

AUDUBON COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

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Audubon Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2004 Election)		
Tim Andersen	President	2006
Shannon Nelsen	Vice President	2005
Sarah Christensen	Board Member	2005
Douglas Olsen	Board Member	2004
Carla Gust	Board Member	2006
Board of Education (After September 2004 Election)		
Shannon Nelsen	President	2005
Douglas Olsen	Vice President	2007
Sarah Christensen	Board Member	2005
Tim Andersen	Board Member	2006
Carla Gust	Board Member	2006
School Officials		
Ron Dobson	Superintendent	2005
John Roberts	District Secretary/Treasurer	2005
Natalie Lange	Business Manager	2005
Rick Engel	Attorney	2005

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Audubon 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 Audubon Community School District, Audubon, Iowa as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with Government Auditing Standards, we have also issued our report dated October 19, 2005 on our consideration of the Audubon Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 35 through 38 are not required parts of the basic financial statements, but are supplementary

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Audubon Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

October 19, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Audubon 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 \$4,847,748 in fiscal 2004 to \$5,172,236 in fiscal 2005, while General Fund expenditures increased from \$4,898,770 in fiscal 2004 to \$4,935,118 in fiscal 2005. This resulted in an increase in the District's General Fund balance from \$320,740 in fiscal 2004 to a balance of \$560,358 in fiscal 2005, a 74.7% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in state and federal grant revenue in fiscal 2005. The increase in expenditures is attributable to increases in expenditures in each functional area within the support services programs.
- An increase in interest rates during the past fiscal year, combined with more cash available to be invested, resulted in interest earnings in the General Fund alone to increase from \$8,334 in fiscal year 2004 to \$21,713 in fiscal year 2005.

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

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

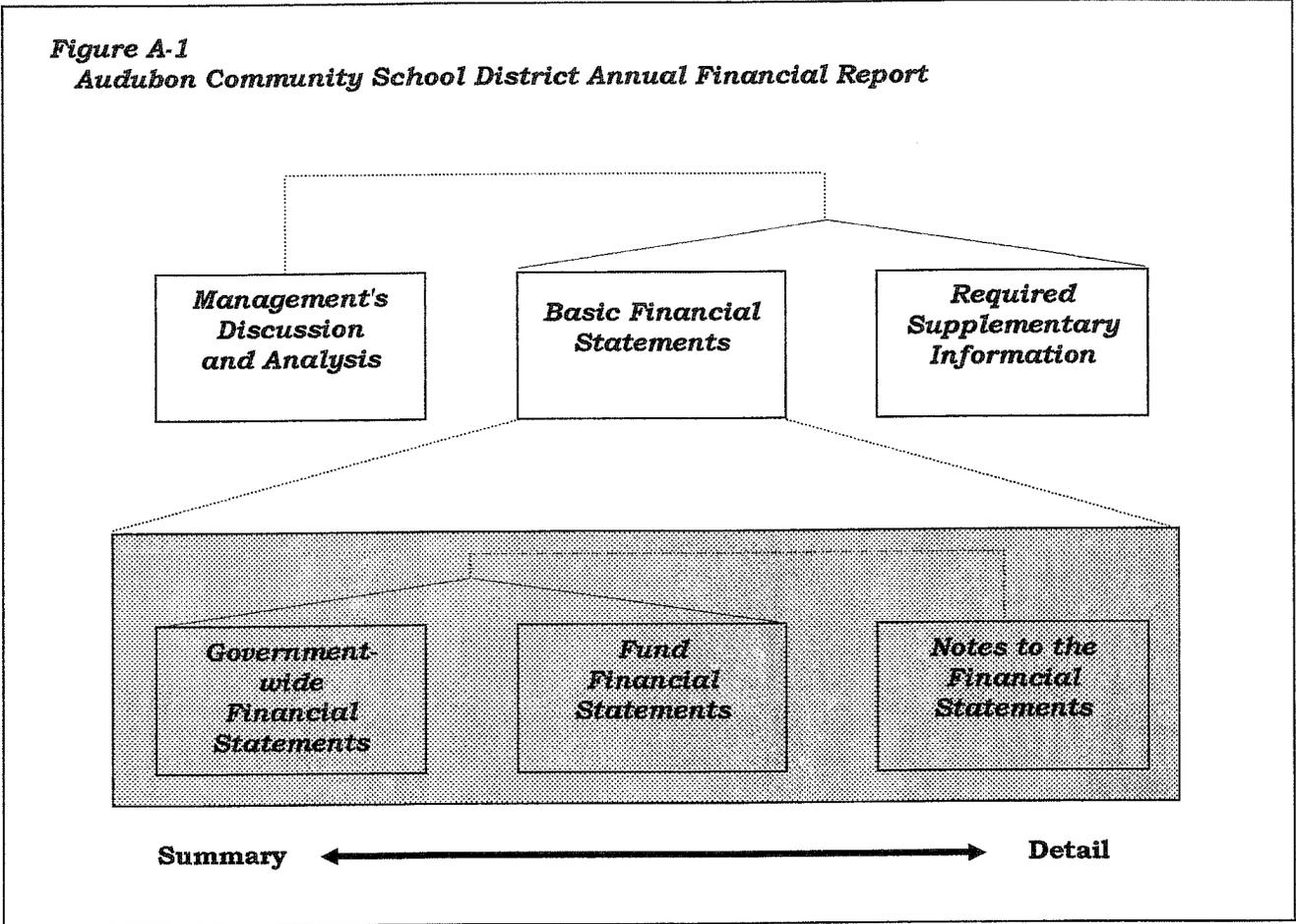


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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 revenues, expenses and changes in net assets and a statement of cash flows.

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

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

The District is responsible for ensuring 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 Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Current and other assets	\$ 3,884,958	3,173,830	51,475	63,770	3,936,433	3,237,600	21.6%
Capital assets	2,772,448	2,885,630	63,525	56,686	2,835,973	2,942,316	-3.6%
Total assets	6,657,406	6,059,460	115,000	120,456	6,772,406	6,179,916	9.6%
Long-term obligations	5,897	5,913	0	0	5,897	5,913	-0.3%
Other liabilities	2,533,036	2,337,248	1,609	3,024	2,534,645	2,340,272	8.3%
Total liabilities	2,538,933	2,343,161	1,609	3,024	2,540,542	2,346,185	8.3%
Net assets:							
Invested in capital assets, net of related debt	2,772,448	2,885,630	63,525	56,686	2,835,973	2,942,316	-3.6%
Restricted	866,110	562,160	0	0	866,110	562,160	54.1%
Unrestricted	479,915	268,509	49,866	60,746	529,781	329,255	60.9%
Total net assets	\$ 4,118,473	3,716,299	113,391	117,432	4,231,864	3,833,731	10.4%

The District's combined net assets increased by 10.4%, or \$398,133 over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$303,950 or 54.1% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$200,526, or 60.9%.

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

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Revenues:							
Program revenues:							
Charges for services	\$ 468,203	483,825	190,660	189,690	658,863	673,515	-2.2%
Operating grants and contributions and restricted interest	663,385	586,738	103,484	102,732	766,869	689,470	11.2%
Capital grants and contributions and restricted interest	10,000	0	0	0	10,000	0	100.0%
General revenues:							
Property tax	1,968,122	2,104,839	0	0	1,968,122	2,104,839	-6.5%
Local option sales and service tax	313,844	0	0	0	313,844	0	100.0%
Unrestricted state grants	2,501,869	2,252,134	0	0	2,501,869	2,252,134	11.1%
Other	31,555	19,742	1,015	263	32,570	20,005	62.8%
Total revenues	5,956,978	5,447,278	295,159	292,685	6,252,137	5,739,963	8.9%
Program expenses:							
Governmental activities:							
Instructional	3,306,658	3,413,504	0	0	3,306,658	3,413,504	-3.1%
Support services	1,870,020	1,677,454	0	0	1,870,020	1,677,454	11.5%
Non-instructional programs	0	3,923	299,200	279,015	299,200	282,938	5.7%
Other expenditures	378,126	371,510	0	0	378,126	371,510	1.8%
Total expenses	5,554,804	5,466,391	299,200	279,015	5,854,004	5,745,406	1.9%
Changes in net assets	402,174	(19,113)	(4,041)	13,670	398,133	(5,443)	7414.6%
Net assets beginning of year	3,716,299	3,735,412	117,432	103,762	3,833,731	3,839,174	-0.1%
Net assets end of year	\$ 4,118,473	3,716,299	113,391	117,432	4,231,864	3,833,731	10.4%

Property tax and unrestricted state grants account for 71% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 88% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$5,956,978 and expenses were \$5,554,804.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 3,306,658	2,364,169
Support services	1,870,020	1,869,102
Other expenditures	378,126	179,945
Totals	\$ 5,554,804	4,413,216

- The cost financed by users of the District's programs was \$468,203.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$673,385.
- The net cost of governmental activities was financed with \$1,968,122 in property tax, \$313,844 in local option sales and service tax, \$2,501,869 in state foundation aid, and \$31,555 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$295,159 and expenses were \$299,200. 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 Audubon Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,215,462, above last year's ending fund balances of \$697,768. However, the primary reason for the increase in combined fund balances in fiscal 2005 is due to increased revenues for the governmental funds outweighing the increase in expenditures.

Governmental Fund Highlights

- The District's General Fund financial position improvement from \$320,740 to \$560,358 is the product of many factors:
 - Increase in state and federal grants during the year resulted in an increase in revenues.
 - The increase in revenues was greater than the increase in expenditures resulting in a net increase of \$239,618.
- The Management Fund balance increased from \$152,059 in fiscal 2004 to \$173,117 in fiscal 2005. This increase is due to revenues for the fund outweighing expenditures even though expenditures in the Management Fund increased by 14% in fiscal 2005.
- The Physical Plant and Equipment Levy Fund balance decreased from \$152,824 in fiscal 2004 to \$101,070 in fiscal 2005. This is due to increased expenditures made during the year due to capital improvements.

- The Capital Projects Fund balance increased from \$0 in fiscal 2004 to \$305,691 in fiscal 2005. The increase is from the inflow of new monies from the local option sales tax that was passed in during fiscal 2004.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$117,432 at June 30, 2004 to \$113,391 at June 30, 2005, representing an increase of 3.4%. This small decrease was due in part to the District purchasing new equipment for food services.

BUDGETARY HIGHLIGHTS

The District's revenues were \$3,925 more than budgeted revenues, a variance of 3%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services functional area.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$2,835,973, 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) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$347,607.

The original cost of the District's capital assets was \$10.1 million. Governmental funds account for \$9.9 million with the remainder of \$0.2 million in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the land improvements category. The District's land improvements totaled \$369,873 at June 30, 2004, compared to \$451,215 reported at June 30, 2005. This increase resulted from capital asset purchases during the fiscal year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Land	\$ 3,200	3,200	0	0	3,200	3,200	0.00%
Buildings	1,521,280	1,584,432	0	0	1,521,280	1,584,432	-3.99%
Land improvements	451,215	369,873	0	0	451,215	369,873	21.99%
Machinery and equipment	796,753	928,125	63,525	56,686	860,278	984,811	-12.65%
Total	\$ 2,772,448	2,885,630	63,525	56,686	2,835,973	2,942,316	-3.61%

Long-Term Debt

At June 30, 2005, the District had \$5,897 in other long-term debt outstanding. This represents an decrease of 0.3% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding Compensated absences payable from the General Fund of \$5,897 at June 30, 2005.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2005	2004	
Compensated absences	\$ 5,897	5,913	-0.3%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- We are in the process of taking bids for a building project at the elementary and high school sites. This will allow us to enhance our efficiency by allowing us to close one building and to staff our school more effectively. We will be financing this through our SILO tax money which is partly determined by student enrollment. The District projects a declining enrollment trend of approximately 19 students per year. We are anticipating the declining enrollment will be offset by the projected increase in our state SILO tax dollars per student.
- There was a fire in the high school building in June of 2005. The 2005-2006 revenue and expenditures will be inflated for the year by approximately \$250,000.

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 Natalie Lange, Business Manager, Audubon Community School District, 800 Third Avenue, Audubon, Iowa, 50025.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 1,486,126	47,625	1,533,751
Receivables:			
Property tax:			
Delinquent	166,972	0	166,972
Succeeding year	1,882,674	0	1,882,674
Income surtax	136,460	0	136,460
Accounts	5,684	0	5,684
Due from other governments	207,042	0	207,042
Inventories	0	3,850	3,850
Capital assets, net of accumulated depreciation (Note 4)	2,772,448	63,525	2,835,973
TOTAL ASSETS	6,657,406	115,000	6,772,406
LIABILITIES			
Accounts payable	182,842	0	182,842
Salaries and benefits payable	417,720	0	417,720
Deferred revenue:			
Succeeding year property tax	1,882,674	0	1,882,674
Other	49,800	1,609	51,409
Long-term liabilities (Note 5):			
Portion due within one year:			
Compensated absences	5,897	0	5,897
TOTAL LIABILITIES	2,538,933	1,609	2,540,542
NET ASSETS			
Investment in capital assets, net of related debt	2,772,448	63,525	2,835,973
Restricted for:			
Early Intervention	45,293	0	45,293
Talented and gifted	165,276	0	165,276
Teacher compensation	437	0	437
Management levy	173,117	0	173,117
Physical plant and equipment levy	101,070	0	101,070
Capital projects	305,691	0	305,691
Other special revenue purposes	75,226	0	75,226
Unrestricted	479,915	49,866	529,781
TOTAL NET ASSETS	\$ 4,118,473	113,391	4,231,864

SEE NOTES TO FINANCIAL STATEMENTS.

AUDUBON 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	\$ 2,239,338	166,171	440,523	0
Special instruction	344,316	1,592	34,681	0
Other instruction	723,004	299,522	0	0
	<u>3,306,658</u>	<u>467,285</u>	<u>475,204</u>	<u>0</u>
Support services:				
Student services	189,192	0	0	0
Instructional staff services	226,682	0	0	0
Administration services	651,824	0	0	0
Operation and maintenance of plant services	492,889	0	0	0
Transportation services	307,196	918	0	0
Central support services	2,237	0	0	0
	<u>1,870,020</u>	<u>918</u>	<u>0</u>	<u>0</u>
Other expenditures:				
Facilities acquisitions	12,189	0	0	10,000
AEA flowthrough	188,181	0	188,181	0
Depreciation (unallocated)*	177,756	0	0	0
	<u>378,126</u>	<u>0</u>	<u>188,181</u>	<u>10,000</u>
Total governmental activities	5,554,804	468,203	663,385	10,000
Business-Type activities:				
Non-instructional programs:				
Nutrition services	299,200	190,660	103,484	0
Total business-type activities	<u>299,200</u>	<u>190,660</u>	<u>103,484</u>	<u>0</u>
Total	<u>\$ 5,854,004</u>	<u>658,863</u>	<u>766,869</u>	<u>10,000</u>

General Revenues:

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

Total general revenues

Changes in net assets

Net assets beginning of year

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(1,632,644)	0	(1,632,644)
(308,043)	0	(308,043)
(423,482)	0	(423,482)
<u>(2,364,169)</u>	<u>0</u>	<u>(2,364,169)</u>
(189,192)	0	(189,192)
(226,682)	0	(226,682)
(651,824)	0	(651,824)
(492,889)	0	(492,889)
(306,278)	0	(306,278)
(2,237)	0	(2,237)
<u>(1,869,102)</u>	<u>0</u>	<u>(1,869,102)</u>
(2,189)	0	(2,189)
0	0	0
(177,756)	0	(177,756)
<u>(179,945)</u>	<u>0</u>	<u>(179,945)</u>
(4,413,216)	0	(4,413,216)
0	(5,056)	(5,056)
0	(5,056)	(5,056)
<u>(4,413,216)</u>	<u>(5,056)</u>	<u>(4,418,272)</u>
\$ 1,823,195	0	1,823,195
144,927	0	144,927
313,844	0	313,844
2,501,869	0	2,501,869
31,555	1,015	32,570
<u>4,815,390</u>	<u>1,015</u>	<u>4,816,405</u>
402,174	(4,041)	398,133
3,716,299	117,432	3,833,731
<u>\$ 4,118,473</u>	<u>113,391</u>	<u>4,231,864</u>

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

	General	Physical Plant and Equipment Levy	Capital Projects	Other Governmental Funds	Total
ASSETS					
Cash and pooled investments	\$ 914,150	105,905	215,176	250,895	1,486,126
Receivables:					
Property tax					
Delinquent	24,285	2,316	0	1,136	27,737
Succeeding year	1,736,197	146,477	0	0	1,882,674
Income surtax	136,460	0	0	0	136,460
Accounts	1,797	139,235	0	3,887	144,919
Due from other governments	56,974	0	150,068	0	207,042
TOTAL ASSETS	\$ 2,869,863	393,933	365,244	255,918	3,884,958
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 19,128	146,386	9,753	7,575	182,842
Salaries and benefits payable	417,720	0	0	0	417,720
Deferred revenue:					
Succeeding year property tax	1,736,197	146,477	0	0	1,882,674
Income surtax	136,460	0	0	0	136,460
Other	0	0	49,800	0	49,800
Total liabilities	2,309,505	292,863	59,553	7,575	2,669,496
Fund balances:					
Reserved for:					
Teacher compensation	437	0	0	0	437
Talented and gifted	165,276	0	0	0	165,276
Early intervention	45,293	0	0	0	45,293
Unreserved:					
Undesignated:	349,352	101,070	305,691	248,343	1,004,456
Total fund balances	560,358	101,070	305,691	248,343	1,215,462
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,869,863	393,933	365,244	255,918	3,884,958

SEE NOTES TO FINANCIAL STATEMENTS.

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

Total fund balances of governmental funds (page 16)	\$ 1,215,462
<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.	2,772,448
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	136,460
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(5,897)</u>
Net assets of governmental activites (page 13)	<u>\$ 4,118,473</u>

SEE NOTES TO FINANCIAL STATEMENTS.

AUDUBON 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	Capital Projects	Other Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 1,735,393	144,927	313,844	90,156	2,284,320
Tuition	167,763	0	0	0	167,763
Other	111,224	17,966	1,761	218,278	349,229
State sources	2,913,691	108	0	56	2,913,855
Federal sources	244,165	0	0	0	244,165
Total revenues	5,172,236	163,001	315,605	308,490	5,959,332
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	2,246,222	0	0	0	2,246,222
Special instruction	344,316	0	0	0	344,316
Other instruction	488,759	0	0	215,363	704,122
	3,079,297	0	0	215,363	3,294,660
Support services:					
Student support	172,185	0	0	14,017	186,202
Instructional staff services	210,756	15,034	0	892	226,682
Administration services	648,179	0	0	3,791	651,970
Operation and maintenance of plant services	451,768	1,500	0	39,061	492,329
Transportation services	182,515	0	0	11,227	193,742
Central support services	2,237	0	0	0	2,237
	1,667,640	16,534	0	68,988	1,753,162
Other expenditures:					
Facilities acquisitions	0	337,456	9,914	0	347,370
AEA flowthrough	188,181	0	0	0	188,181
	188,181	337,456	9,914	0	535,551
Total expenditures	4,935,118	353,990	9,914	284,351	5,583,373
Excess (deficiency) of revenues over (under) expenditures	237,118	(190,989)	305,691	24,139	375,959
OTHER FINANCING SOURCES:					
Sale of equipment	2,500	0	0	0	2,500
Compensation for loss of capital assets	0	139,235	0	0	139,235
TOTAL OTHER FINANCING SOURCE	2,500	139,235	0	0	141,735
Net change in fund balances	239,618	(51,754)	305,691	24,139	517,694
Fund balance beginning of year	320,740	152,824	0	224,204	697,768
Fund balance end of year	\$ 560,358	101,070	305,691	248,343	1,215,462

SEE NOTES TO FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds (page 18) \$ 517,694

*Amounts reported for governmental activities in the
 statement of activities are different because:*

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

Expenditures for capital assets	\$ 247,315	
Depreciation expense	<u>(342,314)</u>	(94,999)

The proceeds from the sale of equipment (\$2,500) are reported as revenue in the governmental funds. However, the cost of the equipment as well as the corresponding depreciation (\$15,683) is removed from the capital assets account in the Statement of Net Assets and offset against the sale proceeds resulting in a "loss on disposal of equipment" which is reported within the government-type expenses. Thus, more revenue is reported in the governmental funds than the Statement of Activities. (18,183)

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds. (2,354)

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.

Compensated absences	16
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Changes in net assets of governmental activities (page 15) \$ 402,174

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
ASSETS	
Cash and pooled investments	\$ 47,625
Receivables:	
Inventories	3,850
Capital assets, net of accumulated depreciation (Note 4)	63,525
TOTAL ASSETS	115,000
 LIABILITIES	
Deferred revenues:	
Other	1,609
TOTAL LIABILITIES	1,609
 NET ASSETS	
Investment in capital assets	63,525
Unrestricted	49,866
TOTAL NET ASSETS	\$ 113,391

SEE NOTES TO FINANCIAL STATEMENTS.

AUDUBON 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	\$ 190,660
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	101,658
Benefits	13,473
Supplies	168,416
Depreciation	15,653
TOTAL OPERATING EXPENSES	299,200
OPERATING LOSS	(108,540)
NON-OPERATING REVENUES:	
State sources	3,597
Federal sources	99,887
Interest income	1,015
TOTAL NON-OPERATING REVENUES	104,499
Change in net assets	(4,041)
Net assets beginning of year	117,432
Net assets end of year	\$ 113,391

SEE NOTES TO FINANCIAL STATEMENTS.

AUDUBON 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	\$ 178,288
Cash received from miscellaneous sources	11,454
Cash payments to employees for services	(115,131)
Cash payments to suppliers for goods or services	(151,515)
Net cash used in operating activities	(76,904)
Cash flows from non-capital financing activities:	
State grants received	3,597
Federal grants received	81,425
Net cash provided by non-capital financing activities	85,022
Cash flows from capital and related financing activities:	
Purchase of capital assets	(22,492)
Net cash used in capital and related financing activities	(22,492)
Cash flows from investing activities:	
Interest on investments	1,015
Net cash provided by investing activities	1,015
Net decrease in cash and cash equivalents	(13,359)
Cash and cash equivalents at beginning of year	60,984
Cash and cash equivalents at end of year	\$ 47,625
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (108,540)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	18,462
Depreciation	15,653
Increase in inventories	(1,075)
Decrease in accounts receivable	11
Decrease in accounts payable	(486)
Decrease in deferred revenue	(929)
Net cash used in operating activities	\$ (76,904)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 47,625
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
During the year ended June 30, 2005, the District received Federal commodities valued at \$18,462.	

SEE NOTES TO FINANCIAL STATEMENTS.

AUDUBON COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2005

	<u>Private Purpose</u> <u>Trust</u> <u>Scholarship</u>
ASSETS	
Cash and pooled investments	\$ 172,102
LIABILITIES	<u>0</u>
NET ASSETS	
Reserved for scholarships	<u>\$ 172,102</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Local sources:	
Interest and contributions	\$ 345
Change in net assets	345
Net assets beginning of year	<u>171,757</u>
Net assets end of year	<u>\$ 172,102</u>

SEE NOTES TO FINANCIAL STATEMENTS.

AUDUBON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

(1) Summary of Significant Accounting Policies

The Audubon 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. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Audubon, Iowa, and the predominate agricultural territory in Audubon and Guthrie 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, Audubon 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 Audubon 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 Audubon and Guthrie Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which

normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

The Physical Plant and Equipment Levy Fund is utilized to account for equipment purchases as well as capital improvements.

The District reports the following major proprietary funds:

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.

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	\$ 400
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	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	5-20 years

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

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

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

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

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements in the support services functional area exceeded the amount budgeted.

(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 of 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.

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

	Amortized Cost
Iowa Schools Joint Investment Trust	\$ 151,334

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

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

(3) Transfers

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

Transfer to	Transfer from	Amount
Capital Projects	General	\$ 49,817

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

(4) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,200	0	0	3,200
Total capital assets not being depreciated	<u>3,200</u>	<u>0</u>	<u>0</u>	<u>3,200</u>
Capital assets being depreciated:				
Buildings	7,192,818	77,499	0	7,270,317
Land improvements	739,746	118,447	0	858,193
Machinery and equipment	1,946,004	51,369	219,735	1,777,638
Total capital assets being depreciated	<u>9,878,568</u>	<u>247,315</u>	<u>219,735</u>	<u>9,906,148</u>
Less accumulated depreciation for:				
Buildings	5,608,386	140,651	0	5,749,037
Land improvements	369,873	37,105	0	406,978
Machinery and equipment	1,017,879	164,558	201,552	980,885
Total accumulated depreciation	<u>6,996,138</u>	<u>342,314</u>	<u>201,552</u>	<u>7,136,900</u>
Total capital assets being depreciated, net	<u>2,882,430</u>	<u>(94,999)</u>	<u>18,183</u>	<u>2,769,248</u>
Governmental activities capital assets, net	<u>\$ 2,885,630</u>	<u>(94,999)</u>	<u>18,183</u>	<u>2,772,448</u>

	Balance			Balance
	Beginning of	Increases	Decreases	End of
	Year			Year
Business-type activities:				
Machinery and equipment	\$ 218,151	22,492	14,456	226,187
Less accumulated depreciation	161,465	15,653	14,456	162,662
Business-type activities capital assets, net	<u>\$ 56,686</u>	<u>6,839</u>	<u>0</u>	<u>63,525</u>

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$ 38,764
Other	21,924

Support services:

Instructional staff	4,169
Operation and maintenance of plant	1,930
Transportation	97,771

164,558

Unallocated depreciation

177,756

Total governmental activities depreciation expense

\$ 342,314

Business-type activities:

Food services	\$ 15,653
Total business-type activities depreciation expense	<u>\$ 15,653</u>

(5) Long-Term Liabilities

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

	Balance			Balance	Due
	Beginning	Additions	Deletions	End of	Within
	of Year			Year	One Year
Compensated absences	\$ 5,913	5,897	5,913	5,897	5,897

(6) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual 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 \$190,103, \$187,780, and \$181,872 respectively, equal to the required contributions for each year.

(7) Risk Management

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

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 continuing membership in the Association had their deficit recovery assessment included in their annual premium for the 2004-2005 and 2005-2006 plan years. The deficit recovery is equal to 2% of the annual premium. The total amount of the deficit recoveries of current members is estimated to be \$2.2 million. The District's share of this assessment was \$471 paid with the 2004-2005 premiums and 2% of the 2005-2006 premium will be paid along with the 2005-2006 premium, an amount that is unknown at this time. Since the program is now fully insured, there will be no additional assessments due to claims exceeding premiums charged to members.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2005 were \$23,536.

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

Audubon 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.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$188,181 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.

(9) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2005, disbursements in the support services functional area exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

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

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 2,536,194	190,757
State sources	2,895,092	3,597
Federal sources	209,224	99,887
Total receipts	<u>5,640,510</u>	<u>294,241</u>
Disbursements:		
Instruction	3,348,836	0
Support services	1,754,770	0
Non-instructional programs	0	307,600
Other expenditures	391,214	0
Total disbursements	<u>5,494,820</u>	<u>307,600</u>
Excess (deficiency) of receipts over (under) disbursements	145,690	(13,359)
Other financing sources, net	<u>191,535</u>	0
Excess (deficiency) of receipts and other financing sources over (under) disbursements	337,225	(13,359)
Balance beginning of year	<u>1,148,901</u>	60,984
Balance end of year	<u><u>\$ 1,486,126</u></u>	<u><u>47,625</u></u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
2,726,951	2,661,736	2,661,736	65,215
2,898,689	2,969,090	2,969,090	(70,401)
309,111	300,000	300,000	9,111
<u>5,934,751</u>	<u>5,930,826</u>	<u>5,930,826</u>	<u>3,925</u>
3,348,836	4,545,502	4,545,502	1,196,666
1,754,770	1,640,950	1,640,950	(113,820)
307,600	343,517	343,517	35,917
391,214	485,295	485,295	94,081
<u>5,802,420</u>	<u>7,015,264</u>	<u>7,015,264</u>	<u>1,212,844</u>
132,331	(1,084,438)	(1,084,438)	1,216,769
<u>191,535</u>	<u>0</u>	<u>0</u>	<u>191,535</u>
323,866	(1,084,438)	(1,084,438)	1,408,304
<u>1,209,885</u>	<u>1,276,388</u>	<u>1,276,388</u>	<u>(66,503)</u>
<u><u>1,533,751</u></u>	<u><u>191,950</u></u>	<u><u>191,950</u></u>	<u><u>1,341,801</u></u>

AUDUBON COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types		
	Cash Basis	Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 5,640,510	318,822	5,959,332
Expenses	5,494,820	88,553	5,583,373
Net	145,690	230,269	375,959
Other financing sources	191,535	(49,800)	141,735
Beginning fund balances	1,148,901	(451,133)	697,768
Ending fund balances	\$ 1,486,126	(270,664)	1,215,462

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Accrual	
Adjust- ments		Accrual Basis	
Revenues	\$ 275,779	19,380	295,159
Expenses	289,138	10,062	299,200
Net	(13,359)	9,318	(4,041)
Beginning net assets	60,984	56,448	117,432
Ending net assets	\$ 47,625	65,766	113,391

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

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

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

During the year ended June 30, 2005, disbursements in the support services functional program area exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

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

	Special Revenue Funds			Total Special Revenue Funds
	Manage- ment	Student Activity	Expendable Trust	
ASSETS				
Cash and pooled investments	\$ 171,981	58,936	19,978	250,895
Receivables:				
Property tax:				
Current year delinquent	1,136	0	0	1,136
Accounts	0	985	2,902	3,887
TOTAL ASSETS	<u>\$ 173,117</u>	<u>59,921</u>	<u>22,880</u>	<u>255,918</u>
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts payable	\$ 0	1,550	6,025	7,575
Fund equity:				
Fund balances:				
Unreserved, undesignated	173,117	58,371	16,855	248,343
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 173,117</u>	<u>59,921</u>	<u>22,880</u>	<u>255,918</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AUDUBON 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
	Manage- ment	Student Activity	Expendable Trust	Other Nonmajor Governmental Funds
REVENUES:				
Local sources:				
Local tax	\$ 90,156	0	0	90,156
Other	1,207	205,551	11,520	218,278
State sources	56	0	0	56
TOTAL REVENUES	91,419	205,551	11,520	308,490
EXPENDITURES:				
Current:				
Instruction:				
Other instruction	14,498	200,865	0	215,363
Support services:				
Student support	892	0	13,125	14,017
Instructional staff services	892	0	0	892
Administration services	3,791	0	0	3,791
Operation and maintenance of plant services	39,061	0	0	39,061
Transportation services	11,227	0	0	11,227
TOTAL EXPENDITURES	70,361	200,865	13,125	284,351
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	21,058	4,686	(1,605)	24,139
FUND BALANCE BEGINNING OF YEAR	152,059	53,685	18,460	224,204
FUND BALANCE END OF YEAR	\$ 173,117	58,371	16,855	248,343

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AUDUBON 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
Interest	\$ 1,200	8	0	1,208
Speech and Drama	6,087	7,940	7,580	6,447
Journalism	5	315	315	5
Vocal Music	1,093	4,690	5,783	0
Band	103	2,676	2,681	98
Industrial Tech	1,447	5,562	6,745	264
Vo Ag Resale	38	345	121	262
Greenhouse	188	2,683	2,871	0
Box Tops	0	1,506	204	1,302
High School	3,159	42,824	42,345	3,638
Elementary	712	2,013	1,584	1,141
Middle School	910	10,001	10,770	141
MS Special Ed	341	342	372	311
Middle School Music	55	694	725	24
Annual	9,684	11,613	12,696	8,601
Concessions	(1,356)	17,675	17,453	(1,134)
Show and Jazz Choir	1,057	16,966	15,729	2,294
Home Ec	474	1,007	936	545
Class of 2008	0	0	18	(18)
Class of 2004	102	0	102	0
Class of 2005	3,787	440	3,005	1,222
Class of 2006	(79)	17,881	14,837	2,965
Class of 2007	(7)	0	15	(22)
AFS Club	337	0	0	337
Art Club	286	0	0	286
FHA	617	0	60	557
FFA	17,455	24,936	19,109	23,282
National Honor Society	198	716	915	(1)
Peer Helpers	13	0	0	13
Pep Club	727	7,351	8,015	63
Drill Team	941	4,579	4,965	555
Student Senate	3,503	20,653	20,828	3,328
JH Student Senate	608	135	86	657
Total	\$ 53,685	205,551	200,865	58,371

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 2,284,320	1,966,025	1,837,182	1,699,840
Tuition	167,763	177,860	221,825	231,168
Other	349,229	319,657	322,605	357,070
State sources	2,913,855	2,662,840	2,646,224	2,665,148
Federal sources	244,165	176,032	180,468	170,068
Total	<u>\$ 5,959,332</u>	<u>5,302,414</u>	<u>5,208,304</u>	<u>5,123,294</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 2,246,222	2,274,590	2,168,459	2,234,146
Special instruction	344,316	530,756	502,645	520,364
Other instruction	704,122	591,971	565,897	575,454
Support services:				
Student services	186,202	133,657	197,527	168,344
Instructional staff services	226,682	208,977	217,172	237,680
Administration services	651,970	569,298	586,851	591,367
Operation and maintenance of plant services	492,329	496,297	440,957	432,849
Transportation services	193,742	220,793	194,236	164,440
Central support services	2,237	1,490	1,800	53,584
Non-instructional programs	0	3,923	5,525	1,914
Other expenditures:				
Facilities acquisitions	347,370	134,213	272,397	37,570
AEA flow-through	188,181	191,517	204,656	205,920
Total	<u>\$ 5,583,373</u>	<u>5,357,482</u>	<u>5,358,122</u>	<u>5,223,632</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
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Telephone (641) 792-1910

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

To the Board of Education of the
Audubon 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 Audubon Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 19, 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 Audubon Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Audubon 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,

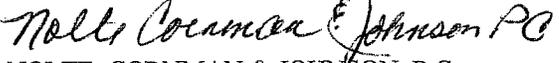
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providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Audubon Community School District and other parties to whom Audubon 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 Audubon 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.

October 19, 2005

AUDUBON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part I: Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

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

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

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

I-B-05 Receipting Process - We noted during the audit for all funds that deposit slips contained no detail of where or whom the money came from.

Recommendation - The District should review receipting procedures to ensure there is proper documentation of the flow of money through the receipting process. The District should consider listing the checks included in deposits on the bank's deposit slips.

Response - We are now listing the checks out on the deposit tickets.

Conclusion - Response accepted.

I-C-05 Student Activity Fund - During our audit, we noted the Student Activity Fund included an interest account and it appeared the interest was not allocated at least once during the year.

Recommendation - The interest accumulated in the Student Activity Fund should be allocated at least once during the fiscal year to the various accounts with in the Activity Fund.

Response - We have allocated the interest in the Student Activity Fund to the various accounts in the Activity Fund.

Conclusion - Response accepted.

AUDUBON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part II: Other Findings Related to Statutory Reporting

II-A-05 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

II-B-05 Certified Budget - District disbursements for the year ended June 30, 2005 exceeded the amount budgeted in the support services functional program area.

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

Response - We will amend the budget if necessary in the future.

Conclusion - Response accepted.

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

II-D-05 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

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

II-F-05 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

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

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

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

Conclusion - Response accepted.

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

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

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

II-K-05 Deficit Balances - We noted during our audit that four student activity accounts had deficit balances at June 30, 2005.

Recommendation - The District should continue to investigate alternatives to eliminate deficits in order to return these accounts to a sound financial condition.

Response - We will watch these accounts more closely in the future.

Conclusion - Response accepted.