

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

JUNE 30, 2005

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Atlantic Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2004 election)</b>		
Dennis Davis	President	2004
Glen Smith	Vice President	2006
Jody Lorence	Board Member	2006
Steven Jacobs	Board Member	2005
Phil Hascall	Board Member	2005
<b>Board of Education (After September 2004 election)</b>		
Dennis Davis	President	2007
Glen Smith	Vice President	2006
Jody Lorence	Board Member	2006
Steven Jacobs	Board Member	2005
Phil Hascall	Board Member	2005
<b>School Officials</b>		
Dr. Wendy Prigge	Superintendent	2005
Barbara Nelson	District Secretary and Business Manager	2005
Amy Groom	District Treasurer	2005
Dave Chase	Attorney	2005
Brian Gruhn	Attorney	2005

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**Certified Public Accountants**  
(a professional corporation)  
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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Atlantic Community School District:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Atlantic Community School District at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated November 2, 2005 on our consideration of the Atlantic 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 those reports are to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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 36 through 38 are not required

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parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. 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 Atlantic 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 (which are not presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 6, 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, P.C.

November 2, 2005

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

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

### **2005 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$10,303,950 in fiscal year 2004 to \$10,585,632 in fiscal year 2005, while General Fund expenditures increased from \$10,209,357 in fiscal 2004 to \$10,708,061 in fiscal 2005. This resulted in a decrease in the District's General Fund balance from \$3,121,464 in fiscal 2004 to \$2,999,035 in fiscal 2005, a 3.92% decrease from prior year.
- The increase in General fund revenues was attributed to a increase in federal funding. This was due to increased grant funding. The increase in expenditures was attributed to more expenses in the instruction and support service areas. This was due to an increase in negotiated salaries and benefits, the addition of staff and increased utility costs.
- Overall, the District increased in net assets in the governmental activities of \$960,195 and decreased in the business-type activities of \$28,685, respectively.

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

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

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

Other Supplementary Information provides detailed information about the nonmajor funds. 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.

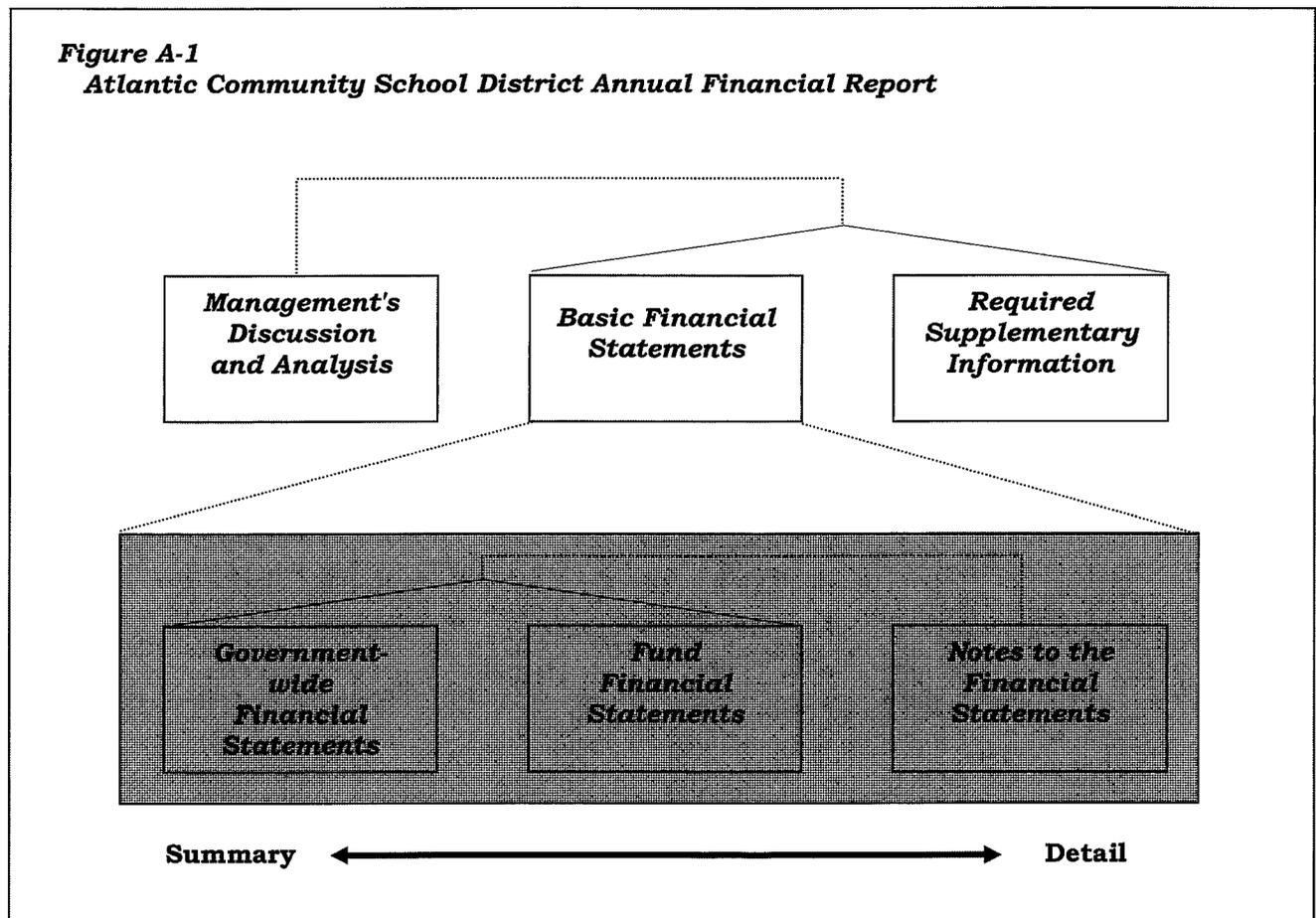


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

## **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 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
- Agency Fund – These are funds for which the District administers and accounts for parent prom, SWIA honor band, Ag Ed Advisory and Medicaid.

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	\$ 9,272,887	8,678,834	92,213	109,711	9,365,100	8,788,545	6.56%
Capital assets	11,661,036	11,909,948	60,412	69,588	11,721,448	11,979,536	-2.15%
Total assets	20,933,923	20,588,782	152,625	179,299	21,086,548	20,768,081	1.53%
Long-term obligations	4,650,000	5,175,000	0	0	4,650,000	5,175,000	-10.14%
Other liabilities	4,150,927	4,240,981	5,328	3,317	4,156,255	4,244,298	-2.07%
Total liabilities	8,800,927	9,415,981	5,328	3,317	8,806,255	9,419,298	-6.51%
Net assets:							
Invested in capital assets, net of related debt	7,129,254	6,844,932	60,412	69,588	7,189,666	6,914,520	3.98%
Restricted	1,464,701	1,302,437	0	0	1,464,701	1,302,437	12.46%
Unrestricted	3,539,041	3,025,432	86,885	106,394	3,625,926	3,131,826	15.78%
Total net assets	\$ 12,132,996	11,172,801	147,297	175,982	12,280,293	11,348,783	8.21%

The District's combined net assets increased by 8.21%, or \$931,510, 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 increased \$162,264, or 12.46% over the prior year. The increase was primarily a result of the District increase in Capital Projects fund balance due to the collection of local option sales and services tax from Cass and Audubon Counties for the first time.

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 \$494,100, or 15.78%. This increase in unrestricted net assets was primarily a result of the increase in Income Surtax accrued that will be received during the 2005-06 school year.

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

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Revenues:							
Program revenues:							
Charges for services	\$ 1,157,277	1,102,031	337,092	318,724	1,494,369	1,420,755	5.18%
Operating grants and contributions and restricted interest	1,327,721	1,236,395	263,513	239,862	1,591,234	1,476,257	7.79%
Capital grants and contributions and restricted interest	61,611	14,559	0	0	61,611	14,559	323.18%
General revenues:							
Property tax	4,764,632	4,248,798	0	0	4,764,632	4,248,798	12.14%
Local option sales and services tax	353,889	3,825	0	0	353,889	3,825	9152.00%
Unrestricted state grants	5,216,119	5,151,116	0	0	5,216,119	5,151,116	1.26%
Other	76,686	39,008	630	565	77,316	39,573	95.38%
Total revenues	12,957,935	11,795,732	601,235	559,151	13,559,170	12,354,883	9.75%
Program expenses:							
Governmental activities:							
Instruction	7,600,065	7,263,422	0	0	7,600,065	7,263,422	4.63%
Support services	3,274,425	3,045,730	0	0	3,274,425	3,045,730	7.51%
Non-instructional programs	20,778	17,284	634,718	578,618	655,496	595,902	10.00%
Other expenditures	1,102,472	1,122,207	0	0	1,102,472	1,122,207	-1.76%
Total expenses	11,997,740	11,448,643	634,718	578,618	12,632,458	12,027,261	5.03%
Net income(loss) before capital contributions	960,195	347,089	(33,483)	(19,467)	926,712	327,622	182.86%
Capital contributions	0	0	4,798	0	4,798	0	100.00%
Changes in net assets	960,195	347,089	(28,685)	(19,467)	931,510	327,622	184.32%
Beginning Net Assets	11,172,801	10,825,712	175,982	195,449	11,348,783	11,021,161	2.97%
Ending Net Assets	\$ 12,132,996	11,172,801	147,297	175,982	12,280,293	11,348,783	8.21%

The FY 05 total revenues net increase of 9.75% is reflective of the increase of local option sales and services tax revenues, interest and future property tax from an instructional support levy.

The largest program expenditure area change was in the instruction function area, which was primarily due to increases in negotiated salaries and benefits and additional staff.

**Governmental Activities**

Revenues for governmental activities were \$12,957,935 and expenses were \$11,997,740.

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	\$ 7,600,065	5,530,165
Support services	3,274,425	3,261,545
Non-instructional programs	20,778	20,778
Other expenses	1,102,472	638,643
Totals	<u>\$ 11,997,740</u>	<u>9,451,131</u>

- The cost financed by users of the District’s programs was \$1,157,277.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,389,332.
- The net cost of governmental activities was financed with \$4,764,632 in local property tax, \$5,216,119 in state foundation aid, \$73,246 in interest income and \$3,440 in gain on sale of equipment.

**Business-Type Activities**

Revenues of the District’s business-type activities were \$601,235 and expenses were \$634,718. The District’s business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

**INDIVIDUAL FUND ANALYSIS**

As previously noted, the Atlantic 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 \$4,514,704, above last year’s ending fund balances of \$4,300,853. However, the primary reason for the increase in combined fund balances in fiscal 2005 is due to increased local option sales and services tax revenues in the Capital Projects Fund.

**Governmental Fund Highlights**

- The District’s decrease in General Fund financial position from \$3,121,464 in fiscal 2004 to \$2,999,035 in fiscal 2005 is a product of many factors. Revenues increased due to the increase in federal grants and Instructional Support funding. The District’s increase in General Fund expenditures was primarily due the increase in negotiated salaries and benefits, additional staff and increased energy costs.
- The Physical Plant and Equipment Levy Fund balance decreased from \$736,490 in fiscal 2004 to \$730,577 in fiscal 2005 due to more capital improvements expenditures. The District follows a five-year capital improvement plan that is reviewed annually.

- The Capital Projects Fund balance increased from \$4,693 in fiscal 2004 to \$358,582 in fiscal 2005 due to the increase in local option sales and services tax received to be used for capital improvements.
- The Management Fund balance decreased from \$113,400 in fiscal 2004 to \$87,325 in fiscal 2005. The Management Fund expenditures include early retirement benefits, property and liability insurance coverages, worker's compensation insurance and unemployment benefits. The increase in Management Fund expenditures was primarily due to increased insurance rates.
- The Student Activity Fund balance increased from \$151,411 in fiscal 2004 to \$157,900 in fiscal 2005 due to the variance of student activities from year to year.
- The Expendable Trust Fund balance decreased from \$31,011 in fiscal 2004 to \$29,583 in fiscal 2005 due to decreased interest income to fund scholarships.
- The Debt Service Fund balance increased from \$142,384 in fiscal 2004 to \$151,702 in fiscal 2005 due to normal operations of paying debt principal and interest.

#### **Proprietary Fund Highlights**

The Proprietary Fund net assets decreased from \$175,982 at June 30, 2004 to \$147,297 at June 30, 2005, representing a decrease of 16.30%. The District had an increase in revenues and a greater increase in expenditures resulting in a decrease of net assets.

#### **BUDGETARY HIGHLIGHTS**

The District's revenues were \$972,966 more than budgeted revenues, a variance of 8.04%. 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 \$11.7 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 2.15% from last year. More detailed information about capital assets is available in Note 3 to the financial statements. Depreciation expense for the year was \$534,007.

The original cost of the District's capital assets was \$18.5 million. Governmental funds account for \$18.3 million with the remainder of \$0.2 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the building category. The District's buildings totaled \$9,587,785 at June 30, 2005, compared to \$9,844,646 reported at June 30, 2004. This significant decrease resulted from depreciation expense for the fiscal year.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total District		Total
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-05
Land	\$ 928,419	928,419	0	0	928,419	928,419	0.00%
Construction in progress	13,234	0	0	0	13,234	0	100.00%
Buildings	9,587,785	9,844,646	0	0	9,587,785	9,844,646	-2.61%
Land improvements	793,585	832,389	0	0	793,585	832,389	-4.66%
Machinery and equipment	338,013	304,494	60,412	69,588	398,425	374,082	6.51%
<b>Total</b>	<b>\$ 11,661,036</b>	<b>11,909,948</b>	<b>60,412</b>	<b>69,588</b>	<b>11,721,448</b>	<b>11,979,536</b>	<b>-2.15%</b>

### Long-Term Debt

At June 30, 2005, the District had \$4,650,000 in general obligation long-term debt outstanding. This represents a decrease of 10.14% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 4 to the financial statements.

The District had outstanding general obligation bonds of \$4,650,000 at June 30, 2005.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2005	2004	2004-05
General obligation bonds	\$ 4,650,000	5,175,000	-10.14%
<b>Totals</b>	<b>\$ 4,650,000</b>	<b>5,175,000</b>	<b>-10.14%</b>

### 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 an increase in enrollment in September 2005 of 50 students. This is the first increase in enrollment for 10 years but is not projected to continue.
- The District will negotiate a new agreement during fiscal 2005 with the Atlantic Education Association (AEA) and the Atlantic School District Employees' Association. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.
- Instructional Support surtax will be received for the first time in 2005-06. This will allow the District to maintain instructional programs, since the District will receive no allowable growth.
- Eleven students are being served in ELL programs in 2005, with additional students anticipated in 2006-07. This will increase costs to provide programming for those students.
- A new Super Wal\*Mart opened in the spring of 2005. Additional local sales will increase the School Local Option Sales Tax revenue to the state limit of \$575 per student. This additional funding will support future infrastructure needs.

- The District will begin to receive full School Local Option Sales Tax surtax dollars in 2006-07. This will provide monies for payment or retirement of outstanding bonds, infrastructure needs and instructional equipment.

### **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 Barbara Nelson, Business Manager/Board Secretary, Atlantic Community School District, 1100 Linn Street, Atlantic, Iowa, 50022.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments:	\$ 4,071,393	73,024	4,144,417
Receivables:			
Property tax:			
Delinquent	77,444	0	77,444
Succeeding year	3,968,075	0	3,968,075
Income surtax	656,212	0	656,212
Accounts	4,121	0	4,121
Due from other governments	495,642	0	495,642
Inventories	0	19,189	19,189
Capital assets, net of accumulated depreciation(Note 3)	11,661,036	60,412	11,721,448
<b>TOTAL ASSETS</b>	<b>20,933,923</b>	<b>152,625</b>	<b>21,086,548</b>
<b>LIABILITIES</b>			
Accounts payable	79,734	0	79,734
Salaries and benefits payable	54,162	0	54,162
ISEBA assessment payable(Note 6)	15,472	0	15,472
Accrued interest payable	33,484	0	33,484
Deferred revenue:			
Succeeding year property tax	3,968,075	0	3,968,075
Other	0	5,328	5,328
Long-term liabilities(Note 4):			
Portion due within one year:			
Bonds payable	545,000	0	545,000
Portion due after one year:			
Bonds payable	4,105,000	0	4,105,000
<b>TOTAL LIABILITIES</b>	<b>8,800,927</b>	<b>5,328</b>	<b>8,806,255</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	7,129,254	60,412	7,189,666
Restricted for:			
Talented and gifted	53,392	0	53,392
Salary improvement program	133	0	133
At risk	47,209	0	47,209
Physical plant and equipment levy	730,577	0	730,577
Management levy	87,325	0	87,325
Other special revenue purposes	187,483	0	187,483
Capital projects	358,582	0	358,582
Unrestricted	3,539,041	86,885	3,625,926
<b>TOTAL NET ASSETS</b>	<b>\$ 12,132,996</b>	<b>147,297</b>	<b>12,280,293</b>

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC 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	\$ 4,964,308	515,172	777,869	4,500
Special instruction	1,506,307	289,121	74,171	0
Other instruction	1,129,450	340,104	68,963	0
	<u>7,600,065</u>	<u>1,144,397</u>	<u>921,003</u>	<u>4,500</u>
Support services:				
Student services	306,622	0	0	0
Instructional staff services	455,264	0	0	0
Administration services	1,012,489	0	0	0
Operation and maintenance of plant services	1,054,167	0	0	0
Transportation services	441,138	12,880	0	0
Other support services	4,745	0	0	0
	<u>3,274,425</u>	<u>12,880</u>	<u>0</u>	<u>0</u>
Non-instructional programs:				
Food service operations	20,778	0	0	0
	<u>20,778</u>	<u>0</u>	<u>0</u>	<u>0</u>
Other expenditures:				
Facilities acquisitions	97,533	0	0	57,111
Long-term debt interest	218,951	0	0	0
AEA flowthrough	406,718	0	406,718	0
Depreciation(unallocated)*	379,270	0	0	0
	<u>1,102,472</u>	<u>0</u>	<u>406,718</u>	<u>57,111</u>
Total governmental activities	11,997,740	1,157,277	1,327,721	61,611
Business-Type activities:				
Non-instructional programs:				
Nutrition services	634,718	337,092	263,513	0
Total business-type activities	<u>634,718</u>	<u>337,092</u>	<u>263,513</u>	<u>0</u>
Total	<u>\$ 12,632,458</u>	<u>1,494,369</u>	<u>1,591,234</u>	<u>61,611</u>

**General Revenues:**

Property tax levied for:  
  General purposes  
  Debt service  
  Capital projects  
Local option sales and services tax  
Unrestricted state grants  
Unrestricted investment earnings  
Gain on sale of equipment

Total general revenues

Net income(loss) before capital contributions

Capital contributions

Changes in net assets

Net assets beginning of year, as restated(Note 8)

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
(3,666,767)	0	(3,666,767)
(1,143,015)	0	(1,143,015)
(720,383)	0	(720,383)
(5,530,165)	0	(5,530,165)
(306,622)	0	(306,622)
(455,264)	0	(455,264)
(1,012,489)	0	(1,012,489)
(1,054,167)	0	(1,054,167)
(428,258)	0	(428,258)
(4,745)	0	(4,745)
(3,261,545)	0	(3,261,545)
(20,778)	0	(20,778)
(20,778)	0	(20,778)
(40,422)	0	(40,422)
(218,951)	0	(218,951)
0	0	0
(379,270)	0	(379,270)
(638,643)	0	(638,643)
(9,451,131)	0	(9,451,131)
0	(34,113)	(34,113)
0	(34,113)	(34,113)
(9,451,131)	(34,113)	(9,485,244)
\$ 3,696,092	0	3,696,092
752,644	0	752,644
315,896	0	315,896
353,889	0	353,889
5,216,119	0	5,216,119
73,246	630	73,876
3,440	0	3,440
10,411,326	630	10,411,956
960,195	(33,483)	926,712
0	4,798	4,798
960,195	(28,685)	931,510
11,172,801	175,982	11,348,783
\$ 12,132,996	147,297	12,280,293

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

	General	Physical Plant and Equipment Levy	Other Nonmajor Governmental Funds	Total
<b>ASSETS</b>				
Cash and pooled investments:	\$ 2,742,920	673,243	655,230	4,071,393
Receivables:				
Property tax:				
Delinquent	58,602	2,610	16,232	77,444
Succeeding year	3,001,263	145,608	821,204	3,968,075
Income surtax	492,159	164,053	0	656,212
Accounts	2,765	0	1,356	4,121
Due from other governments	318,557	57,111	119,974	495,642
<b>TOTAL ASSETS</b>	<b>\$ 6,616,266</b>	<b>1,042,625</b>	<b>1,613,996</b>	<b>9,272,887</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 69,647	2,387	7,700	79,734
Salaries and benefits payable	54,162	0	0	54,162
Deferred revenue:				
Succeeding year property tax	3,001,263	145,608	821,204	3,968,075
Income surtax	492,159	164,053	0	656,212
Total liabilities	<u>3,617,231</u>	<u>312,048</u>	<u>828,904</u>	<u>4,758,183</u>
Fund balances:				
Reserved for:				
Debt service	0	0	151,702	151,702
Talented and gifted	53,392	0	0	53,392
Salary improvement program	133	0	0	133
At risk	47,209	0	0	47,209
Unreserved:				
Designated:				
Special purposes by the board	63,260	0	0	63,260
Cash flow	850,000	0	0	850,000
Undesignated:				
General	1,985,041	0	0	1,985,041
Physical plant and equipment levy	0	730,577	0	730,577
Management levy	0	0	87,325	87,325
Other special revenue purposes	0	0	187,483	187,483
Capital projects	0	0	358,582	358,582
Total fund balances	<u>2,999,035</u>	<u>730,577</u>	<u>785,092</u>	<u>4,514,704</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 6,616,266</b>	<b>1,042,625</b>	<b>1,613,996</b>	<b>9,272,887</b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

<b>Total fund balances of governmental funds (page 17)</b>	\$ 4,514,704
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	11,661,036
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	656,212
ISEBA assessment payable, is not yet due and payable in the current period due to the completion of a lawsuit settlement and, therefore, are not report as a liability in the governmental funds.	(15,472)
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.	(33,484)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(4,650,000)</u>
<b>Net assets of governmental activites (page 14)</b>	<u><u>\$ 12,132,996</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Physical Plant and Equipment Levy	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 3,103,968	325,936	1,206,498	4,636,402
Tuition	804,293	0	0	804,293
Other	202,470	15,911	281,312	499,693
State sources	6,015,097	117	725	6,015,939
Federal sources	458,938	57,111	0	516,049
Total revenues	<u>10,584,766</u>	<u>399,075</u>	<u>1,488,535</u>	<u>12,472,376</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular instruction	4,874,296	111,369	14,835	5,000,500
Special instruction	1,502,442	0	0	1,502,442
Other instruction	854,925	0	268,734	1,123,659
	<u>7,231,663</u>	<u>111,369</u>	<u>283,569</u>	<u>7,626,601</u>
Support services:				
Student services	306,022	0	600	306,622
Instructional staff services	454,727	0	537	455,264
Administration services	987,386	0	24,303	1,011,689
Operation and maintenance of plant services	969,528	24,558	62,199	1,056,285
Transportation services	336,896	72,465	21,970	431,331
Other support services	4,745	0	0	4,745
	<u>3,059,304</u>	<u>97,023</u>	<u>109,609</u>	<u>3,265,936</u>
Non-instructional programs:				
Food service operations	10,376	4,798	5,604	20,778
Other expenditures:				
Facilities acquisitions	0	194,372	0	194,372
Long-term debt:				
Principal	0	0	525,000	525,000
Interest and fiscal charges	0	0	222,560	222,560
AEA flowthrough	406,718	0	0	406,718
	<u>406,718</u>	<u>194,372</u>	<u>747,560</u>	<u>1,348,650</u>
Total expenditures	<u>10,708,061</u>	<u>407,562</u>	<u>1,146,342</u>	<u>12,261,965</u>
Excess (deficiency) of revenues over (under) expenditures	(123,295)	(8,487)	342,193	210,411
<b>OTHER FINANCING SOURCES:</b>				
Gain on sale of equipment	866	2,574	0	3,440
Net change in fund balances	(122,429)	(5,913)	342,193	213,851
Fund balance beginning of year	3,121,464	736,490	442,899	4,300,853
Fund balance end of year	<u>\$ 2,999,035</u>	<u>730,577</u>	<u>785,092</u>	<u>4,514,704</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

<b>Net change in fund balances - total governmental funds (page 19)</b>	\$	213,851
 <b>Amounts reported for governmental activities in the statement of activities are different because:</b>		
<p>Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceed depreciation expense and loss on disposal in the current year, as follows:</p>		
Expenditures for capital assets	\$ 271,121	
Depreciation expense	<u>(520,033)</u>	(248,912)
<p>Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds.</p>		
		482,119
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
ISEBA assessment		(15,472)
<p>Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.</p>		
		525,000
<p>Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.</p>		
		<u>3,609</u>
<b>Changes in net assets of governmental activities (page 16)</b>	<b>\$</b>	<b><u>960,195</u></b>

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF NET ASSETS  
 PROPRIETARY FUND  
 JUNE 30, 2005

	<u>School Nutrition</u>
ASSETS	
Cash and cash equivalents:	\$ 73,024
Inventories	19,189
Capital assets, net of accumulated depreciation(Note 6)	60,412
TOTAL ASSETS	<u>152,625</u>
LIABILITIES	
Deferred revenue:	
Other	5,328
TOTAL LIABILITIES	<u>5,328</u>
NET ASSETS	
Investment in capital assets	60,412
Unrestricted	86,885
TOTAL NET ASSETS	<u>\$ 147,297</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 337,092
TOTAL OPERATING REVENUES	337,092
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	211,243
Benefits	31,242
Services	993
Supplies	376,325
Depreciation	13,974
Other	941
TOTAL OPERATING EXPENSES	634,718
OPERATING LOSS	(297,626)
NON-OPERATING REVENUES:	
State sources	7,441
Federal sources	256,072
Interest income	630
TOTAL NON-OPERATING REVENUES	264,143
Net loss before capital contributions	(33,483)
Capital contributions	4,798
Change in net assets	(28,685)
Net assets beginning of year	175,982
Net assets end of year	\$ 147,297

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2005

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 338,113
Cash received from miscellaneous sources	1,000
Cash paid to employees for services	(242,485)
Cash paid to suppliers for goods or services	(352,194)
Net cash used in operating activities	(255,566)
Cash flows from non-capital financing activities:	
State grants received	7,441
Federal grants received	258,867
Net cash provided by non-capital financing activities	266,308
Cash flows from investing activities:	
Interest on investments	630
Net cash provided by investing activities	630
Net increase in cash and cash equivalents	11,372
Cash and cash equivalents at beginning of year	61,652
Cash and cash equivalents at end of year	\$ 73,024
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (297,626)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	25,123
Depreciation	13,974
Decrease in inventories	942
Decrease in accounts receivable	10
Increase in deferred revenue	2,011
Net cash used in operating activities	\$ (255,566)

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

Current assets:	
Cash and pooled investments	\$ 73,024

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2005, the District received Federal commodities valued at \$25,123.

During the year ended June 30, 2005, the District received contributed capital of \$4,798 from the Special Revenue - Physical Plant and Equipment Levy Fund.

SEE NOTES TO FINANCIAL STATEMENTS.

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

	<u>Private Purpose Trust</u>	<u>Agency</u>
	<u>Scholarship</u>	
ASSETS		
Cash and pooled investments	\$ 124,810	3,750
	<u>124,810</u>	<u>3,750</u>
LIABILITIES		
Due to other groups	0	3,750
	<u>0</u>	<u>3,750</u>
NET ASSETS		
Reserved for scholarships	\$ 124,810	0
	<u>124,810</u>	<u>0</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Private Purpose Trust Scholarship
Additions:	\$ 0
Deductions:	0
Change in net assets	0
Net assets beginning of year	124,810
Net assets end of year	\$ 124,810

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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

The Atlantic 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. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the city of Atlantic, Iowa, and the predominate agricultural territory in Cass, Audubon and Pottawattamie Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, Atlantic Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Atlantic 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 Cass 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 support.

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

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

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

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

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

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the 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 Physical Plant and Equipment Levy Fund is utilized to account for equipment purchases as well as capital improvements.

The District reports the following proprietary fund:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

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

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

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations. 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	\$ 2,500
Buildings	2,500
Land improvements	2,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,500

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 extra duties and curriculum work for the current school year, which is paid 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.

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

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

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

#### E. Budgeting and Budgetary Control

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

#### (2) **Cash and Pooled Investments**

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

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

The District had no investments as of June 30, 2005.

(3) Capital Assets

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

	Balance Beginning of Year, as restated (Note 8)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 928,419	0	0	928,419
Construction in progress	0	13,234	0	13,234
Total capital assets not being depreciated	928,419	13,234	0	941,653
Capital assets being depreciated:				
Buildings	14,088,145	56,155	0	14,144,300
Land improvements	1,360,738	27,450	38,160	1,350,028
Machinery and equipment	1,696,775	174,282	0	1,871,057
Total capital assets being depreciated	17,145,658	257,887	38,160	17,365,385
Less accumulated depreciation for:				
Buildings	4,243,499	313,016	0	4,556,515
Land improvements	528,349	66,254	38,160	556,443
Machinery and equipment	1,392,281	140,763	0	1,533,044
Total accumulated depreciation	6,164,129	520,033	38,160	6,646,002
Total capital assets being depreciated, net	10,981,529	(262,146)	0	10,719,383
Governmental activities capital assets, net	\$ 11,909,948	(248,912)	0	11,661,036
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 178,212	4,798	0	183,010
Less accumulated depreciation	108,624	13,974	0	122,598
Business-type activities capital assets, net	\$ 69,588	(9,176)	0	60,412

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 39,559
Special		3,865
Other		5,791
Support services:		
Administration		800
Operation and maintenance of plant		19,521
Transportation		71,227
		<u>140,763</u>
Unallocated depreciation		<u>379,270</u>
		<u>\$ 520,033</u>
Business-type activities:		
Food services		\$ 13,974
Total business-type activities depreciation expense		<u>\$ 13,974</u>

**(4) 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	\$ 5,175,000	0	525,000	4,650,000	545,000

Bonds Payable

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

Year Ending June 30,	Interest Rates	Bond Issue of June 1, 2001		
		Principal	Interest	Total
2006	4.125 %	\$ 545,000	200,904	745,904
2007	4.125	565,000	178,422	743,422
2008	4.125	595,000	155,116	750,116
2009	4.250	615,000	130,572	745,572
2010	4.350	640,000	104,436	744,436
2011	4.450	660,000	76,596	736,596
2012	4.550	670,000	47,226	717,226
2013	4.650	360,000	16,740	376,740
Total		<u>\$ 4,650,000</u>	<u>910,012</u>	<u>5,560,012</u>

**(5) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial

statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, 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 \$413,958, \$395,294 and \$391,204 respectively, equal to the required contributions for each year.

**(6) Risk Management**

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

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members that terminated from ISEBA on June 30, 2004 received an assessment in December 2004 due July 1, 2005. The total assessment for terminated members is approximately \$3.9 million. The District, as a part of a class action, appealed the assessment. After reaching a settlement, one half of the original assessment or \$15,472 is due and payable December 1, 2005, which is recorded as a liability on the government-wide Statement of Net Assets as of June 30, 2005.

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

**(7) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$406,718 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.

**(8) Restate Capital Assets/Net Assets Beginning Balances**

The restatement of the capital assets and net assets are as follows:

	Balance 6/30/2004 as Previously Reported			Balance 7/1/2004 as Restated
		Increases	Decreases	
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 331,147	597,272	0	928,419
Total capital assets not being depreciated	<u>331,147</u>	<u>597,272</u>	<u>0</u>	<u>928,419</u>
Capital assets being depreciated:				
Buildings	14,094,678	0	6,533	14,088,145
Land improvements	1,918,500	0	557,762	1,360,738
Machinery and equipment	1,690,243	6,532	0	1,696,775
Total capital assets being depreciated	<u>17,703,421</u>	<u>6,532</u>	<u>564,295</u>	<u>17,145,658</u>
Less accumulated depreciation for:				
Buildings	4,250,631	0	7,132	4,243,499
Land improvements	878,009	0	349,660	528,349
Machinery and equipment	1,373,075	19,206	0	1,392,281
Total accumulated depreciation	<u>6,501,715</u>	<u>19,206</u>	<u>356,792</u>	<u>6,164,129</u>
Total capital assets being depreciated, net	<u>11,201,706</u>	<u>(12,674)</u>	<u>207,503</u>	<u>10,981,529</u>
Governmental activities capital assets, net	<u>\$ 11,532,853</u>	<u>584,598</u>	<u>207,503</u>	<u>11,909,948</u>

The effect if the adjustment to restate the capital assets results in a change to the previously reported governmental activities, net assets as follows:

Net assets, June 30, 2004, as previously reported	\$ 10,795,706
Capital asset adjustments, net	<u>377,095</u>
Net assets, July 1, 2004, as restated	<u>\$ 11,172,801</u>

REQUIRED SUPPLEMENTAL INFORMATION

ATLANTIC 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
<b>Revenues:</b>		
Local sources	\$ 5,940,388	337,722
State sources	6,015,939	7,441
Federal sources	516,049	256,072
Total revenues	<u>12,472,376</u>	<u>601,235</u>
<b>Expenditures:</b>		
Instruction	7,626,601	0
Support services	3,265,936	0
Non-instructional programs	20,778	634,718
Other expenditures	1,348,650	0
Total expenditures	<u>12,261,965</u>	<u>634,718</u>
Excess(deficiency) of revenues over(under) expenditures	210,411	(33,483)
Other financing sources, net	<u>3,440</u>	<u>4,798</u>
Excess(deficiency) of revenues and other financing sources over(under) expenditures	213,851	(28,685)
Balance beginning of year	<u>4,300,853</u>	<u>175,982</u>
Balance end of year	<u>\$ 4,514,704</u>	<u>147,297</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
6,278,110	5,574,057	5,574,057	704,053
6,023,380	6,039,558	6,039,558	(16,178)
772,121	487,000	487,000	285,121
<u>13,073,611</u>	<u>12,100,615</u>	<u>12,100,615</u>	<u>972,996</u>
7,626,601	7,885,062	7,885,062	258,461
3,265,936	3,340,078	3,340,078	74,142
655,496	707,255	707,255	51,759
1,348,650	1,695,019	1,695,019	346,369
<u>12,896,683</u>	<u>13,627,414</u>	<u>13,627,414</u>	<u>730,731</u>
176,928	(1,526,799)	(1,526,799)	1,703,727
8,238	0	0	8,238
185,166	(1,526,799)	(1,526,799)	1,711,965
4,476,835	3,633,160	3,633,160	843,675
<u>4,662,001</u>	<u>2,106,361</u>	<u>2,106,361</u>	<u>2,555,640</u>

ATLANTIC 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 GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

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

OTHER SUPPLEMENTAL INFORMATION

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

	Special Revenue Funds						Total Other Nonmajor Governmental Funds
	Manage- ment	Student Activity	Expend- able Trust	Total Special Revenue Funds	Debt Service	Capital Projects	
<b>ASSETS</b>							
Cash and pooled investments	\$ 85,432	164,244	29,583	279,259	137,363	238,608	655,230
Receivables:							
Property tax:							
Current year delinquent	1,893	0	0	1,893	14,339	0	16,232
Succeeding year	150,000	0	0	150,000	671,204	0	821,204
Accounts	0	1,356	0	1,356	0	0	1,356
Due from other governments	0	0	0	0	0	119,974	119,974
<b>TOTAL ASSETS</b>	<b>\$ 237,325</b>	<b>165,600</b>	<b>29,583</b>	<b>432,508</b>	<b>822,906</b>	<b>358,582</b>	<b>1,613,996</b>
<b>LIABILITIES AND FUND EQUITY</b>							
<b>Liabilities:</b>							
Accounts payable	\$ 0	7,700	0	7,700	0	0	7,700
Deferred revenue:							
Succeeding year property tax	150,000	0	0	150,000	671,204	0	821,204
	150,000	7,700	0	157,700	671,204	0	828,904
<b>Fund equity:</b>							
<b>Fund balances:</b>							
<b>Reserved for:</b>							
Debt service	0	0	0	0	151,702	0	151,702
<b>Unreserved:</b>							
Undesignated	87,325	157,900	29,583	274,808	0	358,582	633,390
Total fund balances	87,325	157,900	29,583	274,808	151,702	358,582	785,092
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 237,325</b>	<b>165,600</b>	<b>29,583</b>	<b>432,508</b>	<b>822,906</b>	<b>358,582</b>	<b>1,613,996</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue Funds						Total Other Nonmajor Governmental Funds
	Manage- ment	Student Activity	Expend- able Trust	Total Special Revenue Funds	Debt Service	Capital Projects	
REVENUES:							
Local sources:							
Local tax	\$ 99,965	0	0	99,965	752,644	353,889	1,206,498
Other	3,923	271,473	2,322	277,718	3,594	0	281,312
State sources	85	0	0	85	640	0	725
TOTAL REVENUES	103,973	271,473	2,322	377,768	756,878	353,889	1,488,535
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	14,835	0	0	14,835	0	0	14,835
Other instruction	0	264,984	3,750	268,734	0	0	268,734
Support services:							
Student support	600	0	0	600	0	0	600
Instructional staff support	537	0	0	537	0	0	537
Administration services	24,303	0	0	24,303	0	0	24,303
Operation and maintenance of plant services	62,199	0	0	62,199	0	0	62,199
Student transportation	21,970	0	0	21,970	0	0	21,970
Non-instructional programs:							
Food service operations	5,604	0	0	5,604	0	0	5,604
Other:							
Long-term debt:							
Principal	0	0	0	0	525,000	0	525,000
Interest and fiscal charges	0	0	0	0	222,560	0	222,560
TOTAL EXPENDITURES	130,048	264,984	3,750	398,782	747,560	0	1,146,342
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(26,075)	6,489	(1,428)	(21,014)	9,318	353,889	342,193
FUND BALANCE BEGINNING OF YEAR	113,400	151,411	31,011	295,822	142,384	4,693	442,899
FUND BALANCE END OF YEAR	\$ 87,325	157,900	29,583	274,808	151,702	358,582	785,092

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ATLANTIC 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
Drama	\$ 2,011	505	1,216	1,300
Debate	0	2,500	2,500	0
Middle School Music	0	6,081	6,081	0
Vocal Music	12,564	7,989	8,426	12,127
Show Choir Costume	4,135	3,985	5,941	2,179
Band	6,925	11,646	14,908	3,663
Color Guard	(12)	40	0	28
Musical	(83)	2,281	1,703	495
Middle School Athletics	(72)	2,795	2,723	0
Cross Country	28	1,788	1,851	(35)
Boys Basketball	24,415	23,541	19,120	28,836
Football	26,943	28,900	17,630	38,213
Baseball	29	8,677	9,435	(729)
Boys Track	2,832	3,149	4,579	1,402
Boys Tennis	47	2,301	2,348	0
Boys Golf	48	3,164	2,472	740
Wrestling	8,514	5,554	7,213	6,855
Girls Basketball	23,677	12,932	10,752	25,857
Volleyball	9,333	11,671	11,931	9,073
Softball	(160)	4,858	4,488	210
Girls Track	(31)	2,970	2,591	348
Girls Tennis	511	1,968	1,881	598
Girls Golf	48	400	448	0
National Honor Society	449	836	1,005	280
Student Council	2,714	14,205	14,984	1,935
FFA	5,174	40,529	39,722	5,981
Prime Time	825	1,599	512	1,912
MS Activities	972	1,093	925	1,140
Javelin	4,672	12,229	8,994	7,907
French Club	267	0	0	267
Spanish Club	111	0	0	111
Cheerleaders	1,113	2,994	3,938	169
Pride	6,143	15,891	22,144	(110)
Globe Account	62	0	0	62
Schuler Student Council	203	0	0	203
Jr Class Prom	3,594	6,887	6,660	3,821
Coke	0	1,270	1,270	0
General Activity	0	17,587	17,587	0
Student Connection	1,975	688	1,337	1,326
Operation Special Kids	1,036	87	1	1,122
Hosp BD Activity	399	3,100	2,918	581
Schuler Resource Activity	0	169	136	33
Insuff. Funds	0	606	606	0
Interest	0	2,008	2,008	0
<b>Total</b>	<b>\$ 151,411</b>	<b>271,473</b>	<b>264,984</b>	<b>157,900</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
<b>ASSETS</b>				
Cash and pooled investments	\$ 2,108	26,098	24,456	3,750
Receivables:				
Accounts	62	0	62	0
	<u>\$ 2,170</u>	<u>26,098</u>	<u>24,518</u>	<u>3,750</u>
<b>LIABILITIES</b>				
Due to other groups	\$ 2,170	26,098	24,518	3,750

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2005	2004	2003	2002
<b>Revenues:</b>				
Local sources:				
Local tax	\$ 4,636,402	4,252,623	4,160,097	3,991,060
Tuition	804,293	742,794	809,650	690,061
Other	499,693	457,789	502,691	513,625
Intermediate sources	0	7,121	3,730	0
State sources	6,015,939	5,956,968	6,062,687	6,089,618
Federal sources	516,049	378,137	588,072	347,626
<b>Total</b>	<b>\$ 12,472,376</b>	<b>11,795,432</b>	<b>12,126,927</b>	<b>11,631,990</b>
<b>Expenditures:</b>				
Instruction:				
Regular instruction	\$ 5,000,500	4,936,636	4,925,143	4,918,757
Special instruction	1,502,442	1,615,769	1,618,390	1,674,844
Other instruction	1,123,659	703,959	763,310	655,915
Support services:				
Student services	306,622	340,420	320,077	317,235
Instructional staff services	455,264	326,908	270,765	320,969
Administration services	1,011,689	972,797	1,056,236	1,004,422
Operation and maintenance of plant services	1,056,285	976,804	979,580	961,076
Transportation services	431,331	361,088	387,036	329,332
Central support services	4,745	2,663	2,830	3,813
Other support services	0	0	974	0
Non-instructional programs	20,778	17,284	13,142	27,159
Other expenditures:				
Facilities acquisitions	194,372	133,377	505,098	597,761
Long-term debt:				
Principal	525,000	510,000	420,000	405,000
Interest and other charges	222,560	243,597	330,746	352,846
AEA flow-through	406,718	415,603	444,875	449,344
<b>Total</b>	<b>\$ 12,261,965</b>	<b>11,556,905</b>	<b>12,038,202</b>	<b>12,018,473</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ATLANTIC 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	\$ 25,123
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 05	33,543
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 05	197,406
			<u>230,949</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	0387-G	199,094
SAFE AND DRUG FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 05	8,395
FUND FOR THE IMPROVEMENT OF EDUCATION	84.215	FY 05	57,118
STATE GRANTS FOR INNOVATIVE PROGRAMS	84.298	FY 05	7,944
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 04	6,369
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 05	72,389
			<u>78,758</u>
GRANTS FOR STATE ASSESSMENT AND RELATED ACTIVITIES(TITLE VI A)	84.369	FY 05	8,876
IOWA WESTERN COMMUNITY COLLEGE:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 05	16,463

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

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT (CONTINUED) :			
AREA EDUCATION AGENCY :			
IOWA DEPARTMENT OF EDUCATION :			
SPECIAL EDUCATION - GRANTS TO			
STATES (PART B)	84.027	FY 05	74,171
TOTAL			\$ 706,891

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
117 West 3rd Street North, Newton, Iowa 50208-3040  
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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  
Atlantic 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 Atlantic 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 November 2, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Atlantic Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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.

Compliance and Other Matters

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

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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 Atlantic Community School District and other parties to whom Atlantic 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 Atlantic 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.

November 2, 2005

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
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Independent Auditor's Report on Compliance with Requirements Applicable  
to Each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Board of Education of  
Atlantic Community School District:

Compliance

We have audited the compliance of Atlantic Community School District with the types of compliance requirements described in 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. Atlantic 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 Atlantic Community School District's management. Our responsibility is to express an opinion on Atlantic 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 non-compliance 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 Atlantic Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Atlantic Community School District's compliance with those requirements.

In our opinion, Atlantic 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.

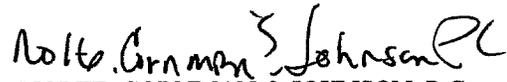
Internal Control Over Compliance

The management of Atlantic 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 Atlantic 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that 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 operations 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 Atlantic Community School District and other parties to whom Atlantic Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be use by anyone other than these specified parties.

  
NOLTE, CORNMAN & JOHNSON, P.C.

November 2, 2005

ATLANTIC 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) No 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 audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - Clustered
    - CFDA Number 10.553 - School Breakfast Program
    - CFDA Number 10.555 - National School Lunch Program
  - Individual
    - 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) Atlantic Community School District did not qualify as a low-risk auditee.

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

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

No matters were reported.

ATLANTIC 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 matters were reported.

ATLANTIC 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 have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

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 - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Barb Olson, Teacher Spouse of owner of Olson Fuel Supply Inc	Fuel (per bid)	\$45,356
Jan Kerns, Secretary Spouse of owner of Jon's Garage Door Service	Repairs	\$83

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with the teacher and secretary spouses do not appear to represent a conflict of interest.

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.

IV-H-05 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

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.