

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT
ADEL, IOWA

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

JUNE 30, 2005

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ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2004 Election)		
Darrell Weems	President	2006
Dick Bruce	Vice President	2004
Tom Hopewell	Board Member	2004
Paula James	Board Member	2006
Pat Steele	Board Member	2005
<u>Board of Education</u>		
(After September 2004 Election)		
Darrell Weems	President	2006
Pat Steele	Vice President	2005
Tim Canney	Board Member	2007
Kim Roby	Board Member	2007
Paula James	Board Member	2006
<u>School Officials</u>		
Tim Hoffman	Superintendent	2005
Shirley McAdon	District Secretary/Treasurer	2005

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Adel-DeSoto-Minburn Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Adel-DeSoto-Minburn Community School District, Iowa, 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. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these basic 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 that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Adel-DeSoto-Minburn Community School District as of June 30, 2005, 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.

In accordance with Government Auditing Standards, we have also issued our report dated October 3, 2005 on our consideration of Adel-DeSoto-Minburn Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is 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.

The Management's Discussion and Analysis and budgetary comparison information on pages 6 through 15 and 50 through 52 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Adel-DeSoto-Minburn Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The financial statements for the two years ended June 30, 2003 (none of which are presented herein) were previously audited by other auditors who expressed unqualified opinions on those financial statements. Other 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 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.

Oskaloosa, Iowa
October 3, 2005

MANAGEMENT’S DISCUSSION AND ANALYSIS

Adel-DeSoto-Minburn 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.

Financial Highlights

- General Fund revenues increased from \$10,085,857 in fiscal 2004 to \$10,467,405 in fiscal 2005, while General Fund expenditures increased from \$10,226,522 in fiscal 2004 to \$10,946,455 in fiscal 2005. The District’s General Fund balance decreased from \$614,973 in fiscal 2004 to \$166,203 in fiscal 2005, a 73.0% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in tuition and state grant revenue in fiscal 2005. The increase in expenditures was due primarily to an increase in the negotiated salaries and benefits and an increase in staff to provide special education.
- The District’s General Fund balance has been sufficient to allow for limited use to offset state aid cuts in tandem with selected budget cuts in areas that have not significantly affected programs. An enrollment decrease of 12.4 students for FY05 put more pressure on the budget. To help alleviate that situation the school board raised the instructional support levy from 7% to 10%.
- District voters passed a bond issue by 73% on October 21, 2003, for \$12,500,000 to construct an 8-9 Building on the high school site, add an Early Childhood Center and all-purpose room at the Adel Elementary School site, and renovate all district buildings to include air-conditioning. Construction will continue through fiscal 2006.
- The State of Iowa dictated a statewide revaluation of agricultural land and a corresponding rollback in residential property values. The District’s total taxable valuation significantly decreased for fiscal 2005. The decrease affected the regular Physical Plant and Equipment Levy because it is at its maximum levy. A drop in valuation also affected the amount of bonds that could be sold up to the \$4.05 levy of assessed property valuation for construction, a loss of approximately \$1 million in bonding capacity for the 8-9 grades building and remodeling projects. Valuation for 2005 dropped from \$269,110,359 to \$248,689,570, a decrease of \$20,420,789 or 7.6%.
- Dallas County passed a Local Option Sales and Services Tax of 1¢ on March 25, 2003, by 65% that is projected to provide \$13.4 million to Adel-DeSoto-Minburn over ten years. That will allow the District to abate property taxes for new construction with sales tax proceeds and would allow the District to drop the Physical Plant and Equipment Levy for 2005-06.

Overview of the Financial Statements

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

- The first two statements are *District-wide financial statements* that provide both short-term and long-term information about the District’s overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District’s operations in more detail than the District-wide statements.

- The statements for *government funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- The statements for *fiduciary funds* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

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

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

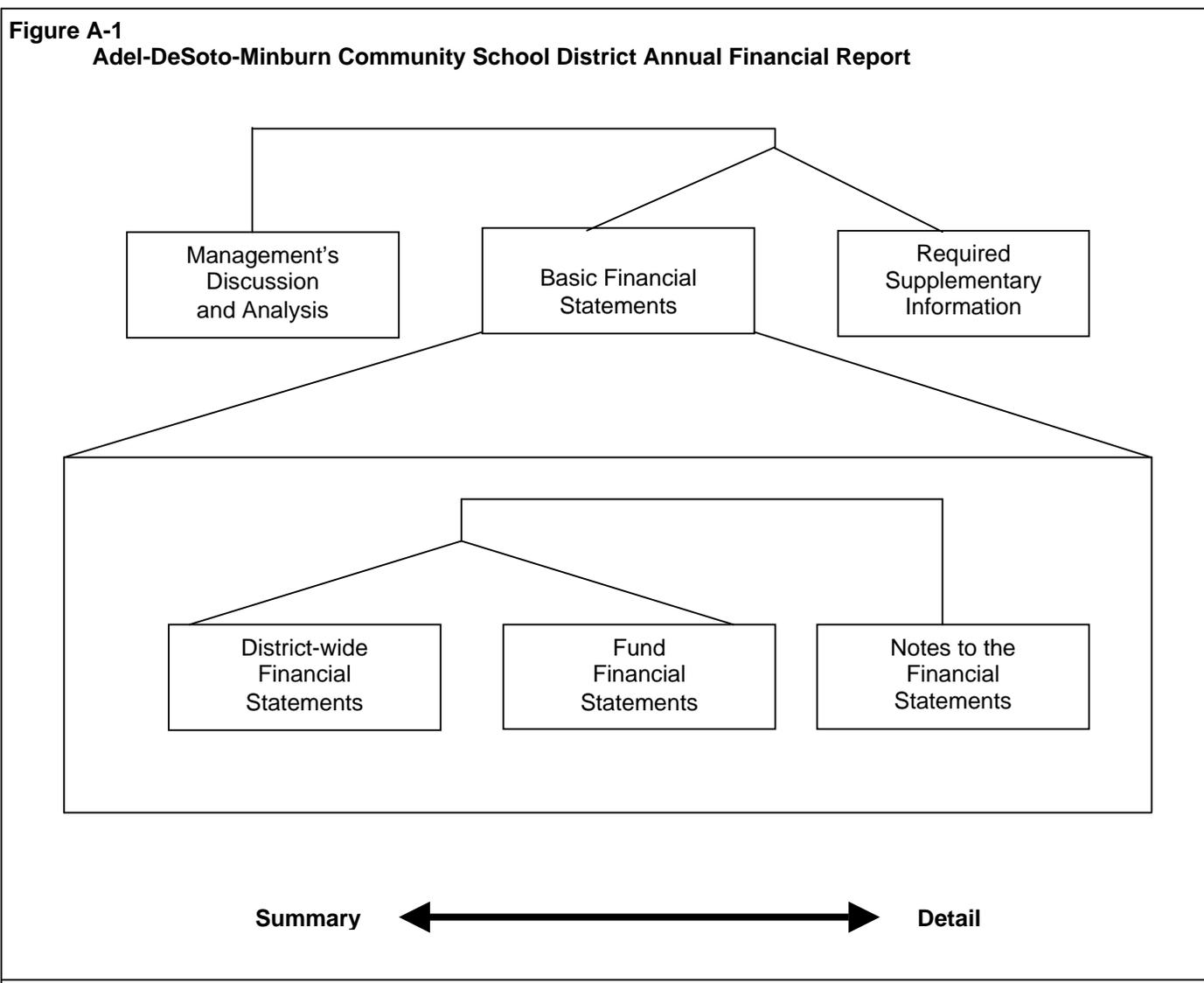


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents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

Figure A-2 Major Features of the District-Wide and Fund Financial Statements				
	District-Wide Statements	Fund Statements		
		Government 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	<input type="checkbox"/> Statement of net assets <input type="checkbox"/> Statement of activities	<input type="checkbox"/> Balance sheet <input type="checkbox"/> Statement of revenues, expenditures, and changes in fund balances	<input type="checkbox"/> Statement of net assets <input type="checkbox"/> Statement of revenues, expenses and changes in net assets <input type="checkbox"/> Statement of cash flows	<input type="checkbox"/> Statement of fiduciary net assets <input type="checkbox"/> Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

District-wide Statements

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

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

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

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

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property 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 and before-and-after school program are included here.

Fund Financial Statements

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

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

The District has three kinds of funds:

- *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental 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. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.
 - The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.
- *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements.
 - The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and the Day Care Fund.
- *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund – These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for custodial purposes and related expenditures.

The District is responsible for ensuring that 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 District-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Net assets – Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2005 compared to 2004.

Figure A-3
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-2005
Current and other assets	\$14,029	\$16,727	\$ 113	\$ 151	\$14,142	\$ 16,878	-16.2%
Capital assets	11,024	6,861	38	36	11,062	6,897	60.4%
Total assets	<u>25,053</u>	<u>23,588</u>	<u>151</u>	<u>187</u>	<u>25,204</u>	<u>23,775</u>	<u>6.0%</u>
Long-term obligations	13,285	13,673	-0-	-0-	13,285	13,673	-2.8%
Other liabilities	5,917	4,942	45	45	5,962	4,987	19.6%
Total liabilities	<u>19,202</u>	<u>18,615</u>	<u>45</u>	<u>45</u>	<u>19,247</u>	<u>18,660</u>	<u>3.1%</u>
Net assets:							
Invested in capital assets, net of related debt	4,356	3,978	38	35	4,394	4,013	9.5%
Restricted	1,329	380	-0-	-0-	1,329	380	249.7%
Unrestricted	<u>166</u>	<u>615</u>	<u>68</u>	<u>107</u>	<u>234</u>	<u>722</u>	<u>-67.6%</u>
Total net assets	<u>\$5,851</u>	<u>\$ 4,973</u>	<u>\$ 106</u>	<u>\$ 142</u>	<u>\$ 5,957</u>	<u>\$ 5,115</u>	<u>16.5%</u>

The District's improved financial position is the product of many factors. Capital assets increased due to construction-in-progress while current assets decreased because contractors have been paid for work completed. SILO receipts continued to increase and PPEL current assets were conserved to be used in future years when the levy is no longer in place.

Long-term obligations decreased because bonds were paid for the construction projects for new construction, renovation and air-conditioning. However, other liabilities increased due to construction contracts payable.

The restricted net assets increase can be attributed to reservation of the PPEL Fund balance and to the reservation of the Capital Projects Fund balance.

Unrestricted net assets decreased due to expenditures for salaries and benefits that decreased General Fund balance because budget growth did not occur to offset salary and benefit settlements and because of staff increases for special education.

Changes in net assets – Figure A-4 shows the changes in net assets for the year ended June 30, 2005.

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

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-2005
Revenues:							
Program revenues:							
Charges for service and sales	\$1,215	\$1,105	\$ 429	\$ 430	\$ 1,644	\$ 1,535	7.1%
Operating grants, contributions and restricted interest	970	959	162	169	1,132	1,128	0.4%
Capital grants, contributions and restricted interest	-0-	-0-	-0-	-0-	-0-	-0-	-0-
General revenues:							
Property Tax	3,879	3,843	-0-	-0-	3,879	3,843	0.9%
SILO and mobile home taxes	1,041	274	-0-	-0-	1,041	274	280.0%
Unrestricted state grants	5,419	5,172	-0-	-0-	5,419	5,172	4.8%
Unrestricted investment earnings	231	29	1	1	232	30	673.3%
Other	126	103	-0-	-0-	126	103	22.3%
Total revenues	<u>12,881</u>	<u>11,485</u>	<u>592</u>	<u>600</u>	<u>13,473</u>	<u>12,085</u>	<u>11.5%</u>
Program expenses:							
Governmental activities:							
Instruction	7,838	7,284	-0-	-0-	7,838	7,284	7.6%
Support services	3,008	2,984	-0-	-0-	3,008	2,984	0.8%
Non-instructional programs	0	5	628	609	628	614	2.3%
Other expenses	1,157	1,069	-0-	-0-	1,157	1,069	8.2%
Total expenses	<u>12,003</u>	<u>11,342</u>	<u>628</u>	<u>609</u>	<u>12,631</u>	<u>11,951</u>	<u>5.7%</u>
Change in net assets	<u>\$ 878</u>	<u>\$ 143</u>	<u>\$ -36</u>	<u>\$ -9</u>	<u>\$ 842</u>	<u>\$ 134</u>	<u>528.4%</u>

Property tax and unrestricted state grants account for 69% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 86% of total expenses. The increase in net assets is tied to unrestricted investment earnings and SILO taxes.

Governmental Activities

Revenues for governmental activities were \$12,880,896 and expenses were \$12,003,052. Enrollment declined a few students again this year, putting continued pressure on the operating budget.

Figure A-5 shows each activity's net cost, (total costs less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

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

	Total Cost Of Services	Net Cost Of Services
Instruction	\$ 7,838	\$ 6,072
Support Services	3,008	2,978
Non Instruction programs	0	0
Other expenses	1,157	768
Totals	\$ 12,003	\$ 9,818

- The cost financed by users of the District's programs was \$1,215,364.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$969,837.
- The net cost of governmental activities was financed with \$3,879,186 in property tax, \$1,040,697 in SILO and mobile home taxes, \$5,419,308 in state foundation aid, \$230,630 in interest income, and \$125,874 in other income.

Business Type Activities

Revenues of the District's business-type activities were \$592,274 and expenses were \$627,710. The District's business-type activities include the School Nutrition Fund and the Day Care Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, and investment income.

During the year ended June 30, 2005, increases in meal prices were made. However, School Nutrition Fund lost ground to increases in expenditures in all areas, resulting in a decrease in net assets. Another increase in lunch prices will be instituted for FY06. The Day Care Fund was able to meet expenses with charges for services and increase net assets.

Financial Analysis of the District's Funds

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$8,193,690, a significant decrease compared to last year's ending fund balances of \$11,916,185.

Governmental Fund Highlights

- The District's declining General Fund financial position is the product of many factors. Declining enrollment has meant little budget growth; salary and benefit settlements have exceeded that growth. Cash reserves were used to allow maintenance of programming. Unexpected was the growth in the number of teacher associates required by special education IEPs, which caused further pressure on the budget.
- The General Fund balance decreased from \$614,973 to \$166,203 because the District was unable to trim expenditures as the negotiated salary and benefit settlements increased at least 4.15% for all groups and more employees were added for special education.
- The Management Fund balance decreased from \$124,990 to \$119,904 because property and casualty insurance premiums and early retirements increased more than expected. A levy increase will again need to be considered.

- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$153,346 to \$330,815. SILO receipts have allowed preservation of some of the PPEL fund balance to be used for buying computers and busses. The voted PPEL levy expired June 30, 2005.
- The Capital Projects Fund balance decreased from \$10,717,032 to \$7,253,047 because of the payments to contractors for construction projects.

Proprietary Fund Highlights

- The School Nutrition Fund net assets decreased from \$116,607 at June 30, 2004, to \$72,922 at June 30, 2005, representing a decrease of approximately 37 percent. While participation is constant, enrollment has declined; revenues are not increasing as fast as increases for expenditures.
- The Day Care Fund net assets increased from \$25,299 at June 30, 2004, to \$33,548 at June 30, 2005, representing an increase of approximately 33%. Decreased staff costs have allowed an increase in net assets.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except its private-purpose trust and agency funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Over the course of the year, the District amended its annual operating budget one time to reflect additional revenue and expenditures associated with noninstructional programs and a bond issue. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on page 50.

School Districts have two levels of budgetary control, the "certified budget" explained above for all District funds and the "unspent (maximum) authorized budget" that pertains only to the General Fund of the District. The maximum authorized budget is the total "spending authority" in the General Fund of the District. The unspent balance is a budgetary concept and does not mean the "actual General Fund cash". It is imperative for users of District financial information to make this important distinction. The unspent balance is the amount of spending authority that is carried over into the next fiscal year. The unspent balance is a budgetary carryover and does not represent actual dollars (General Fund cash) or actual financial position (unreserved, undesignated General Fund balance) of the District.

Legal Budgetary Highlights

The District's total actual receipts were approximately \$262,717 less than the total budgeted receipts, a variance of 2%. The most significant change resulted in the District receiving more in various local sources of funds and less state aid and federal aid than originally anticipated.

Total expenditures were less than budgeted due to excess budget for anticipated expenditures that were subsequently delayed. It is the District's practice to budget expenditures to present a balanced budget, showing revenues as expected and maintaining the beginning cash balance at the end of the year, except for capital projects funds and PPEL funds. The District then manages or controls each fund's spending through its line-item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2005, the District had invested \$11 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computer, audio-visual equipment, and transportation equipment. (see Figure A-6) This amount represents a net increase of 60.7 percent from last year. More detailed information is available in Note 4 to the financial statements. Depreciation expense for the year was almost \$364,000.

The original cost of the District's capital assets was \$17.15 million. Governmental funds account for \$16.97 million with the remainder of \$0.18 million in the Proprietary, School Nutrition Fund and Day Care Fund.

The largest change in capital asset activity during the year occurred in the land improvements and construction-in-progress categories.

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

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-2005
Land	\$ 670	70	\$ -0-	-0-	\$ 670	70	857.1%
Construction in progress	4,478	938	-0-	-0-	4,478	938	377.4%
Buildings	5,023	5,232	-0-	-0-	5,023	5,232	-4.0%
Improvements other than buildings	569	384	-0-	-0-	569	384	48.2%
Furniture and equipment	284	237	38	35	322	272	18.4%
Totals	\$ 11,024	6,861	\$ 38	35	\$ 11,062	6,896	60.4%

Long-Term Debt

At June 20, 2005, the District had \$13,284,902 in outstanding general obligation bond debt and other long-term debt. This represents a decrease of approximately 3 percent 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.

In March 2003, the voters of Dallas County approved a Local Option Sales and Services Tax of 1¢ to begin collection January 1, 2004. A bond issue for \$12,500,000 was approved October 21, 2003. Site preparation for new construction for an 8-9 grades building on the campus of the current high school began in June, 2004. Remodeling of other District buildings and air conditioning all District elementary school buildings is in progress.

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

	Total School District		Total Change
	2005	2004	2004-2005
General obligation bonds	\$ 13,200	\$ 13,600	-2.9%
Notes payable	-0-	-0-	-0-
Early retirement	85	66	28.8%
Compensated absences	0	8	-0-
Totals	\$ 13,285	\$ 13,674	-2.8%

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 State of Iowa dictated a statewide revaluation of agricultural land and the corresponding rollback in residential property values resulted in a loss of approximately \$1 million in bonding capacity for the 8-9 grades building and remodeling projects. The district may need to explore using revenue bonds based on Local Option Sales and Services Taxes to fund those projects, funds that were intended to replace the Physical Plant and Equipment Levy that will expire at the end of fiscal 2005 and intended to be used as a cushion for other infrastructure needs.
- The District experienced declining enrollment for five years before an increase of twenty students in fiscal 2003 that was followed by a loss of students in fiscal 2004. Even though enrollment declined slightly again for fiscal 2005, with the completion of converting U.S. Highway 6 from two lanes to four lanes and new housing projects begun in DeSoto and several rural areas, the District expects enrollment to increase steadily in future years. Over the last twenty years, the District has experienced an average increase of just under 2% annually.
- The District will negotiate a new agreement during fiscal 2006 with the Adel-DeSoto-Minburn Education Association. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance unless expenditures are reduced or property taxes are increased; the instructional support levy was increased from 7% to a maximum of 10% for fiscal 2005 and will be continued for fiscal 2006.
- In 2001, two important legislative acts were passed into law which affect public school education. The federal government passed "No Child Left Behind" and Iowa passed the "Student Achievement and Teacher Quality Act". The District is continuing to work through the various requirements of these laws. While the intent of this legislation is sound, additional costs and unfunded mandates may develop.

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 Shirley McAdon, District Secretary/Treasurer and Business Manager, Adel-DeSoto-Minburn Community School District, 801 Nile Kinnick Drive South, Adel, Iowa, 50003.

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Basic Financial Statements

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2005

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Assets			
Cash and pooled investments	\$ 10,045,776	\$ 107,234	\$ 10,153,010
Receivables:			
Property tax:			
Current year	39,213	-	39,213
Succeeding year	3,584,570	-	3,584,570
Accounts	3,935	140	4,075
Due from other governments	355,370	-	355,370
Inventories	-	5,758	5,758
Capital assets, net of accumulated depreciation (note 4)	11,023,768	38,235	11,062,003
	<hr/>	<hr/>	<hr/>
Total assets	25,052,632	151,367	25,203,999
Liabilities			
Accounts payable	1,064,483	54	1,064,537
Salaries and benefits payable	1,162,913	36,955	1,199,868
Due to other governments	21,108	-	21,108
Accrued interest payable	81,964	-	81,964
Deferred revenue:			
Succeeding year property tax	3,584,570	-	3,584,570
Other	2,100	7,888	9,988
Long-term liabilities (note 5):			
Portion due within one year:			
Early retirement	84,902	-	84,902
Bonds payable	475,000	-	475,000
Portion due after one year:			
Bonds payable	12,725,000	-	12,725,000
	<hr/>	<hr/>	<hr/>
Total liabilities	19,202,040	44,897	19,246,937

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
June 30, 2005

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 4,356,096	\$ 38,235	\$ 4,394,331
Restricted for:			
Management levy	35,002	-	35,002
Physical plant and equipment levy	330,815	-	330,815
Other special revenue purposes	98,497	-	98,497
Debt service	143,260	-	143,260
Capital projects	720,719	-	720,719
Unrestricted	<u>166,203</u>	<u>68,235</u>	<u>234,438</u>
Total net assets	<u>\$ 5,850,592</u>	<u>\$ 106,470</u>	<u>\$ 5,957,062</u>

See notes to financial statements.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities:				
Instruction:				
Regular instruction	\$ 4,967,930	\$ 667,530	\$ 431,038	\$ -
Special instruction	1,893,865	286,306	131,378	-
Other instruction	975,818	241,124	8,309	-
	<u>7,837,613</u>	<u>1,194,960</u>	<u>570,725</u>	<u>-</u>
Support services:				
Student services	307,132	-	4,469	-
Instructional staff services	381,207	-	-	-
Administration services	987,226	-	-	-
Operation and maintenance of plant services	858,130	-	-	-
Transportation services	474,104	20,404	4,741	-
	<u>3,007,799</u>	<u>20,404</u>	<u>9,210</u>	<u>-</u>
Other expenditures:				
Long-term debt interest and fiscal charges	500,410	-	-	-
AEA flowthrough	389,902	-	389,902	-
Depreciation (unallocated) *	267,328	-	-	-
	<u>1,157,640</u>	<u>-</u>	<u>389,902</u>	<u>-</u>
Total governmental activities	12,003,052	1,215,364	969,837	-
Business-Type Activities:				
Non-instructional programs:				
Food service operations	602,422	396,303	161,890	-
Daycare operations	25,288	33,296	-	-
Total business-type activities	<u>627,710</u>	<u>429,599</u>	<u>161,890</u>	<u>-</u>
Total	<u>\$ 12,630,762</u>	<u>\$ 1,644,963</u>	<u>\$ 1,131,727</u>	<u>\$ -</u>

Net (Expense) Revenue
and Changes in Net Assets

<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
\$ (3,869,362)	\$ -	\$ (3,869,362)
(1,476,181)	-	(1,476,181)
(726,385)	-	(726,385)
<u>(6,071,928)</u>	<u>-</u>	<u>(6,071,928)</u>
(302,663)	-	(302,663)
(381,207)	-	(381,207)
(987,226)	-	(987,226)
(858,130)	-	(858,130)
(448,959)	-	(448,959)
<u>(2,978,185)</u>	<u>-</u>	<u>(2,978,185)</u>
(500,410)	-	(500,410)
-	-	-
(267,328)	-	(267,328)
<u>(767,738)</u>	<u>-</u>	<u>(767,738)</u>
(9,817,851)	-	(9,817,851)
-	(44,229)	(44,229)
-	8,008	8,008
<u>-</u>	<u>(36,221)</u>	<u>(36,221)</u>
<u>(9,817,851)</u>	<u>(36,221)</u>	<u>(9,854,072)</u>

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

Functions/Programs

General Revenues:

Property tax levied for:

General purposes

Debt service

Capital outlay

Local option sales and services tax

Unrestricted state grants

Unrestricted investment earnings

Other

Total general revenues

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 the various programs.

See notes to financial statements.

Net (Expense) Revenue
and Changes in Net Assets

<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
\$ 3,172,203	\$ -	\$ 3,172,203
458,120	-	458,120
248,863	-	248,863
1,040,697	-	1,040,697
5,419,308	-	5,419,308
230,630	785	231,415
125,874	-	125,874
<hr/>		
10,695,695	785	10,696,480
<hr/>		
877,844	(35,436)	842,408
4,972,748	141,906	5,114,654
<hr/>		
<u>\$ 5,850,592</u>	<u>\$ 106,470</u>	<u>\$ 5,957,062</u>

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and pooled investments	\$ 1,187,016	\$ 8,089,794	\$ 768,966	\$ 10,045,776
Receivables:				
Property tax:				
Current year	30,188	-	9,025	39,213
Succeeding year	2,882,836	-	701,734	3,584,570
Accounts	3,935	-	-	3,935
Due from other governments	148,732	205,883	755	355,370
 Total assets	 \$ 4,252,707	\$ 8,295,677	\$ 1,480,480	\$ 14,028,864
 Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 18,862	\$ 1,042,630	\$ 2,991	\$ 1,064,483
Salaries and benefits payable	1,161,598	-	1,315	1,162,913
Due to other governments	21,108	-	-	21,108
Deferred revenue:				
Succeeding year property tax	2,882,836	-	701,734	3,584,570
Other	2,100	-	-	2,100
Total liabilities	4,086,504	1,042,630	706,040	5,835,174
 Fund balance:				
Reserved for:				
Debt service	-	-	225,224	225,224
Unreserved:				
Reported in nonmajor Special Revenue Funds	-	-	549,216	549,216
Designated for special purposes	51,654	-	-	51,654
Undesignated	114,549	7,253,047	-	7,367,596
Total fund balances	166,203	7,253,047	774,440	8,193,690
 Total liabilities and fund balances	 \$ 4,252,707	\$ 8,295,677	\$ 1,480,480	\$ 14,028,864

See notes to financial statements.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 June 30, 2005

Total fund balances of governmental funds	\$ 8,193,690
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.	11,023,768
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.	(81,964)
Long-term liabilities, including bonds payable and early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(13,284,902)</u>
Net assets of governmental activities	<u>\$ 5,850,592</u>

See notes to financial statements.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	General	Capital Projects	Nonmajor Governmental Funds	Total
Revenues:				
Local sources:				
Local tax	\$ 2,993,342	\$ 1,040,697	\$ 883,029	\$ 4,917,068
Tuition	900,135	-	-	900,135
Other	182,596	210,724	248,134	641,454
State sources	6,206,624	-	627	6,207,251
Federal sources	184,708	-	-	184,708
Total revenues	<u>10,467,405</u>	<u>1,251,421</u>	<u>1,131,790</u>	<u>12,850,616</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	4,897,255	-	66,282	4,963,537
Special instruction	1,890,295	-	-	1,890,295
Other instruction	738,709	-	248,134	986,843
	<u>7,526,259</u>	<u>-</u>	<u>314,416</u>	<u>7,840,675</u>
Support services:				
Student services	306,343	-	789	307,132
Instructional staff services	380,276	-	931	381,207
Administration services	974,506	-	2,529	977,035
Operation and maintenance of plant services	939,133	-	100,615	1,039,748
Transportation services	430,036	-	86,051	516,087
	<u>3,030,294</u>	<u>-</u>	<u>190,915</u>	<u>3,221,209</u>
Other expenditures:				
Facilities acquisition	-	4,194,736	-	4,194,736
Long term debt:				
Principal	-	-	400,000	400,000
Interest and fiscal charges	-	-	556,869	556,869
AEA flowthrough	389,902	-	-	389,902
	<u>389,902</u>	<u>4,194,736</u>	<u>956,869</u>	<u>5,541,507</u>
Total expenditures	<u>10,946,455</u>	<u>4,194,736</u>	<u>1,462,200</u>	<u>16,603,391</u>
Deficiency of revenues under expenditures	<u>(479,050)</u>	<u>(2,943,315)</u>	<u>(330,410)</u>	<u>(3,752,775)</u>

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	General	Capital Projects	Nonmajor Governmental Funds	Total
Other financing sources (uses):				
Sale of equipment	\$ 1,743	\$ -	\$ -	\$ 1,743
Compensation for loss of capital assets	28,537	-	-	28,537
Interfund transfers in	-	-	520,670	520,670
Interfund transfers out	-	(520,670)	-	(520,670)
Total other financing sources (uses)	<u>30,280</u>	<u>(520,670)</u>	<u>520,670</u>	<u>30,280</u>
Net change in fund balances	(448,770)	(3,463,985)	190,260	(3,722,495)
Fund balances beginning of year	<u>614,973</u>	<u>10,717,032</u>	<u>584,180</u>	<u>11,916,185</u>
Fund balances end of year	<u>\$ 166,203</u>	<u>\$ 7,253,047</u>	<u>\$ 774,440</u>	<u>\$ 8,193,690</u>

See notes to financial statements.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

Net change in fund balances - total governmental funds	\$ (3,722,495)
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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:

Capital outlays	\$ 4,519,171	
Depreciation expense	<u>(356,023)</u>	4,163,148

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets.	400,000
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	56,459
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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 governmental funds.	<u>(19,268)</u>
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Change in net assets of governmental activities	<u><u>\$ 877,844</u></u>
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See notes to financial statements.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2005

	<u>School Nutrition</u>	<u>Nonmajor - Daycare</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 78,597	\$ 28,637	\$ 107,234
Accounts receivable	-	140	140
Inventories	5,758	-	5,758
Capital assets, net of accumulated depreciation	31,404	6,831	38,235
Total assets	<u>115,759</u>	<u>35,608</u>	<u>151,367</u>
Liabilities			
Accounts payable	54	-	54
Salaries and benefits payable	34,895	2,060	36,955
Deferred revenue	7,888	-	7,888
Total liabilities	<u>42,837</u>	<u>2,060</u>	<u>44,897</u>
Net Assets			
Invested in capital assets	31,404	6,831	38,235
Unrestricted	41,518	26,717	68,235
Total net assets	<u>\$ 72,922</u>	<u>\$ 33,548</u>	<u>\$ 106,470</u>

See notes to financial statements.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2005

	<u>School Nutrition</u>	<u>Nonmajor - Daycare</u>	<u>Total</u>
Operating revenues:			
Local sources:			
Charges for services	\$ 396,303	\$ 33,296	\$ 429,599
Operating expenses:			
Non-instructional programs:			
Food service and daycare operations:			
Salaries	226,628	15,711	242,339
Benefits	60,597	3,138	63,735
Purchased services	13,566	3,747	17,313
Supplies	295,033	1,463	296,496
Depreciation	6,598	1,229	7,827
	<u>602,422</u>	<u>25,288</u>	<u>627,710</u>
Operating income (loss)	<u>(206,119)</u>	<u>8,008</u>	<u>(198,111)</u>
Non-operating revenues:			
Interest on investments	544	241	785
State sources	6,964	-	6,964
Federal sources	154,926	-	154,926
Total non-operating revenues	<u>162,434</u>	<u>241</u>	<u>162,675</u>
Change in net assets	(43,685)	8,249	(35,436)
Net assets beginning of year	<u>116,607</u>	<u>25,299</u>	<u>141,906</u>
Net assets end of year	<u>\$ 72,922</u>	<u>\$ 33,548</u>	<u>\$ 106,470</u>

See notes to financial statements.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2005

	School Nutrition	Nonmajor - Daycare	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 396,567	\$ -	\$ 396,567
Cash received from miscellaneous operating activities	1,174	33,156	34,330
Cash payments to employees for services	(286,405)	(20,848)	(307,253)
Cash payments to suppliers for goods or services	(281,852)	(5,210)	(287,062)
Net cash provided by (used in) operating activities	<u>(170,516)</u>	<u>7,098</u>	<u>(163,418)</u>
Cash flows from non-capital financing activities:			
State grants received	6,964	-	6,964
Federal grants received	129,872	-	129,872
Net cash provided by non-capital financing activities	<u>136,836</u>	<u>-</u>	<u>136,836</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	<u>(10,630)</u>	<u>-</u>	<u>(10,630)</u>
Cash flows from investing activities:			
Interest on investments	<u>544</u>	<u>241</u>	<u>785</u>
Net increase (decrease) in cash and cash equivalents	(43,766)	7,339	(36,427)
Cash and cash equivalents beginning of year	<u>122,363</u>	<u>21,298</u>	<u>143,661</u>
Cash and cash equivalents end of year	<u>\$ 78,597</u>	<u>\$ 28,637</u>	<u>\$ 107,234</u>

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2005

	<u>School Nutrition</u>	<u>Nonmajor - Daycare</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ (206,119)	\$ 8,008	\$ (198,111)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	6,598	1,229	7,827
Commodities used	25,054	-	25,054
(Increase) in accounts receivable	-	(140)	(140)
Decrease in inventories	1,639	-	1,639
Increase in accounts payable	54	-	54
Increase (decrease) in salaries and benefits payable	820	(1,999)	(1,179)
Increase in deferred revenues	1,438	-	1,438
Net cash provided by (used in) operating activities	<u>\$ (170,516)</u>	<u>\$ 7,098</u>	<u>\$ (163,418)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received \$25,054 of federal commodities.

See notes to financial statements.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 June 30, 2005

	Private Purpose Trust	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Cash and pooled investments	\$ 1,610	\$ -
Due from other governments	<u>-</u>	<u>1,303</u>
Total assets	<u>1,610</u>	<u>\$ 1,303</u>
Liabilities:		
Due to other governments	<u>-</u>	<u>\$ 1,303</u>
Net assets:		
Reserved for scholarships	<u>\$ 1,610</u>	

See notes to financial statements.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 Year Ended June 30, 2005

	Private Purpose Trust
	<u>Scholarship</u>
Additions:	
Local sources:	
Gifts and contributions	\$ <u>4,900</u>
Deductions:	
Support services:	
Scholarships awarded	<u>3,450</u>
Change in net assets	1,450
Net assets beginning of year	<u>160</u>
Net assets end of year	\$ <u><u>1,610</u></u>

See notes to financial statements.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies

Adel-DeSoto-Minburn Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the Cities of Adel, DeSoto, and Minburn, Iowa, and the agricultural territory in portions of Dallas and Madison 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, Adel-DeSoto-Minburn 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. Adel-DeSoto-Minburn 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 does 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 Dallas County Assessor's Conference Board.

B. Basis of Presentation

District-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.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management 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 that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the District-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 main 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 expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

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

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

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

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

The District-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

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

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

All proprietary funds of the District apply 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.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the statement of net assets and 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, 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 to the County Board of Supervisors. Current year property tax receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget to the County Auditor by April 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% 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 contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Capital Assets – Capital assets, which include property, furniture, and equipment are reported in the applicable governmental or business-type activities columns in the District-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	\$ -
Buildings	50,000
Improvements other than buildings	30,000
Furniture and equipment:	
School Nutrition Fund Equipment	500
Vehicles	5,000
Other furniture and equipment	3,500

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

Asset Class	Estimated Useful Lives
Buildings	20-50 years
Improvements other than buildings	20 years
Furniture and equipment	5-12 years

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

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue 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 unspent grant proceeds, the succeeding year property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in 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.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation and sick leave for subsequent use. Employees are not paid for unused sick leave benefits upon termination, death or retirement. Classified employees who have worked twelve months qualify for paid vacation. A liability is recorded when incurred in the District-wide financial statements. The District had no compensated absences liability at June 30, 2005.

Long-term Liabilities – In the District-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 Balances – 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.

Invested in capital assets, net of related debt – In the District-wide statement of net assets, the net asset balance invested in capital assets, net of related debt is equal to the capital assets balances, including restricted capital assets, less accumulated depreciation and the outstanding balances of any bonds, notes, or other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets – In the District-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. Budgets and Budgetary Control

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

Note 2. Cash and Pooled Investments

The District's deposits in banks 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; 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.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 2. Cash and Pooled Investments (continued)

At June 30, 2005, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 6,105,979

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 of 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.

Credit Risk – The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody’s Investors Service.

Note 3. Interfund Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 520,670

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

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 4. Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 70,050	\$ 599,665	\$ -	\$ 669,715
Construction in progress	937,631	3,544,105	3,993	4,477,743
Total capital assets not being depreciated	1,007,681	4,143,770	3,993	5,147,458
Capital assets being depreciated:				
Buildings	9,486,021	-	-	9,486,021
Improvements other than buildings	930,542	243,626	150,000	1,024,168
Furniture and equipment	1,262,865	135,768	82,301	1,316,332
Total capital assets being depreciated	11,679,428	379,394	232,301	11,826,521
Less accumulated depreciation for:				
Buildings	4,254,387	208,620	-	4,463,007
Improvements other than buildings	546,088	58,708	150,000	454,796
Furniture and equipment	1,026,014	88,695	82,301	1,032,408
Total accumulated depreciation	5,826,489	356,023	232,301	5,950,211
Total capital assets being depreciated, net	5,852,939	23,371	-	5,876,310
Governmental activities capital assets, net	\$ 6,860,620	\$ 4,167,141	\$ 3,993	\$ 11,023,768

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 4. Capital Assets (continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	\$ 170,449	\$ 10,630	\$ 4,710	\$ 176,369
Less accumulated depreciation	135,017	7,827	4,710	138,134
Business-type activities capital assets, net	\$ 35,432	\$ 2,803	\$ -	\$ 38,235

Depreciation expense was charged by the District to the following functions:

Governmental activities:

Instruction:

Regular	\$ 12,194
Special	3,570
Other	2,975

Support services:

Administration	1,331
Operation and maintenance of plant services	9,049
Transportation	59,576
	88,695
Unallocated depreciation	267,328

Total governmental activities depreciation expense \$ 356,023

Business-type activities:

Food service operations	\$ 6,598
Daycare operations	1,229

Total business-type activities depreciation expense \$ 7,827

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 5. Long-Term Liabilities

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

	<u>Early Retirement</u>	<u>General Obligation Bonds</u>	<u>Compensated Absences</u>	<u>Total</u>
Balance beginning of year	\$ 65,634	\$ 13,600,000	\$ 7,879	\$ 13,673,513
Additions	84,902	-	-	84,902
Reductions	<u>65,634</u>	<u>400,000</u>	<u>7,879</u>	<u>473,513</u>
Balance end of year	<u>\$ 84,902</u>	<u>\$ 13,200,000</u>	<u>\$ -</u>	<u>\$ 13,284,902</u>
Due within one year	<u>\$ 84,902</u>	<u>\$ 475,000</u>	<u>\$ -</u>	<u>\$ 559,902</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified and classified employees. Eligible employees must be at least age fifty-five and employees must have completed ten years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to 44% of the employee's year of application salary. Early retirement benefits paid during the year ended June 30, 2005, totaled \$65,634. The long-term portion of early retirement is recorded as a long-term liability of the Governmental Activities in the District-wide financial statements.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 5. Long-Term Liabilities (continued)

Bonds Payable

Details of the District's June 30, 2005 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of January 1990			Bond Issue of October 2002		
	Interest Rate	Principal	Interest	Interest Rate	Principal	Interest
2006	6.80 %	\$ 25,000	\$ 8,160	2.25 %	\$ 385,000	\$ 38,852
2007	6.80	30,000	6,460	2.55	390,000	30,190
2008	6.80	35,000	4,420	2.85	400,000	20,245
2009	6.80	30,000	2,040	3.05	290,000	8,845
2010	-	-	-	-	-	-
2011	-	-	-	-	-	-
2012	-	-	-	-	-	-
2013	-	-	-	-	-	-
2014	-	-	-	-	-	-
2015	-	-	-	-	-	-
2016	-	-	-	-	-	-
2017	-	-	-	-	-	-
2018	-	-	-	-	-	-
2019	-	-	-	-	-	-
2020	-	-	-	-	-	-
2021	-	-	-	-	-	-
2022	-	-	-	-	-	-
2023	-	-	-	-	-	-
2024	-	-	-	-	-	-
		\$ 120,000	\$ 21,080		\$ 1,465,000	\$ 98,132

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 5. Long-Term Liabilities (continued)

Bonds Payable (continued)

Year Ending June 30,	Bond Issue of December 2003			Bond Issue of May 2004		
	Interest Rate	Principal	Interest	Interest Rate	Principal	Interest
2006	2.40 %	\$ 65,000	\$ 132,012	- %	\$ -	\$ 312,758
2007	2.50	70,000	130,452	-	-	312,758
2008	2.75	75,000	128,703	-	-	312,758
2009	3.00	160,000	126,640	-	-	312,757
2010	3.25	170,000	121,840	3.00	410,000	312,757
2011	3.50	170,000	116,315	3.00	430,000	300,457
2012	4.00	180,000	110,365	3.25	435,000	287,557
2013	4.00	185,000	103,165	3.30	450,000	273,420
2014	3.65	190,000	95,765	3.40	470,000	258,570
2015	3.80	200,000	88,830	3.55	480,000	242,590
2016	3.90	205,000	81,230	3.65	500,000	225,550
2017	4.00	215,000	73,235	3.80	520,000	207,300
2018	4.10	225,000	64,635	3.90	535,000	187,540
2019	4.15	235,000	55,410	4.00	560,000	166,675
2020	4.25	250,000	45,658	4.10	575,000	144,275
2021	4.30	255,000	35,032	4.15	600,000	120,700
2022	4.35	265,000	24,068	4.20	625,000	95,800
2023	4.40	285,000	12,540	4.25	650,000	69,550
2024	-	-	-	4.30	975,000	41,925
		<u>\$ 3,400,000</u>	<u>\$ 1,545,895</u>		<u>\$ 8,215,000</u>	<u>\$ 4,185,697</u>

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 5. Long-Term Liabilities (continued)

Bonds Payable (continued)

Year Ending June 30,	Total	
	Principal	Interest
2006	\$ 475,000	\$ 491,782
2007	490,000	479,860
2008	510,000	466,126
2009	480,000	450,282
2010	580,000	434,597
2011	600,000	416,772
2012	615,000	397,922
2013	635,000	376,585
2014	660,000	354,335
2015	680,000	331,420
2016	705,000	306,780
2017	735,000	280,535
2018	760,000	252,175
2019	795,000	222,085
2020	825,000	189,933
2021	855,000	155,732
2022	890,000	119,868
2023	935,000	82,090
2024	975,000	41,925
	\$ 13,200,000	\$ 5,850,804

Note 6. 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. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$426,504, \$400,772, and \$382,700 respectively, equal to the required contributions for each year.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 7. Risk Management

Adel-DeSoto-Minburn 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.

Note 8. 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 \$389,902 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.

Note 9. Construction Commitments

The District entered into various contracts totaling \$11,899,498 for site preparation work, an elementary school addition, an 8/9 school addition, and a high school addition. At June 30, 2005 \$3,239,163 of the contracts were completed. The remaining amounts of the contracts will be paid as work on the projects progresses.

Note 10. Contingency

The District had one ongoing lawsuit at June 30, 2005. The suit was settled in September 2005. The District's insurance carrier provided coverage for the lawsuit and settlement.

Required Supplementary Information

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule 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	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Funds - Actual	Funds - Actual		Original	Final	
RECEIPTS:						
Local sources	\$ 6,283,014	\$ 431,682	\$ 6,714,696	\$ 6,480,296	\$ 6,480,296	\$ 234,400
State sources	6,207,865	6,964	6,214,829	6,282,951	6,282,951	(68,122)
Federal sources	190,369	154,926	345,295	774,290	774,290	(428,995)
Total receipts	12,681,248	593,572	13,274,820	13,537,537	13,537,537	(262,717)
DISBURSEMENTS:						
Instruction	7,798,305	-	7,798,305	7,209,402	7,800,000	1,695
Support services	3,227,700	-	3,227,700	3,208,945	3,400,000	172,300
Non-instructional programs	-	629,999	629,999	574,035	800,000	170,001
Other expenditures	4,622,447	-	4,622,447	11,568,495	11,568,495	6,946,048
Total disbursements	15,648,452	629,999	16,278,451	22,560,877	23,568,495	7,290,044
Excess (deficiency) of receipts over (under) disbursements	(2,967,204)	(36,427)	(3,003,631)	(9,023,340)	(10,030,958)	7,027,327
Other financing sources, net	31,325	-	31,325	-	-	31,325
Excess (deficiency) of receipts and other financing sources over (under) disbursements	(2,935,879)	(36,427)	(2,972,306)	(9,023,340)	(10,030,958)	7,058,652
Balance beginning of year	12,981,655	143,661	13,125,316	13,476,579	13,476,579	(351,263)
Balance end of year	<u>\$ 10,045,776</u>	<u>\$ 107,234</u>	<u>\$ 10,153,010</u>	<u>\$ 4,453,239</u>	<u>\$ 3,445,621</u>	<u>\$ 6,707,389</u>

See accompanying independent auditor's report.

ADEL-DESOTO-MINBURN 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	\$ 12,681,248	\$ 169,368	\$ 12,850,616
Expenditures	15,648,452	954,939	16,603,391
Net	(2,967,204)	(785,571)	(3,752,775)
Other financing sources (uses)	31,325	(1,045)	30,280
Beginning fund balances	12,981,655	(1,065,470)	11,916,185
Ending fund balances	<u>\$ 10,045,776</u>	<u>\$ (1,852,086)</u>	<u>\$ 8,193,690</u>
	Proprietary Funds		
	Enterprise		
	Cash	Accrual	Accrual
	Basis	Adjust- ments	Basis
Revenues	\$ 593,572	\$ (1,298)	\$ 592,274
Expenses	629,999	(2,289)	627,710
Net	(36,427)	991	(35,436)
Beginning net assets	143,661	(1,755)	141,906
Ending net assets	<u>\$ 107,234</u>	<u>\$ (764)</u>	<u>\$ 106,470</u>

See accompanying independent auditor's report.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

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 comparisons 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 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, the District adopted one budget amendment increasing budgeted disbursements by \$1,007,618.

Other Supplementary Information

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2005

	Special Revenue				
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	Total
Assets					
Cash and pooled investments	\$ 118,086	\$ 102,048	\$ 328,262	\$ 220,570	\$ 768,966
Receivables:					
Property tax:					
Current year	1,818	-	2,553	4,654	9,025
Succeeding year	200,668	-	76,077	424,989	701,734
Due from other governments	-	755	-	-	755
Total assets	<u>\$ 320,572</u>	<u>\$ 102,803</u>	<u>\$ 406,892</u>	<u>\$ 650,213</u>	<u>\$ 1,480,480</u>
Liabilities and Fund Equity					
Liabilities:					
Accounts payable	\$ -	\$ 2,991	\$ -	\$ -	\$ 2,991
Salaries and benefits payable	-	1,315	-	-	1,315
Deferred revenue:					
Succeeding year property tax	200,668	-	76,077	424,989	701,734
Total liabilities	<u>200,668</u>	<u>4,306</u>	<u>76,077</u>	<u>424,989</u>	<u>706,040</u>
Fund equity:					
Fund balances:					
Reserved for:					
Debt service	-	-	-	225,224	225,224
Unreserved:					
Undesignated	119,904	98,497	330,815	-	549,216
Total fund equity	<u>119,904</u>	<u>98,497</u>	<u>330,815</u>	<u>225,224</u>	<u>774,440</u>
Total liabilities and fund equity	<u>\$ 320,572</u>	<u>\$ 102,803</u>	<u>\$ 406,892</u>	<u>\$ 650,213</u>	<u>\$ 1,480,480</u>

See accompanying independent auditor's report.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	Special Revenue				Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	
Revenues:					
Local sources:					
Local tax	\$ 176,544	\$ -	\$ 248,688	\$ 457,797	\$ 883,029
Other	1,779	242,256	2,265	1,834	248,134
State sources	129	-	175	323	627
Total revenues	<u>178,452</u>	<u>242,256</u>	<u>251,128</u>	<u>459,954</u>	<u>1,131,790</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	58,282	-	8,000	-	66,282
Other instruction	-	248,134	-	-	248,134
Support services:					
Student services	789	-	-	-	789
Instructional staff services	931	-	-	-	931
Administration services	2,529	-	-	-	2,529
Operation and maintenance of plant services	100,615	-	-	-	100,615
Transportation services	20,392	-	65,659	-	86,051
Other expenditures:					
Long term debt:					
Principal	-	-	-	400,000	400,000
Interest and fiscal charges	-	-	-	556,869	556,869
Total expenditures	<u>183,538</u>	<u>248,134</u>	<u>73,659</u>	<u>956,869</u>	<u>1,462,200</u>
Excess (deficiency) of revenues over (under) expenditures	(5,086)	(5,878)	177,469	(496,915)	(330,410)
Other financing sources:					
Interfund transfers in	-	-	-	520,670	520,670

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	<u>Special Revenue</u>				<u>Total</u>
	<u>Management Levy</u>	<u>Student Activity</u>	<u>Physical Plant and Equipment Levy</u>	<u>Debt Service</u>	
Excess (deficiency) of revenues and other financing sources over (under) expenditures	\$ (5,086)	\$ (5,878)	\$ 177,469	\$ 23,755	\$ 190,260
Fund balances beginning of year	<u>124,990</u>	<u>104,375</u>	<u>153,346</u>	<u>201,469</u>	<u>584,180</u>
Fund balances end of year	<u>\$ 119,904</u>	<u>\$ 98,497</u>	<u>\$ 330,815</u>	<u>\$ 225,224</u>	<u>\$ 774,440</u>

See accompanying independent auditor's report.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Interest	\$ 9,047	\$ 1,133	\$ 1,000	\$ 9,180
HS Cross Country	-	2,372	2,444	(72)
HS Golf	5,084	9,806	12,106	2,784
HS Weight	-	1,495	1,495	-
HS Boys Basketball	2,455	17,180	16,797	2,838
HS Football	(588)	28,907	29,405	(1,086)
HS Boys Soccer	50	6,136	5,386	800
HS Baseball	(1,017)	4,779	5,232	(1,470)
HS Boys Track	359	10,404	10,253	510
HS Wrestling	2,960	7,830	8,927	1,863
HS Girls Basketball	193	6,767	6,886	74
HS Volleyball	15	7,290	7,517	(212)
HS Girls Soccer	1,779	12,561	13,703	637
HS Softball	1,536	7,850	8,891	495
HS Girls Track	1,335	8,338	9,320	353
HS Girls Swimming	38,619	21,460	5,960	54,119
HS Button Club	393	-	330	63
HS Class of 2003	975	-	975	-
HS Class of 2004	247	-	247	-
HS Class of 2005	2,097	247	230	2,114
HS Class of 2006	-	7,138	6,149	989
HS Special Events	3,576	41,867	49,781	(4,338)
HS Drama	7,245	13,787	12,622	8,410
HS Spring Play	1,182	3,081	3,102	1,161
HS French Club	966	66	-	1,032
HS National Honor Society	169	-	66	103
HS Danz Team	2,411	4,799	3,896	3,314
HS SADD	1,874	1,175	530	2,519
HS Thespian Club	536	2,569	3,012	93
HS Student Council	178	2,000	1,944	234
HS TSA	59	536	197	398
HS Yearbook	13,269	19,500	28,190	4,579
HS Cheerleading	1,801	2,329	3,280	850
MS Boys Basketball	-	3,066	3,066	-
MS Football	-	4,025	4,025	-
MS Baseball	(360)	3,752	3,392	-
MS Boys Track	40	1,797	1,837	-
MS Wrestling	-	1,344	1,344	-
MS Girls Basketball	-	1,673	1,673	-
MS Volleyball	-	911	911	-
MS Softball	-	1,100	1,100	-

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
MS Girls Track	\$ -	\$ 1,477	\$ 1,477	\$ -
MS Student Council	5,124	3,430	3,652	4,902
DeSoto Student Council	766	554	59	1,261
Intrafund Transfers	-	(34,275)	(34,275)	-
 Total	 \$ 104,375	 \$ 242,256	 \$ 248,134	 \$ 98,497

See accompanying independent auditor's report.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 Year Ended June 30, 2005

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash	\$ 425	\$ 69,300	\$ 69,725	\$ -
Due from other governments	-	1,303	-	1,303
Total assets	\$ 425	\$ 70,603	\$ 69,725	\$ 1,303
Liabilities				
Accounts payable	\$ 425	\$ 4,660	\$ 5,085	\$ -
Due to other governments	-	65,943	64,640	1,303
Total liabilities	\$ 425	\$ 70,603	\$ 69,725	\$ 1,303

See accompanying independent auditor's report.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	Modified Accrual Basis Years Ended June 30,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 4,917,068	\$ 4,113,812	\$ 3,699,326	\$ 3,457,993
Tuition	900,135	804,321	774,936	646,584
Other	641,454	400,666	407,345	363,843
State sources	6,207,251	5,953,621	5,770,463	5,623,674
Federal sources	184,708	172,597	194,224	195,284
Total revenues	<u>\$ 12,850,616</u>	<u>\$ 11,445,017</u>	<u>\$ 10,846,294</u>	<u>\$ 10,287,378</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 4,963,537	\$ 4,727,184	\$ 4,581,224	\$ 4,426,599
Special instruction	1,890,295	1,755,910	1,579,670	1,382,340
Other instruction	986,843	758,781	743,090	740,232
Support services:				
Student services	307,132	276,733	287,439	306,017
Instructional staff services	381,207	361,792	336,600	330,395
Administration services	977,035	1,105,034	947,754	897,311
Operation and maintenance of plant services	1,039,748	972,766	931,055	813,178
Transportation services	516,087	451,489	424,600	394,505
Non-instructional programs	-	5,125	4,825	3,826
Other expenditures:				
Facilities acquisition	4,194,736	1,008,414	194,836	307,765
Long-term debt:				
Principal	400,000	395,000	355,000	325,000
Interest and fiscal charges	556,869	65,134	135,548	147,173
AEA flowthrough	389,902	392,113	402,374	399,709
Total expenditures	<u>\$ 16,603,391</u>	<u>\$ 12,275,475</u>	<u>\$ 10,924,015</u>	<u>\$ 10,474,050</u>

See accompanying independent auditor's report.

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
Adel-DeSoto-Minburn 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 Adel-DeSoto-Minburn 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 October 3, 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 Adel-DeSoto-Minburn Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions 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 Adel-DeSoto-Minburn Community School District's financial statements are free of material misstatement, we 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 our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about Adel-DeSoto-Minburn Community School 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 Adel-DeSoto-Minburn Community School District and other parties to whom Adel-DeSoto-Minburn 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 Adel-DeSoto-Minburn 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.

Oskaloosa, Iowa
October 3, 2005

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2005

Part I: Findings Related to the General Purpose Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

I-A-05 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The posting of the cash disbursements to the cash disbursements journal, the preparing and distributing of checks, and the bank reconciliations were all done by the same person. Also, the posting of the cash receipts and the bank deposits were 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 changes as the opportunity arises.

Conclusion – Response accepted.

I-B-05 Signature Stamp – One stamp bearing the signatures of the Board President and Board Secretary is used to sign checks. Persons preparing the checks also use the stamp to sign the checks. This procedure negates the internal control procedure established by requiring two signatures on a check.

Recommendation – Employees preparing checks should not have access to the stamp used to sign checks. The Board could eliminate the use of the stamp by designating a person other than the Board President to cosign checks.

Response – The Board has reviewed the use of the signature stamp and believes its use allows the office to operate more efficiently.

Conclusion – Response accepted.

I-C-05 Athletic Gate Admissions - Athletic gate admissions and change box were not reconciled with prenumbered tickets.

Recommendation – The District should establish reconciliation procedures for athletic gate admissions. The reconciliation should include the issuance of prenumbered tickets and the reconciling of the change box and admissions to the number of tickets issued.

Response – We have started using prenumbered tickets and ticket reconciliations for the year ending June 30, 2006.

Conclusion – Response accepted.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2005

Part I: Findings Related to the General Purpose Financial Statements (continued):

Reportable Conditions (continued):

I-D-05 Capital Assets – The District had no adopted capital asset policy at June 30, 2005.

Recommendation – The District should adopt a written capital assets policy. The policy should include capitalization threshold dollar limits for equipment, buildings, land, and improvements. The policy should state the estimated lives for items within each classification and the depreciation method and convention to be used.

Response – We will outline and adopt a capital asset policy.

Conclusion – Response accepted.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting:

- II-A-05 Official Depositories – Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.
- II-B-05 Certified Budget – Disbursements for the year ended June 30, 2005, did not exceed the amounts budgeted.
- II-C-05 Questionable Expenditures – No expenditures were noted that may not meet the requirements of 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 – We noted no business transactions between the District and District officials or employees.
- 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 – No transactions requiring Board approval which had not been approved by the Board were noted.
- II-H-05 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.
- II-I-05 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District’s investment policy were noted.
- II-J-05 Certified Annual Report – The Certified Annual Report was filed with the Department of Education timely. However, we noted significant deficiencies in the amounts reported in the Capital Projects Fund.

Recommendation – The District should report the difference in the Capital Projects Fund as a net auditor’s adjustment to beginning balance on the Certified Annual Report for the year ending June 30, 2006.

Response – We will make the appropriate adjustment on next year’s Certified Annual Report.

Conclusion – Response accepted.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting (continued):

II-K-05 Agency Fund – We noted transactions being recorded through the Fiduciary, Agency Fund balance sheet accounts for a fundraiser used for the support of environmental curriculum. These transactions would more appropriately be accounted for in the General Fund.

Recommendation – The Agency Fund is only to be used to account for money received by the District as an agent for individuals, private organizations and other governments.

Response – We will record future similar transactions in the General Fund as appropriate.

Conclusion – Response accepted.

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