

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

JUNE 30, 2005

Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-13
Basic Financial Statements:	<u>Exhibit</u>	
District-Wide Financial Statements:		
Statement of Net Assets	A	14
Statement of Activities	B	15-16
Governmental Fund Financial Statements:		
Balance Sheet	C	17
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	18
Statement of Revenues, Expenditures and Changes in Fund Balances	E	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	20
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	21
Statement of Revenues, Expenses and Changes in Net Assets	H	22
Statement of Cash Flows	I	23-24
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	25
Statement of Changes in Fiduciary Net Assets	K	26
Notes to Financial Statements		27-37
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual (GAAP Basis) - All Governmental Funds and Proprietary Fund		38-39
Notes to Required Supplementary Information - Budgetary Reporting		40
Other Supplementary Information:		
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	41
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	42
Schedule of Changes in Student Activity Accounts	3	43
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	4	44
Internal Service Funds:		
Combining Statement of Net Assets	5	45
Combining Statement of Revenues, Expenses and Changes in Net Assets	6	46
Combining Statement of Cash Flows	7	47
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	8	48
Schedule of Expenditures of Federal Awards	9	49-50
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		51-52
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance		53-54
Schedule of Findings and Questioned Costs		55-59

Ames Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2004 Election)		
Jane Acker	President	2007
Mark Snell	Vice President	2005
Pat Brown	Board Member	2004
Gloria Symons	Board Member	2005
Gail Johnston	Board Member	2006
Mary Ann Dilla	Board Member	2006
Roy Cakerice	Board Member	2006
Board of Education (After September 2004 Election)		
Gail Johnston	Board Member	2006
Mark Snell	Vice President	2005
Pat Brown	Board Member	2007
Gloria Symons	Board Member	2005
Jane Acker	Board Member	2007
Mary Ann Dilla	Board Member	2006
Roy Cakerice	Board Member	2006
School Officials		
W. Ray Richardson	Superintendent	2005
Kurt Subra	District Secretary/Treasurer and Chief Financial Officer	2005
Ahlers & Cooney, P.C.	Attorney	2005

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Ames 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 Ames Community School District, Ames, 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 financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Ames Community School District at 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 reports dated August 9, 2005 on our consideration of Ames Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of 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. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 38 through 40 are not required parts of the basic financial statements, but are supplementary

Members American Institute & Iowa Society of Certified Public Accountants

information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Ames Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 9, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

August 9, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Ames Community School District provides the Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- Fiscal 2005 General Fund revenues exceeded expenses by \$2.5 million. The excess of revenues over expenses resulted in an increase in the fund balance from \$4.8 million to \$7.3 million. Revenues were \$39.2 million vs. \$38.6 million in fiscal 2004, and expenditures were \$36.7 million vs. \$36.2 million in fiscal 2004. Revenues continued to benefit from the general cash reserve levy, at nearly \$1.5 million for fiscal year 2005.
- In the spring of 2004 construction began on two major capital projects: a new \$28 million middle school for sixth through eighth grade students and renovations/additions at the high school. The new middle school is funded by a ten-year 1% local option sales tax passed by Story County voters in October 2002. The high school project is funded primarily by a \$10 million general obligation bond passed by voters in April 2003. The new middle school was scheduled to open for classes in August 2005, and the high school renovations/additions are being phased-in through Spring 2006.
- The District's September 2004 enrollment declined for the seventh consecutive year. The certified enrollment was 4,366, a decrease of 604 over the past seven years.
- The state again granted 2% "allowable growth," which was the increase in per pupil spending. This follows years of 1% and 2% allowable growth in fiscal years 2003 and 2004, respectively. Over the past three years Iowa school districts have received the least allowable growth in the nearly 35-year history of the school foundation aid formula.
- The District's School Nutrition Fund generated an \$8,000 profit before considering capital contributions. This profit was the first generated by the Fund in several years.

USING THIS ANNUAL REPORT

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

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

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

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

School District acts solely as an agent or custodial for the benefit of those outside of School District.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

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

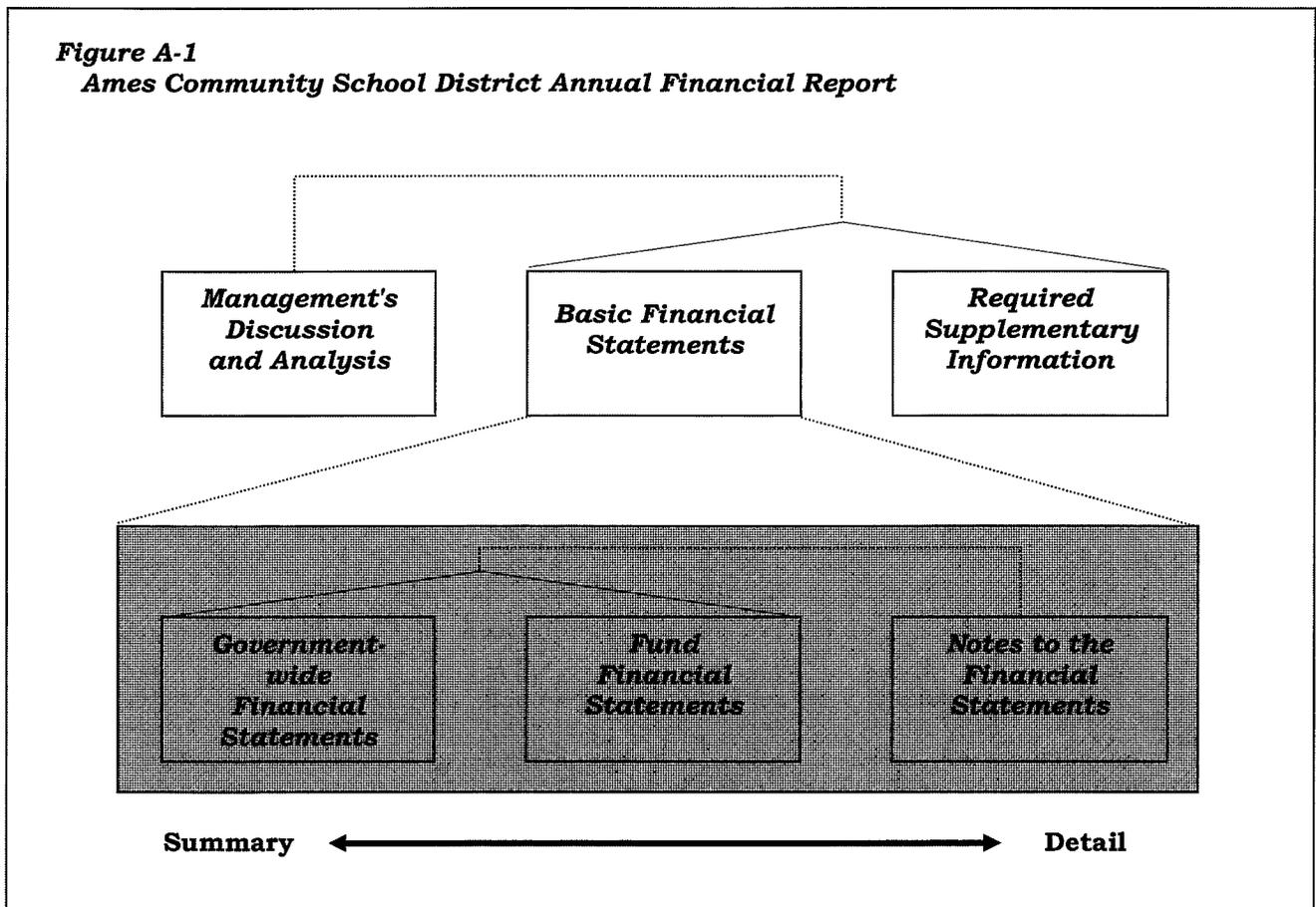


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, 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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

The District is responsible for ensuring 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.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Assets

	Governmental		Business-type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-05
Current and other assets	\$ 44,002,531	47,288,894	36,579	22,671	44,039,110	47,311,565	-6.92%
Capital assets	48,325,635	24,640,929	202,092	110,027	48,527,727	24,750,956	96.06%
Total assets	92,328,166	71,929,823	238,671	132,698	92,566,837	72,062,521	28.45%
Long-term obligations	21,166,558	14,475,754	0	0	21,166,558	14,475,754	46.22%
Other liabilities	34,958,477	31,811,329	1,024,189	1,036,629	35,982,666	32,847,958	9.54%
Total liabilities	56,125,035	46,287,083	1,024,189	1,036,629	57,149,224	47,323,712	20.76%
Net assets:							
Invested in capital assets, net of related debt	26,549,905	12,157,196	202,092	110,027	26,751,997	12,267,223	118.08%
Restricted	350,130	8,414,559	0	0	350,130	8,414,559	-95.84%
Unrestricted	9,303,096	5,070,985	(987,610)	(1,013,958)	8,315,486	4,057,027	104.97%
Total net assets	\$ 36,203,131	25,642,740	(785,518)	(903,931)	35,417,613	24,738,809	43.17%

The District’s combined net assets increased by 43.17%, or \$10,678,804, over the prior year. The largest portion of the District’s net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District’s restricted net assets decreased \$8,064,429, or 95.84% over the prior year. The decrease

was primarily a result of construction in the capital projects. The capitalization of the construction expense increases the investment in capital assets, net of related debt.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$4,258,459, or 105%. This increase is due to the increase in fund balance in the General and Internal Service Funds.

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

Figure A-4
Changes of Net Assets

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	June 30,	June 30,	June 30,	June 30,	June 30,	June 30,	2004-05
	2005	2004	2005	2004	2005	2004	
Revenues:							
Program revenues:							
Charges for services	\$ 4,234,413	3,495,584	882,847	784,432	5,117,260	4,280,016	19.56%
Operating grants and contributions and restricted interest	3,729,203	3,506,677	371,651	335,233	4,100,854	3,841,910	6.74%
Capital grants and contributions and restricted interest	150,000	0	0	0	150,000	0	100.00%
General revenues:							
Property tax	25,405,614	24,892,087	0	0	25,405,614	24,892,087	2.06%
Local option sales and services tax	4,508,504	3,161,672	0	0	4,508,504	3,161,672	42.60%
Unrestricted state grants	11,710,741	11,397,158	0	0	11,710,741	11,397,158	2.75%
Other	270,325	1,111,279	0	0	270,325	1,111,279	-75.67%
Total revenues	50,008,800	47,564,457	1,254,498	1,119,665	51,263,298	48,684,122	5.30%
Program expenses:							
Governmental activities:							
Instructional	25,834,842	27,009,285	0	0	25,834,842	27,009,285	-4.35%
Support services	9,611,860	9,765,358	0	0	9,611,860	9,765,358	-1.57%
Non-instructional programs	0	2,400	1,246,487	1,208,834	1,246,487	1,211,234	2.91%
Other expenses	4,001,707	4,523,317	0	0	4,001,707	4,523,317	-11.53%
Total expenses	39,448,409	41,300,360	1,246,487	1,208,834	40,694,896	42,509,194	-4.27%
Excess(deficiency) of revenues over(under) expenses before capital contributions	10,560,391	6,264,097	8,011	(89,169)	10,568,402	6,174,928	71.15%
Capital contributions	0	0	110,402	22,198	110,402	22,198	397.35%
Changes in net assets	10,560,391	6,264,097	118,413	(66,971)	10,678,804	6,197,126	72.32%
Beginning Net Assets	25,642,740	19,378,643	(903,931)	(836,960)	24,738,809	18,541,683	33.42%
Ending Net Assets	\$ 36,203,131	25,642,740	(785,518)	(903,931)	35,417,613	24,738,809	43.17%

Property tax, local option sales and services tax and unrestricted state grants account for 81% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 87% of the total expenses.

Governmental Activities

Revenue for governmental activities were \$50,008,800 and expenses were \$39,448,409.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 25,834,842	19,296,595
Support services	9,611,860	9,404,484
Other expenses	4,001,707	2,633,714
Totals	<u>\$ 39,448,409</u>	<u>31,334,793</u>

- The cost financed by users of the District's programs was \$4,234,413.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$3,879,203.
- The net cost of governmental activities was financed with \$29,914,118 in local tax, \$11,710,741 in state foundation aid and \$270,325 in interest income.

Business-Type Activities

Revenues of the District's business-type activity were \$1,254,498 and expenses were \$1,246,487. The District's business-type activity is the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and a transfer of \$110,402 from the PPEL Fund for equipment purchases.

During the year ended June 30, 2005, the District increased revenues, while expenditures remained relatively the same. Along with the contributed capital, the District had net income of \$8,011, which caused the fund balance to increase \$118,413 to a deficit fund balance of \$785,518.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Ames 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 \$5,365,624, below last year's ending fund balances of \$13,477,260. However, the primary reason for the decrease in the combined fund balances is the increase in expenditure due to the construction of the new middle school.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. Growth during the year in tax and tuition resulted in an increase in revenues. The increase in revenues was partially offset by the District's increase in General Fund expenditures, but the net result was an increase in fund balance from \$4,828,743 to \$7,304,400.

- The Capital Projects Fund balance decreased from a positive \$7,210,178 to a deficit \$3,899,748, due in most part to the construction of the new middle school.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from a deficit \$903,931 at June 30, 2004 to a deficit \$785,518 at June 30, 2005, representing an improvement of 13%.

BUDGETARY HIGHLIGHTS

Over the course of the year, Ames Community School District amended its annual budget one time to reflect additional expenditures associated with all functional areas except for the support services programs.

The District's revenues were \$2,758,083 more than budgeted revenues, a variance of 5.69%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$48.5 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities and transportation equipment. (See Figure A-6) This amount represents a net increase of 96.06% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$721,386.

The original cost of the District's capital assets was \$65,748,271. Governmental funds account for \$65,205,531 with the remainder of \$542,740 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$29,931,741 at June 30, 2005, compared to \$6,420,833 reported at June 30, 2004. This increase resulted from the construction of the new middle school almost coming to an end.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-05
Land	\$ 4,981,652	4,981,652	0	0	4,981,652	4,981,652	0.00%
Construction in progress	29,931,741	6,420,833	0	0	29,931,741	6,420,833	366.17%
Buildings	11,487,931	11,671,031	0	0	11,487,931	11,671,031	-1.57%
Land improvements	784,731	652,354	0	0	784,731	652,354	20.29%
Machinery and equipment	1,139,580	915,059	202,092	110,027	1,341,672	1,025,086	30.88%
Total	\$ 48,325,635	24,640,929	202,092	110,027	48,527,727	24,750,956	96.06%

Long-Term Debt

At June 30, 2005, the District had \$21,166,558 in general obligation and other long-term debt outstanding. This represents an increase of 46.2% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding General Obligation Bonds payable of \$9,005,000 at June 30, 2005.

The District had outstanding Capital Loan Notes payable from the Special Revenue, Physical Plant and Equipment Levy Fund of \$1,555,000 at June 30, 2005.

The District also had outstanding Bond Anticipatory Note indebtedness at June 30, 2005 of \$8,400,000. This increase was due to the issuance of \$7,950,000 in notes.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2005	2004	2004-05
General obligation bonds	\$ 9,005,000	9,340,000	-3.6%
Capital loan notes	1,555,000	2,085,000	-25.4%
Bond anticipatory notes	8,400,000	450,000	1766.7%
Early retirement	1,884,357	2,278,613	-17.3%
Compensated absences	322,201	322,141	0.0%
Totals	<u>\$ 21,166,558</u>	<u>14,475,754</u>	<u>46.2%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District has experienced declining enrollment for the past seven years. Despite growth in the city of Ames, there is little residential growth within the school district's boundaries.
- The state's economy is showing limited signs of economic recovery. A weaker economy adversely impacts the amount of new general fund money available to the District.
- Historically, the District has entered into annual contracts with its two collective bargaining units. The District will negotiate new agreements during fiscal 2006. 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. Corresponding cost reductions may be necessary to offset the cost of negotiated settlements and other cost increases.

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 Kurt Subra, District Secretary/Treasurer and Chief Financial Officer, Ames Community School District, 415 Stanton Avenue, Ames, Iowa, 50014-7331.

BASIC FINANCIAL STATEMENTS

AMES COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 14,655,433	0	14,655,433
Receivables:			
Property tax:			
Delinquent	230,407	0	230,407
Succeeding year	24,256,471	0	24,256,471
Income surtax	1,490,785	0	1,490,785
Interfund	676,338	0	676,338
Accounts	759,667	556	760,223
Due from other governments	1,904,378	0	1,904,378
Prepaid expenses	9,930	0	9,930
Inventories	19,122	36,023	55,145
Capital assets, net of accumulated depreciation (note 5)	48,325,635	202,092	48,527,727
TOTAL ASSETS	92,328,166	238,671	92,566,837
LIABILITIES			
Excess of warrants issued over bank balance	0	466,900	466,900
Interfund payable	203,219	471,791	675,010
Accounts payable	4,042,452	69,050	4,111,502
Salaries and benefits payable	4,276,361	2,538	4,278,899
Incurred but not reported claims	1,500,000	0	1,500,000
Accrued interest payable	61,491	0	61,491
Deferred revenue:			
Succeeding year property tax	24,256,471	0	24,256,471
Other	618,483	13,910	632,393
Long-term liabilities (note 6):			
Portion due within one year:			
General obligation bonds payable	350,000	0	350,000
Capital loan notes payable	555,000	0	555,000
Bond anticipatory notes payable	8,300,000	0	8,300,000
Early retirement payable	609,949	0	609,949
Compensated absences payable	322,201	0	322,201
Portion due after one year:			
General obligation bonds payable	8,655,000	0	8,655,000
Capital loan notes payable	1,000,000	0	1,000,000
Bond anticipatory notes payable	100,000	0	100,000
Early retirement payable	1,274,408	0	1,274,408
TOTAL LIABILITIES	56,125,035	1,024,189	57,149,224
NET ASSETS			
Investment in capital assets, net of related debt	26,549,905	202,092	26,751,997
Restricted for:			
Teacher compensation	2,079	0	2,079
Other special revenue purposes	348,051	0	348,051
Unrestricted	9,303,096	(987,610)	8,315,486
TOTAL NET ASSETS	\$ 36,203,131	(785,518)	35,417,613

SEE NOTES TO FINANCIAL STATEMENTS.

AMES COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs				
Governmental activities:				
Instruction:				
Regular instruction	\$ 16,019,550	1,360,979	2,469,643	0
Special instruction	5,932,460	1,313,023	2,040	0
Other instruction	3,882,832	1,392,562	0	0
	<u>25,834,842</u>	<u>4,066,564</u>	<u>2,471,683</u>	<u>0</u>
Support services:				
Student services	732,330	0	0	0
Instructional staff services	1,297,218	0	0	0
Administration services	3,443,757	0	0	0
Operation and maintenance of plant services	2,990,899	0	0	0
Transportation services	1,147,656	167,849	39,527	0
	<u>9,611,860</u>	<u>167,849</u>	<u>39,527</u>	<u>0</u>
Other expenditures:				
Facilities acquisitions	1,728,470	0	0	150,000
Long-term debt interest	510,182	0	0	0
AEA flowthrough	1,217,993	0	1,217,993	0
Depreciation (unallocated)*	545,062	0	0	0
	<u>4,001,707</u>	<u>0</u>	<u>1,217,993</u>	<u>150,000</u>
Total governmental activities	39,448,409	4,234,413	3,729,203	150,000
Business-Type activities:				
Non-instructional programs:				
Nutrition services	1,246,487	882,847	371,651	0
Total	<u>\$ 40,694,896</u>	<u>5,117,260</u>	<u>4,100,854</u>	<u>150,000</u>

General Revenues:

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

Total general revenues

Excess of revenues over expenses before capital contributions

Capital contributions

Changes in net assets

Net assets beginning of year

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(12,188,928)	0	(12,188,928)
(4,617,397)	0	(4,617,397)
(2,490,270)	0	(2,490,270)
(19,296,595)	0	(19,296,595)
(732,330)	0	(732,330)
(1,297,218)	0	(1,297,218)
(3,443,757)	0	(3,443,757)
(2,990,899)	0	(2,990,899)
(940,280)	0	(940,280)
(9,404,484)	0	(9,404,484)
(1,578,470)	0	(1,578,470)
(510,182)	0	(510,182)
0	0	0
(545,062)	0	(545,062)
(2,633,714)	0	(2,633,714)
(31,334,793)	0	(31,334,793)
0	8,011	8,011
(31,334,793)	8,011	(31,326,782)
\$ 22,528,150	0	22,528,150
2,877,464	0	2,877,464
4,508,504	0	4,508,504
11,710,741	0	11,710,741
270,325	0	270,325
41,895,184	0	41,895,184
10,560,391	8,011	10,568,402
0	110,402	110,402
10,560,391	118,413	10,678,804
25,642,740	(903,931)	24,738,809
\$ 36,203,131	(785,518)	35,417,613

AMES COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments	\$ 9,893,833	0	1,988,651	11,882,484
Receivables:				
Property tax				
Delinquent	181,758	0	48,649	230,407
Succeeding year	18,435,611	0	5,820,860	24,256,471
Income surtax	1,490,785	0	0	1,490,785
Interfund	476,768	0	198,242	675,010
Accounts	180,730	90,567	5,840	277,137
Due from other governments	1,065,008	837,481	1,889	1,904,378
Prepaid expenses	9,930	0	0	9,930
Inventories	19,122	0	0	19,122
TOTAL ASSETS	\$ 31,753,545	928,048	8,064,131	40,745,724
LIABILITIES AND FUND BALANCES				
Liabilities:				
Interfund payable	\$ 0	202,418	801	203,219
Accounts payable	195,832	3,676,490	169,130	4,041,452
Excess of warrants issued over bank balance	0	948,888	0	948,888
Salaries and benefits payable	4,275,125	0	1,236	4,276,361
Interest payable	0	0	28,242	28,242
Deferred revenue:				
Succeeding year property tax	18,435,611	0	5,820,860	24,256,471
Income surtax	1,490,785	0	0	1,490,785
Other	51,792	0	82,890	134,682
Total liabilities	24,449,145	4,827,796	6,103,159	35,380,100
Fund balances:				
Reserved for:				
Teacher compensation	2,079	0	0	2,079
Debt service	0	0	23,749	23,749
Inventories	19,122	0	0	19,122
Prepaid expenses	9,930	0	0	9,930
Unreserved:				
Designated for special purposes	935,010	0	0	935,010
Designated for cash flow	3,800,000	0	0	3,800,000
Undesignated:				
General	2,538,259	0	0	2,538,259
Capital projects	0	(3,899,748)	0	(3,899,748)
Management levy	0	0	495,654	495,654
Other special revenue purposes	0	0	348,051	348,051
Physical plant and equipment levy	0	0	1,093,518	1,093,518
Total fund balances	7,304,400	(3,899,748)	1,960,972	5,365,624
TOTAL LIABILITIES AND FUND BALANCES	\$ 31,753,545	928,048	8,064,131	40,745,724

SEE NOTES TO FINANCIAL STATEMENTS.

AMES 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 (page 17)	\$	5,365,624
 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.		48,325,635
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		1,490,785
Blending of the Internal Service Funds to be reflected on an entity-wide basis.		2,220,894
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.		(33,249)
Long-term liabilities, including bonds payable, capital loan notes payable, early retirement payable, and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(21,166,558)
		<u>(21,166,558)</u>
Net assets of governmental activities (page 14)	\$	<u>36,203,131</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 20,349,730	4,508,504	5,017,099	29,875,333
Tuition	2,674,002	0	0	2,674,002
Other	772,983	85,533	972,220	1,830,736
State sources	14,132,753	0	1,871	14,134,624
Federal sources	1,305,320	150,000	0	1,455,320
Total revenues	<u>39,234,788</u>	<u>4,744,037</u>	<u>5,991,190</u>	<u>49,970,015</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	16,383,922	0	790,626	17,174,548
Special instruction	6,378,855	0	0	6,378,855
Other instruction	2,974,980	0	934,367	3,909,347
	<u>25,737,757</u>	<u>0</u>	<u>1,724,993</u>	<u>27,462,750</u>
Support services:				
Student services	797,409	0	0	797,409
Instructional staff services	1,365,352	0	0	1,365,352
Administration services	3,638,555	0	9,310	3,647,865
Operation and maintenance of plant services	2,831,858	0	426,582	3,258,440
Transportation services	1,170,207	0	0	1,170,207
	<u>9,803,381</u>	<u>0</u>	<u>435,892</u>	<u>10,239,273</u>
Other expenditures:				
Facilities acquisitions	0	23,723,266	2,010,451	25,733,717
Long-term debt:				
Principal	0	0	865,000	865,000
Interest and fiscal charges	0	0	512,918	512,918
AEA flowthrough	1,217,993	0	0	1,217,993
	<u>1,217,993</u>	<u>23,723,266</u>	<u>3,388,369</u>	<u>28,329,628</u>
Total expenditures	<u>36,759,131</u>	<u>23,723,266</u>	<u>5,549,254</u>	<u>66,031,651</u>
Excess (deficiency) of revenues over (under) expenditures	2,475,657	(18,979,229)	441,936	(16,061,636)
Other financing sources (uses):				
Transfer in	0	0	706,234	706,234
Transfer out	0	(80,697)	(625,537)	(706,234)
Proceeds from General Obligation Bonds	0	7,950,000	0	7,950,000
Total other financing sources	<u>0</u>	<u>7,869,303</u>	<u>80,697</u>	<u>7,950,000</u>
Net change in fund balances	2,475,657	(11,109,926)	522,633	(8,111,636)
Fund balance beginning of year	4,828,743	7,210,178	1,438,339	13,477,260
Fund balance end of year	<u>\$ 7,304,400</u>	<u>(3,899,748)</u>	<u>1,960,972</u>	<u>5,365,624</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds (page 19) \$ (8,111,636)

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. Capital outlay expenditures exceed depreciation expense and loss on disposal in the current year, as follows:

Expenditures for capital assets	\$ 24,277,662	
Depreciation expense	<u>(592,956)</u>	23,684,706

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:

Issued	(7,950,000)	
Repaid	<u>865,000</u>	(7,085,000)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

2,736

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.

38,785

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

Early Retirement	\$ 394,256	
Compensated Absences	<u>(60)</u>	394,196

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance and printing at an entity-wide basis.

1,636,604

Changes in net assets of governmental activities (page 16) \$ 10,560,391

SEE NOTES TO FINANCIAL STATEMENTS.

AMES COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

	Business- type Activities - Enterprise Fund School Nutrition	Governmental Activities - Internal Service Funds
ASSETS		
Cash and pooled investments	\$ 0	3,721,837
Receivables:		
Accounts	556	483,858
Inventories	36,023	0
Capital assets, net of accumulated depreciation(note 5)	202,092	0
TOTAL ASSETS	238,671	4,205,695
LIABILITIES		
Excess of warrants issued over bank balance	466,900	0
Interfund payable	471,791	0
Accounts payable	69,050	1,000
Salaries and benefits payable	2,538	0
Incurred but not reported claims	0	1,500,000
Deferred revenue:		
Other	13,910	483,801
TOTAL LIABILITIES	1,024,189	1,984,801
NET ASSETS		
Investment in capital assets, net of related debt	202,092	0
Unrestricted:		
Designated for Health Insurance	0	2,255,890
Undesignated	(987,610)	(34,996)
TOTAL NET ASSETS	\$ (785,518)	2,220,894

SEE NOTES TO FINANCIAL STATEMENTS.

AMES COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2005

	Business- type Activities - Enterprise Fund School Nutrition	Governmental Activities - Internal Service Funds
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 882,847	5,087,923
TOTAL OPERATING REVENUES	<u>882,847</u>	<u>5,087,923</u>
OPERATING EXPENSES:		
Non-instructional programs:		
Salaries	53,223	0
Benefits	24,228	3,391,671
Services	553,670	16,947
Supplies	585,722	33,941
Other	3,601	8,760
Depreciation	26,043	0
TOTAL OPERATING EXPENSES	<u>1,246,487</u>	<u>3,451,319</u>
OPERATING INCOME (LOSS)	<u>(363,640)</u>	<u>1,636,604</u>
NON-OPERATING REVENUES:		
State sources	11,004	0
Federal sources	360,647	0
TOTAL NON-OPERATING REVENUES	<u>371,651</u>	<u>0</u>
Net income before capital contributions	8,011	1,636,604
Capital contributions	<u>110,402</u>	<u>0</u>
Change in net assets	118,413	1,636,604
Net assets beginning of year	<u>(903,931)</u>	<u>584,290</u>
Net assets end of year	<u>\$ (785,518)</u>	<u>2,220,894</u>

SEE NOTES TO FINANCIAL STATEMENTS.

AMES COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2005

	Business- type Activities - Enterprise Fund School Nutrition	Governmental Activities - Internal Service Funds
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 875,191	0
Cash received from miscellaneous operating activities	15,370	5,002,321
Cash payments to employees for services	(75,300)	0
Cash payments to suppliers for goods or services	(1,082,403)	(3,467,939)
Net cash provided by(used in) operating activities	<u>(267,142)</u>	<u>1,534,382</u>
Cash flows from non-capital financing activities:		
State grants received	11,004	0
Federal grants received	297,967	0
Net cash provided by non-capital financing activities	<u>308,971</u>	<u>0</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(7,706)	0
Net cash used in capital and related financing activities	<u>(7,706)</u>	<u>0</u>
Cash flows from investing activities:		
Loan repayment to General Fund	98,339	0
Net cash provided by investing activities	<u>98,339</u>	<u>0</u>
Net increase in cash and cash equivalents	132,462	1,534,382
Cash and cash equivalents at beginning of year	<u>(599,362)</u>	<u>2,187,455</u>
Cash and cash equivalents at end of year	<u>\$ (466,900)</u>	<u>3,721,837</u>

AMES COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2005

	Business- type Activities - Enterprise Fund School Nutrition	Governmental Activities - Internal Service Funds
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:		
Operating income(loss)	\$ (363,640)	1,636,604
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:		
Commodities consumed	62,680	0
Depreciation	26,043	0
Increase in inventories	(13,573)	0
Increase in accounts receivable	(531)	(85,602)
(Decrease)increase in accounts payable	11,483	(102,165)
Increase in salary and benefits payable	2,151	0
Increase in deferred revenue	8,245	85,545
Net cash provided by(used in) operating activities	<u>\$ (267,142)</u>	<u>1,534,382</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR
 END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE
 SHEET:

Current assets:		
Cash and pooled investments	\$ (466,900)	3,721,837

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2005, the District received Federal commodities valued at \$62,680.

During the year ended June 30, 2005, the Physical Plant and Equipment Levy (PPEL) Fund contributed capital of \$110,402.

SEE NOTES TO FINANCIAL STATEMENTS.

AMES COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2005

	Private Purpose Trust	
	Scholarship	Agency
ASSETS		
Cash and pooled investments	\$ 88,230	20,769
Accounts receivable	0	55,386
TOTAL ASSETS	<u>88,230</u>	<u>76,155</u>
LIABILITIES		
Excess of warrants issued over bank balance	0	52,862
Accounts payable	0	1,328
Salaries and benefits payable	0	1,196
Due to other groups	0	20,769
TOTAL LIABILITIES	<u>0</u>	<u>76,155</u>
NET ASSETS		
Reserved for scholarships	<u>\$ 88,230</u>	<u>0</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Private Purpose Trust
	Scholarship
Additions:	
Local sources:	
Interest and dividends	\$ 2,825
Total additions	<u>2,825</u>
Deductions:	
Non-instructional programs:	
Fees and Scholarships awarded	3,525
Total deductions	<u>3,525</u>
Loss before change in market value and transfer	(700)
Loss on sale of stock	(149)
Change in market value	1,440
	<u>1,291</u>
Change in net assets	591
Net assets beginning of year	<u>87,639</u>
Net assets end of year	<u>\$ 88,230</u>

SEE NOTES TO FINANCIAL STATEMENTS.

AMES COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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

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

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

B. Basis of Presentation

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

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

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

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

The District reports the following major governmental funds:

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

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District's proprietary funds are the Enterprise, School Nutrition Fund and the Internal Service Funds, Print Shop Fund and Health Insurance Fund. The Nutrition Fund is used to account for the food service operations of the District. The Print Shop Fund is used to account for the printing operations of the District. The Health Insurance Fund is used to account for the self-funded health insurance 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 which require income earned to be used to benefit individuals through scholarship awards.

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the

government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

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

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

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

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

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

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

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

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

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

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

E. Budgeting and Budgetary Control

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

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2005 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by

the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 11,310,285</u>

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

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Special Revenues - Physical Plant and Equipment Levy	\$ 625,537
Debt Service	Capital Projects	<u>80,697</u>
Total		<u>\$ 706,234</u>

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

(4) Interfund Receivables and Payables

At June 30, 2005 the interfund receivables and payables consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Enterprise Fund - School Nutrition	\$ 471,791
General Fund	Management Fund	801
Special Revenues - Physical Plant and Equipment Levy	Capital Projects Fund	170,000
Debt Service	Capital Projects Fund	28,242
General	Capital Projects Fund	<u>4,176</u>
Total		<u>\$ 675,010</u>

(5) Capital Assets

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

	Balance Beginning of of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 4,981,652	0	0	4,981,652
Construction in progress	6,420,833	24,077,768	566,860	29,931,741
Total capital assets not being depreciated	<u>11,402,485</u>	<u>24,077,768</u>	<u>566,860</u>	<u>34,913,393</u>
Capital assets being depreciated:				
Buildings	25,637,708	310,484	0	25,948,192
Land improvements	1,808,397	183,855	0	1,992,252
Machinery and equipment	2,079,279	458,315	185,900	2,351,694
Total capital assets being depreciated	<u>29,525,384</u>	<u>952,654</u>	<u>185,900</u>	<u>30,292,138</u>
Less accumulated depreciation for:				
Buildings	13,966,677	493,584	0	14,460,261
Land improvements	1,156,043	51,478	0	1,207,521
Machinery and equipment	1,164,220	150,281	102,387	1,212,114
Total accumulated depreciation	<u>16,286,940</u>	<u>695,343</u>	<u>102,387</u>	<u>16,879,896</u>
Total capital assets being depreciated, net	<u>13,238,444</u>	<u>257,311</u>	<u>83,513</u>	<u>13,412,242</u>
Governmental activities capital assets, net	<u>\$ 24,640,929</u>	<u>24,335,079</u>	<u>650,373</u>	<u>48,325,635</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 424,632	118,108	0	542,740
Less accumulated depreciation	314,605	26,043	0	340,648
Business-type activities capital assets, net	<u>\$ 110,027</u>	<u>92,065</u>	<u>0</u>	<u>202,092</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 4,263
Support services:	
Administration	9,610
Operation and maintenance	74,146
Transportation	62,262
	<u>150,281</u>
Unallocated depreciation	<u>545,062</u>
Total governmental activities depreciation expense	<u>\$ 695,343</u>
Business-type activities:	
Food services	<u>\$ 26,043</u>

(6) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 9,340,000	0	335,000	9,005,000	350,000
Capital Loan Notes	2,085,000	0	530,000	1,555,000	555,000
Bond Anticipatory Notes	450,000	7,950,000	0	8,400,000	8,300,000
Early Retirement	2,278,613	208,862	603,118	1,884,357	609,949
Compensated Absences	322,141	322,201	322,141	322,201	322,201
Total	\$ 14,475,754	8,481,063	1,790,259	21,166,558	10,137,150

Capital Loan Notes

During the year ended June 30, 2001 the District issued \$2,800,000 in capital loan notes to purchase 122.75 acres of land. During the year ended June 30, 2004, the District issued \$710,000 in capital loan notes to purchase technology equipment. Both of these loans are paid from the Physical Plant and Equipment Levy (PPEL) Fund. Details of the capital loan notes indebtedness at June 30, 2005 are as follows:

Year Ending June 30,	June 30, 2001		June 30, 2004		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 375,000	57,110	180,000	13,127	555,000	70,237
2007	395,000	38,923	185,000	6,845	580,000	45,768
2008	420,000	20,160	0	0	420,000	20,160
	\$ 1,190,000	116,193	365,000	19,972	1,555,000	136,165

Early Retirement

The District offers a voluntary early retirement plan to its certified and support staff 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. Early retirement benefits paid during the year ended June 30, 2005, totaled \$625,914. A liability has been

recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

General Obligation Bonds Payable

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

Year Ending June 30,	Bond Issue of March 1, 2004			
	Interest Rates	Principal	Interest	Total
2006	2.25 %	\$ 350,000	328,747	678,747
2007	3.00	365,000	320,872	685,872
2008	3.50	380,000	309,923	689,923
2009	3.50	395,000	296,623	691,623
2010	3.50	415,000	282,797	697,797
2011	3.50	430,000	268,272	698,272
2012	3.05	450,000	253,223	703,223
2013	3.25	465,000	239,498	704,498
2014	3.45	480,000	224,385	704,385
2015	3.55	500,000	207,825	707,825
2016	3.65	515,000	190,075	705,075
2017	3.75	535,000	171,277	706,277
2018	3.85	560,000	151,215	711,215
2019	3.95	580,000	129,655	709,655
2020	4.00	605,000	106,745	711,745
2021	4.10	630,000	82,545	712,545
2022	4.15	660,000	56,715	716,715
2023	4.25	690,000	29,325	719,325
Total		\$ 9,005,000	3,649,717	12,654,717

Bond Anticipatory Notes

In April 2003, the District received a line of credit from local banks in the amount of \$9,960,000. Of this line of credit, the District has borrowed \$8.3 million, which is due in April 2006. In April 2005, the District borrowed \$100,000, on an additional \$10 million line of credit which is due in April 2008. These notes incur interest at a variable rate. One bank is 63% of the prime rate, the other is the prime rate minus 1.65%, which at June 30, 2005 was 3.62% and 4.1%, respectively. These notes are paid with local option sales and service tax monies.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$1,299,350, \$1,309,325 and \$1,322,474 respectively, equal to the required contributions for each year.

(8) Risk Management

The District has a self-funded health and dental insurance plan. The District purchases commercial insurance to provide for

aggregate stop-loss coverage for the excess of 125% of estimated claims for the plan year and specific stop-loss reinsurance coverage for the excess \$75,000 in insured claims for any one covered individual. Settled aggregate stop-loss claims have not exceeded the commercial coverage in any of the past two years.

Payments are made to the plan based on actuarial estimates of amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses. That balance was \$2,379,990 at April 30, 2005, the last date for which information is available. The incurred but not recorded and unpaid claims liability of \$1,500,000 reported in the plan at April 30, 2005, is based on the requirements of GASB Statement Number 10, is included as a liability on the Statement of Net Assets.

In addition, the District is exposed to various risks to 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. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past four fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$1,217,993 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.

(10) Deficit Net Assets

The Enterprise Fund, Nutrition Fund had deficit net assets of \$785,518 at June 30, 2005. The Internal Service Fund, Print Shop Fund had deficit net assets of \$34,996 at June 30, 2005. The Capital Projects Fund had deficit net assets of \$3,899,748 at June 30, 2005.

(11) Construction Commitment

The District has entered into contracts totaling \$34,825,758 for the construction of a new middle school and other renovations. As of June 30, 2005, costs of \$29,931,741 had been incurred against the contract. The balance of \$4,894,017 remaining at June 30, 2005 will be paid as work on the project progresses.

(12) Subsequent Events

The State Auditor's office conducted a re-audit of the Ames Community School District, dated June 24, 2005 and released the report on October 17, 2005. The audit was for the period of July 1, 2003 to June 30, 2004. More information is available in comment IV-L-05 on page 59 of this audit report.

REQUIRED SUPPLEMENTAL INFORMATION

AMES COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (GAAP BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Revenues:		
Local sources	\$ 34,380,071	882,847
State sources	14,134,624	11,004
Federal sources	1,455,320	360,647
Total revenues	49,970,015	1,254,498
Expenditures:		
Instruction	27,462,750	0
Support services	10,239,273	0
Non-instructional programs	0	1,246,487
Other expenditures	28,329,628	0
Total expenditures	66,031,651	1,246,487
Excess(deficiency) of revenues over(under) expenditures	(16,061,636)	8,011
Other financing sources, net	7,950,000	110,402
Excess(deficiency) of revenues and other financing sources over(under) expenditures	(8,111,636)	118,413
Balance beginning of year	13,477,260	(903,931)
Balance end of year	\$ 5,365,624	(785,518)

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
35,262,918	31,957,115	31,957,115	3,305,803
14,145,628	13,965,115	13,965,115	180,513
1,815,967	2,544,200	2,544,200	(728,233)
<u>51,224,513</u>	<u>48,466,430</u>	<u>48,466,430</u>	<u>2,758,083</u>
27,462,750	27,273,500	28,880,000	1,417,250
10,239,273	10,478,000	10,478,000	238,727
1,246,487	1,218,000	1,275,000	28,513
28,329,628	26,371,677	29,500,000	1,170,372
<u>67,278,138</u>	<u>65,341,177</u>	<u>70,133,000</u>	<u>2,854,862</u>
(16,053,625)	(16,874,747)	(21,666,570)	5,612,945
<u>8,060,402</u>	<u>11,000,000</u>	<u>11,000,000</u>	<u>(2,939,598)</u>
(7,993,223)	(5,874,747)	(10,666,570)	2,673,347
<u>12,573,329</u>	<u>11,486,518</u>	<u>11,486,518</u>	<u>(1,086,811)</u>
<u>4,580,106</u>	<u>5,611,771</u>	<u>819,948</u>	<u>1,586,536</u>

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

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard 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 on budget amendment increasing budgeted expenditures by \$4,791,823.

OTHER SUPPLEMENTAL INFORMATION

AMES COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2005

	Special Revenue Funds					Total
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
ASSETS						
Cash and pooled investments	\$ 494,385	430,941	1,046,112	1,971,438	17,213	1,988,651
Receivables:						
Property tax						
Current year delinquent	14,306	0	27,860	42,166	6,483	48,649
Succeeding year	2,200,000	0	2,940,813	5,140,813	680,048	5,820,861
Interfund	0	0	170,000	170,000	28,242	198,242
Accounts	0	0	5,840	5,840	0	5,840
Due from other governments	0	0	1,836	1,836	53	1,889
TOTAL ASSETS	\$ 2,708,691	430,941	4,192,461	7,332,093	732,039	8,064,132
LIABILITIES AND FUND EQUITY						
Liabilities:						
Interfund payable	\$ 801	0	0	801	0	801
Accounts payable	11,000	0	158,130	169,130	0	169,130
Salaries and benefits payable	1,236	0	0	1,236	0	1,236
Interest payable	0	0	0	0	28,242	28,242
Deferred revenue:						
Succeeding year property tax	2,200,000	0	2,940,813	5,140,813	680,048	5,820,861
Other	0	82,890	0	82,890	0	82,890
	2,213,037	82,890	3,098,943	5,394,870	708,290	6,103,160
Fund equity:						
Fund balances:						
Reserved for debt service	0	0	0	0	23,749	23,749
Unreserved, undesignated	495,654	348,051	1,093,518	1,937,223	0	1,937,223
	495,654	348,051	1,093,518	1,937,223	23,749	1,960,972
TOTAL LIABILITIES AND FUND EQUITY	\$ 2,708,691	430,941	4,192,461	7,332,093	732,039	8,064,132

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue Funds				Debt Service	Total Other Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds		
REVENUES:						
Local sources:						
Local tax	\$ 1,465,526	0	2,877,464	4,342,990	674,109	5,017,099
Other	3,111	947,251	21,858	972,220	0	972,220
State sources	547	0	1,074	1,621	250	1,871
TOTAL REVENUES	1,469,184	947,251	2,900,396	5,316,831	674,359	5,991,190
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	790,626	0	0	790,626	0	790,626
Other instruction	0	934,367	0	934,367	0	934,367
Support services:						
Administration services	9,310	0	0	9,310	0	9,310
Operation and maintenance of plant services	426,582	0	0	426,582	0	426,582
Other expenditures:						
Facilities acquisition	0	0	2,010,451	2,010,451	0	2,010,451
Long-term debt:						
Principal	0	0	0	0	865,000	865,000
Interest and fiscal charges	0	0	0	0	512,918	512,918
TOTAL EXPENDITURES	1,226,518	934,367	2,010,451	4,171,336	1,377,918	5,549,254
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	242,666	12,884	889,945	1,145,495	(703,559)	441,936
OTHER FINANCING SOURCES (USES):						
Transfers in	0	0	0	0	706,234	706,234
Transfers out	0	0	(625,537)	(625,537)	0	(625,537)
	0	0	(625,537)	(625,537)	706,234	80,697
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	242,666	12,884	264,408	519,958	2,675	522,633
FUND BALANCE BEGINNING OF YEAR	252,988	335,167	829,110	1,417,265	21,074	1,438,339
FUND BALANCE END OF YEAR	\$ 495,654	348,051	1,093,518	1,937,223	23,749	1,960,972

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
District-wide	\$ 0	1,458	0	1,458
Crawford	818	(753)	65	0
Edwards	241	1,324	273	1,292
Fellows	2,224	1,422	2,553	1,093
Meeker	1,603	2,084	2,228	1,459
Mitchell	1,700	4,113	4,437	1,376
Northwood	3,975	227	4,202	0
Roosevelt	3,084	1,687	4,771	0
Sawyer	12,459	13,287	18,986	6,760
Wilson-Beardshear	1,466	2,026	1,395	2,097
Middle School	134,639	156,780	157,187	134,232
High School	172,958	763,596	738,270	198,284
Total	<u>\$ 335,167</u>	<u>947,251</u>	<u>934,367</u>	<u>348,051</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AMES COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
AGENCY FUND
YEAR ENDED JUNE 30, 2005

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
<u>AMES EDUCATION FOUNDATION</u>				
ASSETS				
Accounts receivable	\$ 86,443	55,386	86,443	55,386
	<u>\$ 86,443</u>	<u>55,386</u>	<u>86,443</u>	<u>55,386</u>
LIABILITIES				
Excess of warrants issued over bank balance	\$ 83,198	52,862	83,198	52,862
Accounts payable	1,964	1,328	1,964	1,328
Salaries and benefits payable	0	1,196	0	1,196
Due to other groups	1,281	0	1,281	0
	<u>\$ 86,443</u>	<u>55,386</u>	<u>86,443</u>	<u>55,386</u>
<u>VOCATIONAL CONSORTIUM</u>				
Cash and pooled investments	\$ 0	6,625	0	6,625
Accounts receivable	120,332	0	120,332	0
	<u>\$ 120,332</u>	<u>6,625</u>	<u>120,332</u>	<u>6,625</u>
LIABILITIES				
Excess of warrants issued over bank balance	\$ 110,890	0	110,890	0
Accounts payable	571	0	571	0
Due to other groups	8,871	6,625	8,871	6,625
	<u>\$ 120,332</u>	<u>6,625</u>	<u>120,332</u>	<u>6,625</u>
<u>HS/MS/ELEMENTARY AGENCY</u>				
ASSETS				
Cash and pooled investments	\$ 15,531	14,144	15,531	14,144
LIABILITIES				
Accounts payable	\$ 892	0	892	0
Due to other groups	14,639	14,144	14,639	14,144
	<u>\$ 15,531</u>	<u>14,144</u>	<u>15,531</u>	<u>14,144</u>
<u>TOTALS - ALL AGENCY FUNDS</u>				
ASSETS				
Cash and pooled investments	\$ 15,531	20,769	15,531	20,769
Accounts receivable	206,775	55,386	206,775	55,386
	<u>\$ 222,306</u>	<u>76,155</u>	<u>222,306</u>	<u>76,155</u>
LIABILITIES				
Excess of warrants issued over bank balance	\$ 194,088	52,862	194,088	52,862
Accounts payable	3,427	1,328	3,427	1,328
Salaries and benefits payable	0	1,196	0	1,196
Due to other groups	24,791	20,769	24,791	20,769
	<u>\$ 222,306</u>	<u>76,155</u>	<u>222,306</u>	<u>76,155</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AMES COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF NET ASSETS
 INTERNAL SERVICE FUNDS
 JUNE 30, 2005

	Governmental Activities -		
	Internal Service Funds		
	Health Insurance	Print Shop	Total
ASSETS			
Cash and pooled investments	\$ 3,756,854	(35,017)	3,721,837
Receivables:			
Accounts	483,837	21	483,858
TOTAL ASSETS	4,240,691	(34,996)	4,205,695
LIABILITIES			
Accounts payable	1,000	0	1,000
Incurred but not reported claims	1,500,000	0	1,500,000
Deferred revenue:			
Other	483,801	0	483,801
TOTAL LIABILITIES	1,984,801	0	1,984,801
NET ASSETS			
Unrestricted:			
Designated for Health Insurance	2,255,890	0	2,255,890
Undesignated	0	(34,996)	(34,996)
TOTAL NET ASSETS	\$ 2,255,890	(34,996)	2,220,894

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AMES COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN NET ASSETS
 INTERNAL SERVICE FUNDS
 YEAR ENDED JUNE 30, 2005

	Governmental Activities -		
	Internal Service Funds		
	Health Insurance	Print Shop	Total
OPERATING REVENUE:			
Local sources:			
Charges for services	\$ 4,978,093	109,830	5,087,923
TOTAL OPERATING REVENUES	<u>4,978,093</u>	<u>109,830</u>	<u>5,087,923</u>
OPERATING EXPENSES:			
Non-instructional programs:			
Benefits	3,391,671	0	3,391,671
Services	0	16,947	16,947
Supplies	0	33,941	33,941
Other	8,760	0	8,760
TOTAL OPERATING EXPENSES	<u>3,400,431</u>	<u>50,888</u>	<u>3,451,319</u>
Change in net assets	1,577,662	58,942	1,636,604
Net assets beginning of year	678,228	(93,938)	584,290
Net assets end of year	<u>\$ 2,255,890</u>	<u>(34,996)</u>	<u>2,220,894</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AMES COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CASH FLOWS
 INTERNAL SERVICE FUNDS
 YEAR ENDED JUNE 30, 2005

	Governmental Activities -		
	Internal Service Funds		
	Health Insurance	Print Shop	Total
Cash flows from operating activities:			
Cash received from miscellaneous operating activities	\$ 4,892,512	109,809	5,002,321
Cash payments to suppliers for goods or services	(3,395,979)	(71,960)	(3,467,939)
Net cash provided by operating activities	<u>1,496,533</u>	<u>37,849</u>	<u>1,534,382</u>
Net increase in cash and cash equivalents	1,496,533	37,849	1,534,382
Cash and cash equivalents at beginning of year	<u>2,260,321</u>	<u>(72,866)</u>	<u>2,187,455</u>
Cash and cash equivalents at end of year	<u>\$ 3,756,854</u>	<u>(35,017)</u>	<u>3,721,837</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 1,577,662	58,942	1,636,604
Adjustments to reconcile operating income to net cash provided by operating activities:			
Increase in accounts receivable	(85,581)	(21)	(85,602)
Decrease in accounts payable	(81,093)	(21,072)	(102,165)
Increase in incurred but not reported claims	0	0	0
Increase in deferred revenue	85,545	0	85,545
Net cash provided by operating activities	<u>\$ 1,496,533</u>	<u>37,849</u>	<u>1,534,382</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and pooled investments	<u>\$ 3,756,854</u>	<u>(35,017)</u>	<u>3,721,837</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AMES COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 29,875,333	28,146,387	24,485,168	21,956,153
Tuition	2,674,002	2,084,827	1,888,407	1,957,873
Other	1,830,736	1,540,697	1,667,320	2,003,493
State sources	14,134,624	13,937,110	14,218,846	15,067,261
Federal sources	1,455,320	966,725	963,395	1,144,545
Total	\$ 49,970,015	46,675,746	43,223,136	42,129,325
Expenditures:				
Instruction:				
Regular instruction	\$ 17,174,548	17,607,918	17,352,060	17,575,379
Special instruction	6,378,855	7,348,660	6,676,468	6,145,957
Other instruction	3,909,347	2,234,282	2,407,881	2,875,534
Support services:				
Student services	797,409	1,745,654	1,603,668	1,951,005
Instructional staff services	1,365,352	1,398,942	1,449,101	1,706,715
Administration services	3,647,865	2,486,807	2,402,344	2,493,396
Operation and maintenance of plant services	3,258,440	3,113,517	2,988,780	2,787,963
Transportation services	1,170,207	795,050	739,955	772,605
Central support services	0	289,631	264,321	316,337
Non-instructional programs	0	2,400	24,839	25,887
Other expenditures:				
Facilities acquisitions	25,733,717	9,000,261	2,469,179	2,009,980
Long-term debt:				
Principal	865,000	1,170,000	1,700,000	1,750,000
Interest and other charges	512,918	222,796	154,894	282,740
AEA flow-through	1,217,993	1,235,782	1,315,387	1,318,239
Total	\$ 66,031,651	48,651,700	41,548,877	42,011,737

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AMES COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION (non-cash)	10.550	FY 05	\$ <u>67,680</u>
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 05	40,753
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 05	<u>257,214</u>
			<u>297,967</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	0225-G	420,227
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	0225-G	14,906
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	0225-D	51,014
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES (ADMINISTRATION)	84.010	FY 05	<u>92,822</u>
			<u>578,969</u>
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 05	<u>97,128</u>
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)	84.151	FY 04	23,283
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)	84.151	FY 05	<u>16,649</u>
			<u>39,932</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 05	<u>19,839</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI)	84.369	FY 05	<u>26,291</u>
TECHNOLOGY LITERACY CHALLENGE FUND GRANT	84.318	FY 02	<u>5,369</u>

AMES COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 04	33,444
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 05	123,309
			<u>156,753</u>
EDUCATION FOR HOMELESS CHILDREN AND YOUTH	84.196	FY 05	<u>25,000</u>
FUND FOR THE IMPROVEMENT OF EDUCATION	84.215	FY 05	<u>142,500</u>
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 05	<u>2,040</u>
IOWA PUBLIC TELEVISION: STAR SCHOOLS	84.203	FY 03	<u>5,579</u>
AREA EDUCATION AGENCY: SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 05	<u>215,267</u>
NATIONAL SCIENCE FOUNDATION: EDUCATION AND HUMAN RESOURCES	47.076	FY 01	<u>7,336</u>
TOTAL			<u>\$ 1,687,650</u>

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Ames 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 Ames 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 August 9, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ames Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II 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. We noted no material weaknesses during to course of the audit.

Compliance and Other Matters

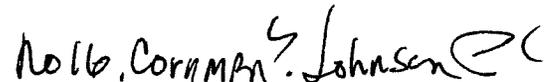
As part of obtaining reasonable assurance about whether Ames Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings.

Members American Institute & Iowa Society of Certified Public Accountants

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Ames Community School District and other parties to Ames 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 Ames Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

August 9, 2005

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

Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Board of Education of
Ames Community School District

Compliance

We have audited the compliance of Ames Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Ames Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants agreements applicable to each of its major federal programs is the responsibility of Ames Community School District's management. Our responsibility is to express an opinion on Ames Community School District's compliance based on our audit.

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

In our opinion, Ames Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

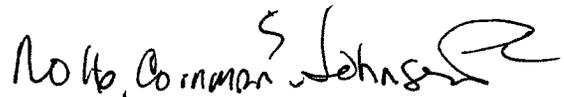
Internal Control Over Compliance

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

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 non-compliance with

applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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


NOLTE, CORNMAN & JOHNSON, P.C.

August 9, 2005

AMES COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No reportable conditions in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - CFDA Number 84.010 - Title I grants to Local Educational agencies
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Ames Community School District qualified as a low-risk auditee.

AMES COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- II-A-05 Supporting Documents for Payments with Credit Cards - Payments made with credit cards do not always have detailed supporting documentation.

Recommendation - The District has a policy in place for credit card usage as part of the Expense Reimbursement policy. The users of the credit cards need to provide detailed receipts for purchases made. The District should review procedures in place to ensure the proper detailed documentation will be available with paid credit card statements.

Response - We will develop a separate credit card policy to document our procedures, which have been refined in the past months.

Conclusion - Response accepted.

- II-B-05 Internal Service Fund Interest - During our audit, we noted interest being posted in the Internal Service-Health Insurance Fund. Interest is not allowed to be posted into internal service funds.

Recommendation - Interest earned in an internal service fund should more appropriately be posted to the General Fund.

Response - In the future the General Fund will be credited with interest income earned in the Health Insurance Fund.

Conclusion - Response accepted.

- II-C-05 Donations from the Student Activity - During our audit we noted that there was a donation made from the Senior High Student Council to Red Cross. School Districts cannot make donations to a charitable organization.

Recommendation - If the Student Activity Fund wants to give a donation to a specific organization a fundraiser should be conducted with the specific organization designated as the recipient of the funds raised.

Response - In the future we will require documentation, such as a flyer or poster, to show that the charitable recipient was identified to those donating.

Conclusion - Response accepted.

AMES COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

No reportable conditions were reported.

AMES COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Part IV: Other Findings Related to Statutory Reporting

IV-A-05 Official Depositories - A resolution naming official depositories has been approved by the Board. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2005.

Recommendation - The district should increase their depository limits.

Response - A cash balance at one of the District's depositories exceeded the limit for one or a few days during FY05. We will ask the Board to approve revised depository limits.

Conclusion - Response accepted.

IV-B-05 Certified Budget - District disbursements for the year ended June 30, 2005, did not exceed the amount budgeted.

IV-C-05 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-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.

IV-E-05 Business Transactions - No business transactions between the District and District officials or employees were noted.

IV-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.

IV-G-05 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - We will make every effort to provide the minutes within the time period required, however, we are unable to control the publishing dates.

Conclusion - Response accepted.

IV-H-05 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students which were tuitioned out was understated by two students, and the number of student which were open enrolled out was overstated by 2.1 students.

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

Response - We will contact the Iowa Department of Education and the Department of Management.

Conclusion - Response accepted.

IV-I-05 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-J-05 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

IV-K-05 Financial Condition - The Enterprise Fund - Nutrition Fund had deficit net assets of \$785,518, at June 30, 2005. The Internal Service Fund - Print Shop had deficit net assets of \$34,996 at June 30, 2005. The Capital Projects Fund due to the construction of the new middle school, had a deficit balance of \$3,899,748.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficits.

Response - The Internal Service Fund - Print Shop showed a small profit in fiscal 2005. We continue to take steps to improve the financial condition of the Enterprise - Nutrition Fund. As financing for the new middle school project becomes available, the deficit in the Capital Projects Fund will be eliminated.

Conclusion - Response accepted.

IV-L-05 State Auditor's Office Re-audit - As noted in Note 12 of the District's financial statements, the State Auditor's office conducted a re-audit of the Ames Community School District, dated June 24, 2005 and released the report on October 17, 2005. The audit was for the period of July 1, 2003 to June 30, 2004. Their comments are listed as follows:

- A) Credit Cards - need for detailed receipts for support documentation.
- B) Travel Expenses - need for proper authorization of claims before payment.
- C) Cellular Phone Policy - use of and/or reimbursement for use of District's cellular phone.

The District has responded to the comments and is reviewing their procedures. As corrective actions are reached, they will be implemented by the District to comply with the recommendations of the State. Further information and the complete audit report may be obtained on the website of the State Auditor's Office.