</b>	<b>1,201</b>	<b>258</b>
NET ASSETS		
Investment in capital assets, net of related debt	24,818	0
Unrestricted	26,936	0
<b>TOTAL NET ASSETS</b>	<b>\$ 51,754</b>	<b>0</b>

SEE NOTES TO FINANCIAL STATEMENTS.

ADAIR-CASEY COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2005

	Business-Type	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 93,476	14,890
TOTAL OPERATING REVENUES	<u>93,476</u>	<u>14,890</u>
OPERATING EXPENSES:		
Non-instructional programs:		
Salaries	57,547	0
Benefits	12,780	0
Services	10,407	14,890
Supplies	81,765	0
Other	658	0
Depreciation	2,759	0
TOTAL OPERATING EXPENSES	<u>165,916</u>	<u>14,890</u>
OPERATING INCOME (LOSS)	<u>(72,440)</u>	<u>0</u>
NON-OPERATING REVENUES:		
State sources	2,026	0
Federal sources	59,832	0
Interest on investments	69	0
TOTAL NON-OPERATING REVENUES	<u>61,927</u>	<u>0</u>
Change in net assets before other financing uses	(10,513)	0
Other financing uses:		
Loss on disposal of assets	(1,458)	0
Change in net assets	(11,971)	0
Net assets beginning of year	63,725	0
Net assets end of year	<u>\$ 51,754</u>	<u>0</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ADAIR-CASEY COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND  
 YEAR ENDED JUNE 30, 2005

	Business-Type Activites:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 90,504	0
Cash received from miscellaneous	2,657	14,890
Cash payments to employees for services	(70,327)	0
Cash payments to suppliers for goods or services	(87,627)	(15,816)
Net cash used in operating activities	<u>(64,793)</u>	<u>(926)</u>
Cash flows from non-capital financing activities:		
State grants received	2,026	0
Federal grants received	52,537	0
Net cash provided by non-capital financing activities	<u>54,563</u>	<u>0</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(6,563)	0
Net cash used in capital and related financing activities	<u>(6,563)</u>	<u>0</u>
Cash flows from investing activities:		
Interest on investments	69	0
Net cash provided by investing activities	<u>69</u>	<u>0</u>
Net decrease in cash and cash equivalents	(16,724)	(926)
Cash and cash equivalents at beginning of year	42,054	1,184
Cash and cash equivalents at end of year	<u>\$ 25,330</u>	<u>258</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (72,440)	0
Adjustments to reconcile operating loss to net cash used in operating activities:		
Commodities consumed	7,295	0
Depreciation	2,759	0
Increase in inventories	(2,138)	0
Increase in accounts receivable	(45)	0
Increase(Decrease) in accounts payable	46	(926)
Decrease in deferred revenue	(270)	0
Net cash used in operating activities	<u>\$ (64,793)</u>	<u>(926)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:		
Current assets:		
Cash and pooled investments	<u>\$ 25,330</u>	<u>258</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2005, the District received Federal commodities valued at \$7,295.

SEE NOTES TO FINANCIAL STATEMENTS.

ADAIR-CASEY COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 JUNE 30, 2005

	<u>Private Purpose Trust</u>	<u>Scholarship</u>
Assets		
Cash and pooled investments	\$ 175,547	
Total assets		<u>175,547</u>
Liabilities		
Total liabilities		<u>0</u>
Net assets		
Reserved for scholarships	\$ 175,547	

SEE NOTES TO FINANCIAL STATEMENTS.

ADAIR-CASEY COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 YEAR ENDED JUNE 30, 2005

	Private Purpose Trust
	Scholarship
Additions:	
Local sources:	
Interest income	\$ 3,469
Total additions	3,469
Deductions:	
Instruction:	
Scholarships awarded	1,750
Change in net assets	1,719
Net assets beginning of year	173,828
Net assets end of year	\$ 175,547

SEE NOTES TO FINANCIAL STATEMENTS.

ADAIR-CASEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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

The Adair-Casey Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the cities of Adair and Casey, Iowa, and the predominate agricultural territory in Adair, Guthrie and Audubon 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, Adair-Casey Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Adair-Casey Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

categories:

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

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

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

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

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

The District reports the following major governmental funds:

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

The Management Fund is utilized to account for the payment of property insurance, early retirement benefits and unemployment benefits.

The District's proprietary funds are the School Nutrition Fund and the Internal Service Fund. The Nutrition fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the District's medical reimbursement plan. The Internal Service Fund is charged back to the Governmental Funds and shown combined in the Statement of Net Assets and the Statement of Activities.

The District also reports a fiduciary fund which focus on net assets and changes in net assets. The District's fiduciary fund is The Private Purpose Trust Fund.

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.

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

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.

Asset Class	Amount
Land	\$ 5,000
Buildings	5,000
Land improvements	5,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	5,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	5-20 years
Machinery and equipment	3-15 years

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

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

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

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2005 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.

At June 30, 2005, the District had investments in certificates of deposits as follows:

	<u>Amortized Cost</u>
Certificates of deposit	<u>\$ 216,150</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk. The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months or receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

**(3) Transfers**

The detail of transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	General	\$ 59,175
Debt Service	PPEL	108,118
Debt Service	Capital Projects	43,526
Total		<u>\$ 210,819</u>

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

**(4) Capital Assets**

Capital assets activity for the year ended June 30, 2005 is as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,714	0	0	3,714
Total capital assets not being depreciated	<u>3,714</u>	<u>0</u>	<u>0</u>	<u>3,714</u>
Capital assets being depreciated:				
Buildings	1,472,664	0	0	1,472,664
Land improvements	2,389,445	11,235	0	2,400,680
Machinery and equipment	537,988	0	0	537,988
Total capital assets being depreciated	<u>4,400,097</u>	<u>11,235</u>	<u>0</u>	<u>4,411,332</u>
Less accumulated depreciation for:				
Buildings	1,071,478	29,453	0	1,100,931
Land improvements	1,302,736	64,629	0	1,367,365
Machinery and equipment	362,696	57,985	0	420,681
Total accumulated depreciation	<u>2,736,910</u>	<u>152,067</u>	<u>0</u>	<u>2,888,977</u>
Total capital assets being depreciated, net	<u>1,663,187</u>	<u>(140,832)</u>	<u>0</u>	<u>1,522,355</u>
Governmental activities capital assets, net	<u>\$ 1,666,901</u>	<u>(140,832)</u>	<u>0</u>	<u>1,526,069</u>
	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Business-type activities:				
Machinery and equipment	\$ 110,466	6,563	23,839	93,190
Less accumulated depreciation	87,994	2,759	22,381	68,372
Business-type activities capital assets, net	<u>\$ 22,472</u>	<u>3,804</u>	<u>1,458</u>	<u>24,818</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 1,070
Support services:	
Transportation	56,915
	<u>57,985</u>
Unallocated depreciation	94,082
	<u>152,067</u>
Total governmental activities depreciation expense	<u>\$ 152,067</u>
Business-type activities:	
Food services	\$ 2,759
Total business-type activities depreciation expense	<u>\$ 2,759</u>

**(5) Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Capital loan note	\$ 172,500	0	31,500	141,000	33,000
Energy Capital loan notes	666,200	0	95,615	570,585	98,546
Capital lease	82,000	0	40,180	41,820	41,820
Early Retirement	15,588	0	10,219	5,369	5,369
	<u>936,288</u>	<u>0</u>	<u>177,514</u>	<u>758,774</u>	<u>178,735</u>
Total	<u>\$ 936,288</u>	<u>0</u>	<u>177,514</u>	<u>758,774</u>	<u>178,735</u>

Capital Loan Note Payable

Details of the District's June 30, 2005 capital loan note indebtedness paid from the Special Revenue, Physical Plant and Equipment Levy Fund is as follows:

Year Ending June 30,	Capital Loan Note			
	Interest Rates	Principal	Interest	Total
2006	4.25 %	\$ 33,000	5,292	38,292
2007	4.25	34,500	3,857	38,357
2008	4.25	36,000	2,359	38,359
2009	4.25	37,500	797	38,297
Total		<u>\$ 141,000</u>	<u>12,305</u>	<u>153,305</u>

Energy Capital Loan Notes Payable

The District issued \$525,000 of energy capital loan notes during the year ended June 30, 2000. Details of the District's June 30, 2005 energy capital loan note indebtedness which is paid from the Special Revenue, Physical Plant and Equipment Levy Fund is as follows:

Year Ending June 30,	Energy Capital Loan Note			
	Interest Rates	Principal	Interest	Total
2006	5.71 %	\$ 53,546	16,410	69,956
2007	5.71	56,647	13,309	69,956
2008	5.71	59,928	10,028	69,956
2009	5.71	63,398	6,558	69,956
2010	5.71	67,066	2,886	69,952
<b>Total</b>		<b>\$ 300,585</b>	<b>49,191</b>	<b>349,776</b>

The District issued \$450,000 of energy capital loan notes during the year ended June 30, 2002. Details of the District's June 30, 2005 energy capital loan note indebtedness which is paid from the General Fund.

Year Ending June 30,	Energy Capital Loan Note			
	Interest Rates	Principal	Interest	Total
2006	4.50 %	\$ 45,000	12,150	57,150
2007	4.50	45,000	10,125	55,125
2008	4.50	45,000	8,100	53,100
2009	4.50	45,000	6,075	51,075
2010	4.50	45,000	4,050	49,050
2011	4.50	45,000	2,025	47,025
<b>Total</b>		<b>\$ 270,000</b>	<b>42,525</b>	<b>312,525</b>
<b>Total Energy Capital Loan Notes</b>		<b>\$ 570,585</b>	<b>91,716</b>	<b>662,301</b>

#### Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed fifteen years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives are based on salary. Early retirement paid for the year ended June 30, 2005 totaled \$10,219.

#### **(6) Capital Lease Payable**

The District entered into an agreement for the leasing of equipment. Since the leases meet the criteria for capital leases, the present value of the future lease payments using an imputed interest rate has been reported as a capital lease payable. The following schedule of the future minimum lease payments and the present value of the minimum lease payments under agreements in effect at June 30, 2005.

Year Ending June 30,	Bus Lease Payments
2006	\$ 43,526
Total minimum lease payments	43,526
Less amount representing interest	1,706
Present value of future lease payments	<u>\$ 41,820</u>

**(7) Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$96,399, \$94,644, and \$96,034 respectively, equal to the required contributions for each year.

**(8) Risk Management**

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-funded to fully-insured coverage. ISEBA is recovering shortfall through a combination of assessments, deficit recovery charges and administration cost reduction measures. Members continuing membership in the Association had had their deficit recovery assessment included in their annual premium for the 2004-2005 and 2005-2006 plan years. The deficit recovery is equal to 2% of the annual premium. The total amount of the deficit recoveries of current members is estimated to be \$2.2 million. The District's share of this assessment was \$5,870 paid with the 2004-2005 premiums and 2% of the 2005-2006 premium will be paid along with the 2005-2006 premium, an amount that is unknown at this time. Since the program is now fully insured, there will be no additional assessment dues to claims exceeding premiums charged to members.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2005 were \$293,503.

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

Adair-Casey Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of

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

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$101,744 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

ADAIR-CASEY COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON OF RECEIPTS, DISBURSEMENTS AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 1,646,340	93,230
Intermediate sources	2,011	0
State sources	1,425,550	2,026
Federal sources	139,844	59,832
Total receipts	<u>3,213,745</u>	<u>155,088</u>
Disbursements:		
Instruction	1,857,265	0
Support services	1,000,237	0
Non-instructional programs	0	171,812
Other expenditures	334,542	0
Total disbursements	<u>3,192,044</u>	<u>171,812</u>
Excess(deficiency) of receipts over(under) disbursements	21,701	(16,724)
Other financing sources, net	<u>1,855</u>	<u>0</u>
Excess(deficiency) of receipts over(under) disbursements	23,556	(16,724)
Balance beginning of year	<u>795,297</u>	<u>42,054</u>
Balance end of year	<u>\$ 818,853</u>	<u>25,330</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
1,739,570	1,788,581	1,788,581	(49,011)
2,011	2,500	2,500	(489)
1,427,576	1,456,113	1,456,113	(28,537)
199,676	215,000	215,000	(15,324)
<u>3,368,833</u>	<u>3,462,194</u>	<u>3,462,194</u>	<u>(93,361)</u>
1,857,265	2,206,048	2,206,048	348,783
1,000,237	1,043,000	1,043,000	42,763
171,812	195,300	195,300	23,488
334,542	395,458	395,458	60,916
<u>3,363,856</u>	<u>3,839,806</u>	<u>3,839,806</u>	<u>475,950</u>
4,977	(377,612)	(377,612)	382,589
<u>1,855</u>	<u>1,500</u>	<u>1,500</u>	<u>355</u>
6,832	(376,112)	(376,112)	382,944
837,351	1,042,549	1,042,549	(205,198)
<u>844,183</u>	<u>666,437</u>	<u>666,437</u>	<u>177,746</u>

ADAIR-CASEY COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2005

	Governmental Funds		
	Cash	Accrual	Modified
	Basis	Adjust- ments	Accrual Basis
Revenues	\$ 3,213,745	32,736	3,246,481
Expenditures	3,192,044	10,677	3,202,721
Net	21,701	22,059	43,760
Other financing sources, net	1,855	0	1,855
Beginning fund balances	795,297	(156,949)	638,348
Ending fund balances	\$ 818,853	(134,890)	683,963

	Proprietary Fund		
	Enterprise		
	Cash	Accrual	Modified
	Basis	Adjust- ments	Accrual Basis
Revenues	\$ 155,088	315	155,403
Expenditures	171,812	(5,896)	165,916
Net	(16,724)	6,211	(10,513)
Other financing sources, net	0	(1,458)	(1,458)
Beginning fund balances	42,054	21,671	63,725
Ending fund balances	\$ 25,330	26,424	51,754

ADAIR-CASEY COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

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

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

OTHER SUPPLEMENTAL INFORMATION

ADAIR-CASEY COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2005

	Special Revenue Funds				Total
	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Projects	Other Nonmajor Governmental Funds
<b>ASSETS</b>					
Cash and pooled investments	\$ 65,774	36,246	102,020	14,420	116,440
Receivables:					
Property tax:					
Current year delinquent	0	1,370	1,370	0	1,370
Succeeding year	0	69,901	69,901	0	69,901
Income surtax	0	50,221	50,221	0	50,221
Accounts	60	0	60	0	60
Due from other governments	0	0	0	25,547	25,547
<b>TOTAL ASSETS</b>	<b>\$ 65,834</b>	<b>157,738</b>	<b>223,572</b>	<b>39,967</b>	<b>263,539</b>
<b>LIABILITIES AND FUND EQUITY</b>					
Liabilities:					
Accounts payable	\$ 3,550	0	3,550	0	3,550
Deferred revenue:					
Succeeding year property tax	0	69,901	69,901	0	69,901
Income surtax	0	50,221	50,221	0	50,221
	3,550	120,122	123,672	0	123,672
Fund equity:					
Fund balances:					
Unreserved:					
Undesignated	62,284	37,616	99,900	39,967	139,867
Total fund balances	62,284	37,616	99,900	39,967	139,867
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 65,834</b>	<b>157,738</b>	<b>223,572</b>	<b>39,967</b>	<b>263,539</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ADAIR-CASEY COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2005

	Special Revenue Funds					Total
	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Projects	Debt Service	Other Nonmajor Governmental Funds
<b>REVENUES:</b>						
Local sources:						
Local tax	\$ 0	123,596	123,596	83,432	0	207,028
Other	166,367	78	166,445	61	0	166,506
Federal sources	0	5,355	5,355	0	0	5,355
<b>TOTAL REVENUES</b>	<b>166,367</b>	<b>129,029</b>	<b>295,396</b>	<b>83,493</b>	<b>0</b>	<b>378,889</b>
<b>EXPENDITURES:</b>						
Current:						
Instruction:						
Other instruction	172,690	0	172,690	0	0	172,690
Other expenditures:						
Facilities acquisitions	0	8,881	8,881	0	0	8,881
Long-term debt:						
Principal	0	0	0	0	167,295	167,295
Interest and fiscal charges	0	0	0	0	43,524	43,524
<b>TOTAL EXPENDITURES</b>	<b>172,690</b>	<b>8,881</b>	<b>181,571</b>	<b>0</b>	<b>210,819</b>	<b>392,390</b>
<b>EXCESS(DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(6,323)</b>	<b>120,148</b>	<b>113,825</b>	<b>83,493</b>	<b>(210,819)</b>	<b>(13,501)</b>
<b>OTHER FINANCING SOURCES(USES):</b>						
Operating transfers in	0	0	0	0	210,819	210,819
Operating transfers out	0	(108,118)	(108,118)	(43,526)	0	(151,644)
<b>TOTAL OTHER FINANCING SOURCES(USES)</b>	<b>0</b>	<b>(108,118)</b>	<b>(108,118)</b>	<b>(43,526)</b>	<b>210,819</b>	<b>59,175</b>
<b>EXCESS(DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>(6,323)</b>	<b>12,030</b>	<b>5,707</b>	<b>39,967</b>	<b>0</b>	<b>45,674</b>
<b>FUND BALANCE BEGINNING OF YEAR</b>	<b>68,607</b>	<b>25,586</b>	<b>94,193</b>	<b>0</b>	<b>0</b>	<b>94,193</b>
<b>FUND BALANCE END OF YEAR</b>	<b>\$ 62,284</b>	<b>37,616</b>	<b>99,900</b>	<b>39,967</b>	<b>0</b>	<b>139,867</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ADAIR-CASEY COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2005

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Academic Bowl	\$ 0	58	58	0
Annual	873	3,932	4,805	0
After Prom	1,488	6,580	7,108	960
Athletics	43,873	68,501	71,135	41,239
Band	115	342	372	85
Cheerleading Basketball	692	942	552	1,082
Cheerleading Football	30	980	772	238
Class of 2005	1,531	23,243	24,729	45
Class of 2006	0	9,164	8,495	669
Class of 2008	0	21	21	0
Class of 2009	0	39	32	7
Class of 2010	0	37	36	1
Drama/SP	2,081	1,125	1,337	1,869
Drill Team	1,167	2,509	3,426	250
FFA	10,166	27,459	29,962	7,663
FFA-Video	0	10,675	8,930	1,745
Interest	0	209	209	0
Music Boosters	5,696	1,984	2,145	5,535
National Honor Society	705	571	528	748
Science	2	0	0	2
Student Council	0	7,796	7,734	62
Vocal	188	200	304	84
<b>Total</b>	<b>\$ 68,607</b>	<b>166,367</b>	<b>172,690</b>	<b>62,284</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ADAIR-CASEY 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,			
	2005	2004	2003	2002
<b>Revenues:</b>				
Local sources:				
Local tax	\$ 1,364,342	1,351,824	1,332,226	1,255,368
Tuition	98,993	93,516	74,174	78,841
Other	213,518	242,979	240,077	299,579
Intermediate sources	156	137	1,797	2,473
State sources	1,427,746	1,357,496	1,448,916	1,389,091
Federal sources	141,726	112,424	123,686	86,358
<b>Total</b>	<b>\$ 3,246,481</b>	<b>3,158,376</b>	<b>3,220,876</b>	<b>3,111,710</b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular instruction	\$ 1,177,728	1,201,522	1,221,771	1,259,366
Special instruction	303,304	320,905	277,734	313,498
Other instruction	403,458	328,684	330,590	333,461
Support services:				
Student services	32,459	53,200	52,198	51,109
Instructional staff services	86,793	74,319	81,842	158,657
Administration services	374,093	371,583	361,919	357,504
Operation and maintenance of plant services	316,897	292,847	252,309	265,562
Transportation services	186,545	274,015	176,807	167,300
Non-instructional programs	0	0	156	0
Other expenditures:				
Facilities acquisitions	8,881	36,516	0	615,410
Long-term debt:				
Principal	167,295	123,344	134,294	130,002
Interest	43,524	46,291	52,869	50,903
AEA flow-through	101,744	102,656	111,246	110,478
<b>Total</b>	<b>\$ 3,202,721</b>	<b>3,225,882</b>	<b>3,053,735</b>	<b>3,813,250</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

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

Telephone (641) 792-1910

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

### Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the  
Adair-Casey Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Adair-Casey Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 21, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Adair-Casey 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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-05 is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Adair-Casey 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 grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 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.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Adair-Casey Community School District and other parties to whom Adair-Casey Community School District may report, including federal awarding agencies and pass-through entities. 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 Adair-Casey Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Nolte, Cornman & Johnson PC*  
NOLTE, CORNMAN & JOHNSON, P.C.

September 21, 2005

ADAIR-CASEY COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2005

Part I: Findings Related to the Basic Financial Statements:

REPORTABLE CONDITIONS:

I-A-05 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

Response - The District is aware of the lack of complete segregation of duties and will make the changes as the opportunity arises.

Conclusion - Response accepted.

ADAIR-CASEY COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED JUNE 30, 2005

Part II: Other Findings Related to Statutory Reporting

- II-A-05 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
- II-B-05 Certified Budget - District disbursements for the year ended June 30, 2005, did not exceed the certified budget amounts in the functional areas.
- II-C-05 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-D-05 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-E-05 Business Transactions - Business transactions between the District and District Officials or employees were noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Barry Orness, Board Member Substitute Bus Driver	Services	\$778
Brian Plowman, Board Member Part owner, Plowman & Stanley Trenching	Cement Work (Bid)	\$11,235

According to Chapter 279.A of the Code of Iowa, the transactions with Barry Orness do not appear to represent a conflict of interest. The transactions with Brian Plowman do not appear to represent a conflict of interest, because bids were accepted for the project.

- II-F-05 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-G-05 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-H-05 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-I-05 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-J-05 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely. We noted no significant deficiencies in the amounts reported.