

BEDFORD COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

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Bedford Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2004 election)		
Layne Thornton	President	2006
Tony Brown	Vice President	2005
Jack Spencer	Board Member	2004
Paul Walston	Board Member	2005
Mike Irvin	Board Member	2006
Board of Education (After September 2004 election)		
Layne Thornton	President	2006
Tony Brown	Vice President	2005
Jack Spencer	Board Member	2007
Paul Walston	Board Member	2005
Mike Irvin	Board Member	2006
School Officials		
Joe Drake	Superintendent	2005
Sharon Hart	District Secretary/Treasurer And 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 50208-3050
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Bedford 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 Bedford Community School District, Bedford, 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 Bedford Community School District at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 1, 2005 on our consideration of Bedford 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 information required by the Governmental Accounting Standards Board.

Members American Institute & Iowa Society of Certified Public Accountants

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 Bedford 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 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

November 1, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Bedford 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 \$4,200,032 in fiscal 2004 to \$4,370,352 in fiscal 2005, while General Fund expenditures increased from \$4,189,384 in fiscal 2004 to \$4,293,637 in fiscal 2005. This resulted in an increase in the District's General Fund balance from \$237,225 in fiscal 2004 to a balance of \$320,412 in fiscal 2005, a 35% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in local tax, as well as, state and federal grant revenue in fiscal 2005. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.
- The September 2004 Certified Enrollment count resulted in a decrease of 23.7 students, representing a 4.3% decrease compared to the prior year.

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 Bedford 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 Bedford 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 Bedford 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.

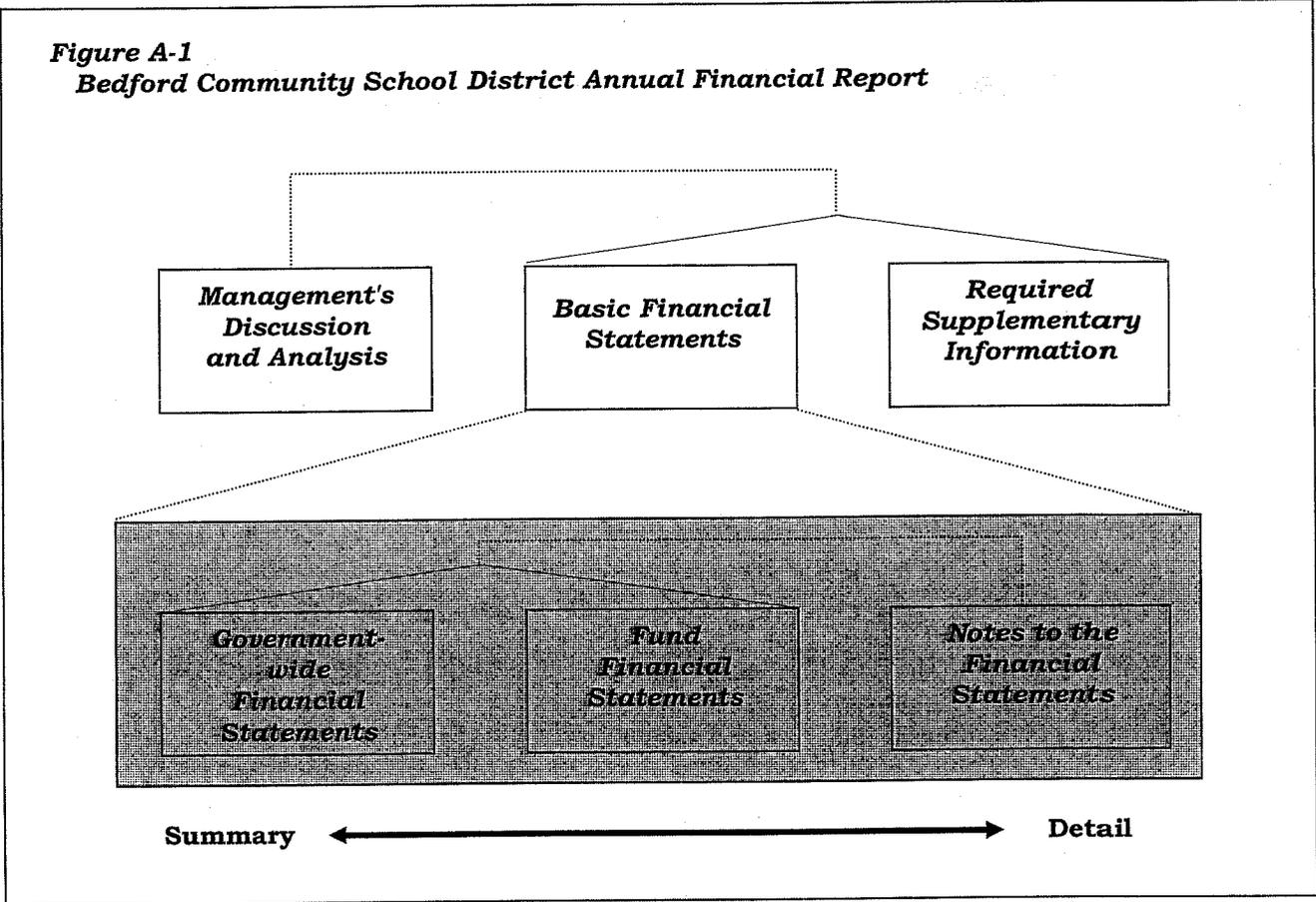


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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: food services and adult education	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, Capital Projects and Debt Service 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 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. This fund is the Agency Fund.

- a. Agency Fund - These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds 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.

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	\$ 3,316,450	3,018,530	27,898	17,046	3,344,348	3,035,576	10.17%
Capital assets	4,883,862	4,838,514	53,958	61,185	4,937,820	4,899,699	0.78%
Total assets	<u>8,200,312</u>	<u>7,857,044</u>	<u>81,856</u>	<u>78,231</u>	<u>8,282,168</u>	<u>7,935,275</u>	<u>4.37%</u>
Long-term obligations	1,471,334	1,585,000	0	0	1,471,334	1,585,000	-7.17%
Other liabilities	2,489,193	2,448,227	18,589	1,955	2,507,782	2,450,182	2.35%
Total liabilities	<u>3,960,527</u>	<u>4,033,227</u>	<u>18,589</u>	<u>1,955</u>	<u>3,979,116</u>	<u>4,035,182</u>	<u>-1.39%</u>
Net assets:							
Invested in capital assets, net of related debt	3,778,319	3,375,916	53,958	61,185	3,832,277	3,437,101	11.50%
Restricted	60,729	108,771	0	0	60,729	108,771	-44.17%
Unrestricted	400,737	339,130	9,309	15,091	410,046	354,221	15.76%
Total net assets	<u>\$ 4,239,785</u>	<u>3,823,817</u>	<u>63,267</u>	<u>76,276</u>	<u>4,303,052</u>	<u>3,900,093</u>	<u>10.33%</u>

The District's combined net assets increased by 10.33% or \$402,959 compared to the prior year. The largest portion of the District's net assets is the invested in capital assets, 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 decreased \$48,042 or 44.17% over the prior year. The decrease was primarily a result of the decrease in the Management fund balance due to the District offering early retirement.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - decreased \$55,825 or nearly 16%.

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

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	\$ 498,609	476,858	126,815	124,701	625,424	601,559	3.97%
Operating grants and contributions and restricted interest	584,796	570,649	133,331	108,311	718,127	678,960	5.77%
Capital grants and contributions and restricted interest	50,000	0	0	0	50,000	0	100.00%
General revenues:							
Local tax	1,656,820	1,654,470	0	0	1,656,820	1,654,470	0.14%
Local option sales and service tax	257,572	56,643	0	0	257,572	56,643	354.73%
Unrestricted state grants	2,090,270	2,033,914	0	0	2,090,270	2,033,914	2.77%
Other	24,389	8,679	74	55	24,463	8,734	180.09%
Total revenues	5,162,456	4,801,213	260,220	233,067	5,422,676	5,034,280	7.72%
Program expenses:							
Governmental activities:							
Instructional	3,007,249	2,971,318	0	0	3,007,249	2,971,318	1.21%
Support services	1,339,853	1,299,827	0	0	1,339,853	1,299,827	3.08%
Non-instructional programs	0	0	273,229	230,794	273,229	230,794	18.39%
Other expenses	399,386	577,377	0	0	399,386	577,377	-30.83%
Total expenses	4,746,488	4,848,522	273,229	230,794	5,019,717	5,079,316	-1.17%
Changes in net assets	415,968	(47,309)	(13,009)	2,273	402,959	(45,036)	-994.75%
Net assets beginning of year	3,823,817	3,871,126	76,276	74,003	3,900,093	3,945,129	-1.14%
Net assets end of year	\$ 4,239,785	3,823,817	63,267	76,276	4,303,052	3,900,093	10.33%

Property tax and unrestricted state grants account for 69% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 87% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$5,162,456 and expenses were \$4,746,488. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 3,007,249	2,084,179
Support services	1,339,853	1,339,228
Other expenses	399,386	189,676
Totals	<u>\$ 4,746,488</u>	<u>3,613,083</u>

- The cost financed by users of the District's programs was \$498,609.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$634,796.
- The net cost of governmental activities was financed with \$1,656,820 in local tax, \$257,572 in local option sales and service tax, \$2,090,270 in unrestricted state grants, and \$11,530 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$260,220 and expenses were \$273,229. 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 Bedford 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 \$730,870, above last year's ending fund balances of a \$475,668.

Governmental Fund Highlights

- The District's increasing General Fund financial position is the product of many factors. Increase in the tax levy, as well as, state and federal grants during the year, resulted in an increase in revenues. The increase in revenues was enough to offset the District's increase in General Fund expenditures ensuring the increase of the District's financial position.
- The Physical Plant and Equipment Levy (PPEL) fund balance increased from \$42,424 to \$62,392. This resulted from the District receiving a \$50,000 Fire Safety Grant during the year.
- The Capital Projects fund balance increased from \$73,134, in 2004, to \$225,620, in 2005, due to an increase in LOSST revenues received during the year.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$76,276 at June 30, 2004 to \$63,267 at June 30, 2005, representing a decrease of approximately 17%.

BUDGETARY HIGHLIGHTS

Over the course of the year, Bedford Community School District amended its annual budget one time to reflect additional expenditures associated with non-instructional functions.

The District's revenues were \$143,061 less than budgeted revenues, a variance of 2.7%. The most significant variance resulted from the District receiving less in local 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 exceeded in the other expenditures functional area due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$4.9 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 increase of .77% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$245,358.

The original cost of the District's capital assets was \$7,669,691. Governmental funds account for \$7,552,218 with the remainder of \$117,473 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$155,970 at June 30, 2004 compared to \$189,448 at June 30, 2005. This increase was the result of purchases made during the 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	\$ 13,400	13,400	0	0	13,400	13,400	0.00%
Buildings	4,426,855	4,463,518	0	0	4,426,855	4,463,518	-0.83%
Improvements other than buildings	308,117	266,811	0	0	308,117	266,811	13.41%
Machinery and equipment	135,490	94,785	53,958	61,185	189,448	155,970	17.67%
Total	\$ 4,883,862	4,838,514	53,958	61,185	4,937,820	4,899,699	0.77%

Long-Term Debt

At June 30, 2005, the District had long-term debt outstanding of \$1,471,334 in general obligation bonds, capital loan notes, and early retirement. This represents a decrease of approximately 7.2% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding general obligation bonds payable of \$1,275,000 at June 30, 2005.

Capital loan notes, which are paid from the PPEL Fund, had an outstanding balance of \$130,000 at June 30, 2005.

The District offered early retirement during the year and have a payable, which is paid from the Management Fund, of \$66,334 at June 30, 2005.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2005	2004	
General obligation bonds	\$ 1,275,000	1,440,000	-11.5%
Capital loan notes	130,000	145,000	-10.3%
Early retirement	66,334	0	100.0%
Total	\$ 1,471,334	1,585,000	-7.2%

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:

- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- The voters of Taylor County passed the Local Options Sales and Service Tax for School Infrastructure (SILO). This 1 cent tax on sales and service will greatly benefit the District in maintaining their building, purchasing equipment and paying long-term debt. Funding began in January 2005 and will continue through December 2014.

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 Sharon Hart, Business Manager, Bedford Community School District, 906 Penn Street, Bedford, Iowa, 50833.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP(Note 4)	\$ 462,038	0	462,038
Other	906,363	12,784	919,147
Receivables:			
Property tax:			
Delinquent	61,234	0	61,234
Succeeding year	1,569,440	0	1,569,440
Income surtax	99,767	0	99,767
Accounts	73,213	7,497	80,710
Accrued ISCAP interest(Note 4)	191	0	191
Due from other governments	144,204	0	144,204
Inventories	0	7,617	7,617
Capital assets, net of accumulated depreciation(Note 5)	4,883,862	53,958	4,937,820
TOTAL ASSETS	8,200,312	81,856	8,282,168
LIABILITIES			
Accounts payable	65,817	0	65,817
Salaries and benefits payable	384,211	16,190	400,401
ISCAP warrants payable(Note 4)	460,000	0	460,000
ISCAP interest payable(Note 4)	88	0	88
ISCAP unamortized premium	6,257	0	6,257
Interest payable	3,380	0	3,380
Deferred revenue:			
Succeeding year property tax	1,569,440	0	1,569,440
Other	0	2,399	2,399
Long-term liabilities(Note 6):			
Portion due within one year:			
Bonds payable	170,000	0	170,000
Capital loan notes payable	15,000	0	15,000
Early retirement	66,334	0	66,334
Portion due after one year:			
Bonds payable	1,105,000	0	1,105,000
Capital loan notes payable	115,000	0	115,000
TOTAL LIABILITIES	3,960,527	18,589	3,979,116
NET ASSETS			
Investment in capital assets, net of related debt	3,778,319	53,958	3,832,277
Restricted for:			
Other special revenue purposes	60,729	0	60,729
Unrestricted	400,737	9,309	410,046
TOTAL NET ASSETS	\$ 4,239,785	63,267	4,303,052

SEE NOTES TO FINANCIAL STATEMENTS.

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

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	\$ 1,674,324	203,127	425,086	0
Special instruction	631,157	83,825	0	0
Other instruction	701,768	211,032	0	0
	<u>3,007,249</u>	<u>497,984</u>	<u>425,086</u>	<u>0</u>
Support services:				
Student services	119,110	0	0	0
Instructional staff services	145,669	0	0	0
Administration services	449,798	0	0	0
Operation and maintenance of plant services	419,399	0	0	0
Transportation services	205,877	625	0	0
	<u>1,339,853</u>	<u>625</u>	<u>0</u>	<u>0</u>
Other expenditures:				
Facilities acquisition	16,266	0	0	50,000
Long-term debt interest	41,341	0	0	0
AEA flowthrough	159,710	0	159,710	0
Depreciation(unallocated)*	182,069	0	0	0
	<u>399,386</u>	<u>0</u>	<u>159,710</u>	<u>50,000</u>
Total governmental activities	4,746,488	498,609	584,796	50,000
Business-Type activities:				
Non-instructional programs:				
Nutrition services	273,229	126,815	133,331	0
Total business-type activities	273,229	126,815	133,331	0
Total	\$ 5,019,717	625,424	718,127	50,000

General Revenues:

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

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
(1,046,111)	0	(1,046,111)
(547,332)	0	(547,332)
(490,736)	0	(490,736)
<u>(2,084,179)</u>	<u>0</u>	<u>(2,084,179)</u>
(119,110)	0	(119,110)
(145,669)	0	(145,669)
(449,798)	0	(449,798)
(419,399)	0	(419,399)
(205,252)	0	(205,252)
<u>(1,339,228)</u>	<u>0</u>	<u>(1,339,228)</u>
33,734	0	33,734
(41,341)	0	(41,341)
0	0	0
(182,069)	0	(182,069)
<u>(189,676)</u>	<u>0</u>	<u>(189,676)</u>
(3,613,083)	0	(3,613,083)
0	(13,083)	(13,083)
0	(13,083)	(13,083)
<u>(3,613,083)</u>	<u>(13,083)</u>	<u>(3,626,166)</u>
\$ 1,436,471	0	1,436,471
36,408	0	36,408
183,941	0	183,941
257,572	0	257,572
2,090,270	0	2,090,270
11,530	74	11,604
12,859	0	12,859
<u>4,029,051</u>	<u>74</u>	<u>4,029,125</u>
415,968	(13,009)	402,959
3,823,817	76,276	3,900,093
<u>\$ 4,239,785</u>	<u>63,267</u>	<u>4,303,052</u>

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

	General	Capital Projects	Other Governmental Funds	Total
ASSETS				
Cash and pooled investments:				
ISCAP(Note 4)	\$ 462,038	0	0	462,038
Other	620,291	107,947	178,125	906,363
Receivables:				
Property tax				
Delinquent	49,658	0	11,576	61,234
Succeeding year	1,242,727	0	326,713	1,569,440
Income surtax	99,767	0	0	99,767
Accounts	69,156	0	4,057	73,213
Accrued ISCAP interest(Note 4)	191	0	0	191
Due from other governments	0	144,204	0	144,204
TOTAL ASSETS	\$ 2,543,828	252,151	520,471	3,316,450
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 30,366	26,531	8,920	65,817
Salaries and benefits payable	384,211	0	0	384,211
ISCAP warrants payable(Note 4)	460,000	0	0	460,000
ISCAP interest payable(Note 4)	88	0	0	88
ISCAP unamortized premium	6,257	0	0	6,257
Deferred revenue:				
Succeeding year property tax	1,242,727	0	326,713	1,569,440
Income surtax	99,767	0	0	99,767
Total liabilities	2,223,416	26,531	335,633	2,585,580
Fund balances:				
Reserved:				
Debt service	0	0	14,825	14,825
Unreserved:				
Undesignated:				
General	320,412	0	0	320,412
Capital projects	0	225,620	0	225,620
Management levy	0	0	46,892	46,892
Physical plant and equipment levy	0	0	62,392	62,392
Other special revenue purposes	0	0	60,729	60,729
Total fund balances	320,412	225,620	184,838	730,870
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,543,828	252,151	520,471	3,316,450

SEE NOTES TO FINANCIAL STATEMENTS.

BEDFORD 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)	\$	730,870
 <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.		4,883,862
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		99,767
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.		(3,380)
Long-term liabilities, including bonds payable, capital loan notes payable and early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(1,471,334)</u>
Net assets of governmental activites (page 13)	\$	<u>4,239,785</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Other Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 1,363,817	0	295,287	1,659,104
Local option sales and service tax	0	257,572	0	257,572
Tuition	286,952	0	0	286,952
Other	44,517	449	178,221	223,187
State sources	2,448,145	0	0	2,448,145
Federal sources	226,921	0	50,000	276,921
Total revenues	<u>4,370,352</u>	<u>258,021</u>	<u>523,508</u>	<u>5,151,881</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	1,661,701	0	23,885	1,685,586
Special instruction	631,157	0	0	631,157
Other instruction	523,168	0	176,376	699,544
	<u>2,816,026</u>	<u>0</u>	<u>200,261</u>	<u>3,016,287</u>
Support services:				
Student services	119,110	0	0	119,110
Instructional staff services	145,669	0	0	145,669
Administration services	470,936	0	0	470,936
Operation and maintenance of plant services	387,733	0	86,243	473,976
Transportation services	194,453	0	10,657	205,110
	<u>1,317,901</u>	<u>0</u>	<u>96,900</u>	<u>1,414,801</u>
Other expenditures:				
Facilities acquisitions	0	66,800	20,176	86,976
Long-term debt:				
Principal	0	0	180,000	180,000
Interest and fiscal charges	0	0	45,377	45,377
AEA flowthrough	159,710	0	0	159,710
	<u>159,710</u>	<u>66,800</u>	<u>245,553</u>	<u>472,063</u>
Total expenditures	<u>4,293,637</u>	<u>66,800</u>	<u>542,714</u>	<u>4,903,151</u>
Excess(deficiency) of revenues over(under) expenditures	76,715	191,221	(19,206)	248,730
Other financing sources(uses):				
Sale of equipment	6,472	0	0	6,472
Transfers in	0	0	61,430	61,430
Transfers out	0	(38,735)	(22,695)	(61,430)
Total other financing sources(uses)	<u>6,472</u>	<u>(38,735)</u>	<u>38,735</u>	<u>6,472</u>
Net change in fund balances	83,187	152,486	19,529	255,202
Fund balance beginning of year	237,225	73,134	165,309	475,668
Fund balance end of year	<u>\$ 320,412</u>	<u>225,620</u>	<u>184,838</u>	<u>730,870</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds (page 18) \$ 255,202

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

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

Expenditures for capital assets	\$ 274,508	
Depreciation expense	<u>(235,547)</u>	38,961

The proceeds from the sale of equipment (\$6,472) is reported as revenue in the governmental funds. However the cost of the equipment is removed from the capital assets account in the Statement of Net Assets and offset against the sale proceeds resulting in a "gain 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. 6,387

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. (2,284)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 180,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 4,036

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 fund.
 Early retirement (66,334)

Changes in net assets of governmental activities (page 15) \$ 415,968

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

	<u>School</u> <u>Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 12,784
Accounts receivable	7,497
Inventories	7,617
Capital assets, net of accumulated depreciation(Note 5)	<u>53,958</u>
TOTAL ASSETS	<u>81,856</u>
LIABILITIES	
Salaries and benefits payable	16,190
Deferred revenue:	
Other	<u>2,399</u>
TOTAL LIABILITIES	<u>18,589</u>
NET ASSETS	
Investment in capital assets, net of related debt	53,958
Unrestricted	<u>9,309</u>
TOTAL NET ASSETS	<u>\$ 63,267</u>

SEE NOTES TO FINANCIAL STATEMENTS.

BEDFORD 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	\$ 126,815
TOTAL OPERATING REVENUES	126,815
OPERATING EXPENSES:	
Non-instructional programs:	
Salaries	95,578
Benefits	23,861
Services	1,297
Supplies	139,391
Depreciation	9,811
Other	3,291
TOTAL OPERATING EXPENSES	273,229
OPERATING LOSS	(146,414)
NON-OPERATING REVENUES:	
State sources	3,160
Federal sources	130,171
Interest income	74
TOTAL NON-OPERATING REVENUES	133,405
Change in net assets	(13,009)
Net assets beginning of year	76,276
Net assets end of year	\$ 63,267

SEE NOTES TO FINANCIAL STATEMENTS.

BEDFORD 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	\$ 126,066
Cash received from miscellaneous	1,193
Cash payments to employees for services	(103,249)
Cash payments to suppliers for goods or services	(130,080)
Net cash used in operating activities	(106,070)
Cash flows from non-capital financing activities:	
State grants received	3,160
Federal grants received	107,977
Net cash provided by non-capital financing activities	111,137
Cash flows from capital financing activities:	
Acquisition of assets	(2,584)
Net cash used in capital financing activities	(2,584)
Cash flows from investing activities:	
Interest on investments	74
Net cash provided by investing activities	74
Net increase in cash and cash equivalents	2,557
Cash and cash equivalents at beginning of year	10,227
Cash and cash equivalents at end of year	\$ 12,784
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (146,414)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	14,697
Depreciation	9,811
Increase in inventories	(798)
Increase in salaries and benefits payable	16,190
Increase in deferred revenue	444
Net cash used in operating activities	\$ (106,070)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 12,784
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
During the year ended June 30, 2005, the District received Federal commodities valued at \$14,697.	

SEE NOTES TO FINANCIAL STATEMENTS.

BEDFORD COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2005

	<u>Agency</u>
ASSETS	
Due from other groups	<u>\$ 18,009</u>
LIABILITIES	
Excess of warrants issued over bank balance	<u>\$ 18,009</u>

SEE NOTES TO FINANCIAL STATEMENTS.

BEDFORD COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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

The Bedford 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 Bedford, Iowa, and the predominate agricultural territory in Taylor and Ringgold 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, Bedford 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 Bedford 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 Taylor and Ringgold 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 utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

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

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary 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

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	\$ 500
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 Life (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

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

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

receivables and other receivables not collected within sixty days after year end.

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

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements in the other expenditures functional areas exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

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

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

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

(3) **Transfers**

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

Transfer to	Transfer from	Amount
Debt Service	Special Revenues - Physical Plant and Equipment Levy	\$ 22,695
Special Revenues - Physical Plant and Equipment Levy	LOSST	20,735
Debt Service	LOSST	18,000
Total		<u>\$ 61,430</u>

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

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2005 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2004-05A	6/30/04	6/30/05	\$ 0	92	0	0
2005-06A	6/28/05	6/28/06	462,038	99	460,000	88
			<u>\$ 462,038</u>	<u>191</u>	<u>460,000</u>	<u>88</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. No ISCAP advance activity was noted in the General Fund for the year ended June 30, 2005.

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2004-05A	3.000%	2.463%
2005-06A	3.500%	3.903%

(5) 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	\$ 13,400	0	0	13,400
Total capital assets not being depreciated	13,400	0	0	13,400
Capital assets being depreciated:				
Buildings	5,825,330	120,184	0	5,945,514
Land improvements	520,634	66,528	0	587,162
Machinery and equipment	984,077	87,796	65,731	1,006,142
Total capital assets being depreciated	7,330,041	274,508	65,731	7,538,818
Less accumulated depreciation for:				
Buildings	1,361,812	156,847	0	1,518,659
Land improvements	253,823	25,222	0	279,045
Machinery and equipment	889,292	53,478	72,118	870,652
Total accumulated depreciation	2,504,927	235,547	72,118	2,668,356
Total capital assets being depreciated, net	4,825,114	38,961	(6,387)	4,870,462
Governmental activities capital assets, net	\$ 4,838,514	38,961	(6,387)	4,883,862
Business-type activities:				
Machinery and equipment	\$ 115,491	2,584	602	117,473
Less accumulated depreciation	54,306	9,811	602	63,515
Business-type activities capital assets, net	\$ 61,185	(7,227)	0	53,958

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 10,730
Other		2,224
Support services:		
Administration		3,185
Operation and maintenance		16,872
Transportation		20,467
		<u>53,478</u>
Unallocated depreciation		<u>182,069</u>
		<u>\$ 235,547</u>
Business-type activities:		
Food services		<u>\$ 9,811</u>

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2005 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 1,440,000	0	165,000	1,275,000	170,000
Capital loan notes	145,000	0	15,000	130,000	15,000
Early retirement	0	66,334	0	66,334	66,334
Total	<u>\$ 1,585,000</u>	<u>66,334</u>	<u>180,000</u>	<u>1,471,334</u>	<u>251,334</u>

General Obligation Bonds Payable

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

Year Ending June 30,	Bond Issue of July 1, 2003			
	Interest Rates	Principal	Interest	Total
2006	2.00 %	\$ 170,000	33,900	203,900
2007	2.50	175,000	30,500	205,500
2008	2.50	175,000	26,125	201,125
2009	2.50	180,000	21,750	201,750
2010	3.00	185,000	17,250	202,250
2011	3.00	195,000	11,700	206,700
2012	3.00	195,000	5,850	200,850
Total		<u>\$ 1,275,000</u>	<u>147,075</u>	<u>1,422,075</u>

Capital Loan Notes Payable

Details of the District's June 30, 2005 capital loan notes indebtedness are as follows:

Year Ending June 30,	Capital Loan Notes			
	Interest Rates	Principal	Interest	Total
2006	4.30 %	\$ 15,000	6,666	21,666
2007	4.40	15,000	6,020	21,020
2008	4.50	20,000	5,360	25,360
2009	4.60	20,000	4,460	24,460
2010	4.70	20,000	3,540	23,540
2011	6.50	20,000	2,600	22,600
2012	6.50	20,000	1,300	21,300
Total		\$ 130,000	29,946	159,946

(7) Defeasement of Bonds

On July 1, 2003, the District issued refunding bonds in the amount of \$1,605,000 to advance refund \$1,465,000 of outstanding general obligation bonds. The proceeds of the refunding issue have been placed in an irrevocable escrow account. The District remains contingently liable in the remote possibility the account is insufficient to pay the refunded bonds. At June 30, 2005, \$1,195,000 of such bonds was outstanding. Repayment of principal and interest for the year was \$140,000 and \$69,543 respectively. These bonds become callable May 1, 2006.

(8) 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 \$163,096, \$161,959 and \$157,241 respectively, equal to the required contributions for each year.

(9) Risk Management

Bedford 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.

(10) 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 \$159,710 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.

(11) 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, expenditure in the other expenditures functional program area exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

BEDFORD 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 Types Actual
Receipts:		
Local sources	\$ 2,245,163	127,333
Intermediate sources	0	0
State sources	2,499,020	3,160
Federal sources	236,382	122,674
Total receipts	<u>4,980,565</u>	<u>253,167</u>
Disbursements:		
Instruction	2,931,972	0
Support services	1,426,609	0
Non-instructional programs	0	250,610
Other expenditures	484,729	0
Total disbursements	<u>4,843,310</u>	<u>250,610</u>
Excess(deficiency) of receipts over(under) disbursements	137,255	2,557
Other financing sources, net	<u>6,472</u>	<u>0</u>
Excess(deficiency) of receipts and other financing sources over(under) disbursements	143,727	2,557
Balance beginning of year	<u>762,636</u>	<u>10,227</u>
Balance end of year	<u>\$ 906,363</u>	<u>12,784</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
2,372,496	2,456,621	2,456,621	(84,125)
0	37,000	37,000	(37,000)
2,502,180	2,513,172	2,513,172	(10,992)
359,056	370,000	370,000	(10,944)
<u>5,233,732</u>	<u>5,376,793</u>	<u>5,376,793</u>	<u>(143,061)</u>
2,931,972	3,200,949	3,200,949	268,977
1,426,609	1,665,000	1,665,000	238,391
250,610	247,013	350,000	99,390
484,729	399,386	399,386	(85,343)
<u>5,093,920</u>	<u>5,512,348</u>	<u>5,615,335</u>	<u>521,415</u>
139,812	(135,555)	(238,542)	378,354
6,472	(669)	(669)	7,141
146,284	(136,224)	(239,211)	385,495
772,863	711,956	711,956	60,907
<u>919,147</u>	<u>575,732</u>	<u>472,745</u>	<u>446,402</u>

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

	Governmental Funds		
	Cash Basis	Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 4,980,565	171,316	5,151,881
Expenses	4,843,310	59,841	4,903,151
Net	137,255	111,475	248,730
Other financing sources, net	6,472	0	6,472
Beginning fund balances	762,636	(286,968)	475,668
Ending fund balances	\$ 906,363	(175,493)	730,870

	Proprietary Funds		
	Cash Basis	Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 253,167	7,053	260,220
Expenses	250,610	22,619	273,229
Net	2,557	(15,566)	(13,009)
Beginning net assets	10,227	66,049	76,276
Ending net assets	\$ 12,784	50,483	63,267

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

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$102,987.

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

OTHER SUPPLEMENTARY INFORMATION

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

	Special Revenue Funds							Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue Funds	Debt Service		
ASSETS								
Cash and pooled investments	\$ 43,930	49,620	60,969	15,972	170,491	7,634		178,125
Receivables:								
Property tax								
Current year delinquent	2,962	0	1,423	0	4,385	7,191		11,576
Succeeding year	120,000	0	56,813	0	176,813	149,900		326,713
Accounts	0	4,057	0	0	4,057	0		4,057
TOTAL ASSETS	\$ 166,892	53,677	119,205	15,972	355,746	164,725		520,471
LIABILITIES AND FUND EQUITY								
Liabilities:								
Accounts payable	\$ 0	8,920	0	0	8,920	0		8,920
Deferred revenue:								
Succeeding year property tax	120,000	0	56,813	0	176,813	149,900		326,713
	120,000	8,920	56,813	0	185,733	149,900		335,633
Fund equity:								
Fund balances:								
Reserved for Debt service	0	0	0	0	0	14,825		14,825
Unreserved, undesignated	46,892	44,757	62,392	15,972	170,013	0		170,013
	46,892	44,757	62,392	15,972	170,013	14,825		184,838
TOTAL LIABILITIES AND FUND EQUITY	\$ 166,892	53,677	119,205	15,972	355,746	164,725		520,471

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BEDFORD 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
	Management	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
REVENUES:							
Local sources:							
Local tax	\$ 74,938	0	36,408	0	111,346	183,941	295,287
Other	2,661	173,243	756	255	176,915	1,306	178,221
Federal	0	0	50,000	0	50,000	0	50,000
TOTAL REVENUES	77,599	173,243	87,164	255	338,261	185,247	523,508
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	17,785	0	0	6,100	23,885	0	23,885
Other instruction	0	176,376	0	0	176,376	0	176,376
Support services:							
Operation and maintenance of plant services	41,183	0	45,060	0	86,243	0	86,243
Transportation services	10,657	0	0	0	10,657	0	10,657
Other expenditures:							
Facilities acquisition	0	0	20,176	0	20,176	0	20,176
Long-term debt:							
Principal	0	0	0	0	0	180,000	180,000
Interest and fiscal charges	0	0	0	0	0	45,377	45,377
TOTAL EXPENDITURES	69,625	176,376	65,236	6,100	317,337	225,377	542,714
Excess(deficiency) of revenues over(under) expenditures	7,974	(3,133)	21,928	(5,845)	20,924	(40,130)	(19,206)
OTHER FINANCING USES:							
Transfers in	0	0	20,735	0	20,735	40,695	61,430
Transfers out	0	0	(22,695)	0	(22,695)	0	(22,695)
TOTAL OTHER FINANCING USES	0	0	(1,960)	0	(1,960)	40,695	38,735
Excess(deficiency) of revenues over(under) expenditures and other financing uses	7,974	(3,133)	19,968	(5,845)	18,964	565	19,529
FUND BALANCES BEGINNING OF YEAR	38,918	47,890	42,424	21,817	151,049	14,260	165,309
FUND BALANCES END OF YEAR	\$ 46,892	44,757	62,392	15,972	170,013	14,825	184,838

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BEDFORD 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
HS Athletics:				
Football	\$ 12,235	9,944	10,461	11,718
Volleyball	1,475	4,386	5,731	130
Basketball	7,671	7,825	6,160	9,336
Wrestling	963	7,280	8,243	0
Track	(2,234)	3,832	3,770	(2,172)
Softball	(3,458)	2,630	2,795	(3,623)
Baseball	(5,192)	3,076	3,049	(5,165)
Golf	0	1,095	1,095	0
Cross Country	0	603	603	0
	11,460	40,671	41,907	10,224
HS Clubs & Organizations:				
FFA	10,040	9,463	9,877	9,626
FHA	1,544	2,192	2,620	1,116
Iron Man Club	19	36	0	55
NHS	260	364	427	197
Student Council	1,063	6,041	6,018	1,086
SADOBS	560	955	829	686
Instrumental Club	(601)	1,137	643	(107)
Vocal	198	265	0	463
BPA	1,526	2,204	2,839	891
Yearbook	6,043	6,861	7,136	5,768
Teachers	756	2,976	3,732	0
Cheerleaders	1,669	15,868	14,791	2,746
Art	1,004	608	699	913
Musical	1,743	5,221	4,339	2,625
Music Club	39	10,528	10,558	9
Class of 2005	7,159	4,094	10,026	1,227
Class of 2006	621	19,916	13,876	6,661
Class of 2007	555	65	69	551
Class of 2008	394	0	69	325
Class of 2009	500	493	334	659
Class of 2010	500	400	268	632
Class of 2011	0	400	0	400
Class of 2004	(50)	83	33	0
	35,542	90,170	89,183	36,529
MS Athletics:				
Volleyball	17	517	325	209
Basketball	(171)	1,300	1,129	0
Wrestling	218	175	(1)	394
Track	423	833	569	687
Softball	0	495	495	0

BEDFORD 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
MS Athletics (Continued):				
Baseball	0	862	862	0
Football	0	776	776	0
	487	4,958	4,155	1,290
MS Clubs & Organizations:				
Student Council	0	237	186	51
Magazine Sales	0	8,876	8,876	0
	0	9,113	9,062	51
Elementary Clubs & Organizations:				
Puerto Rico	0	910	289	621
K-8 Book Fair	0	6,263	5,437	826
Teachers	(223)	5,264	5,041	0
Student Council	807	1,903	2,412	298
Yearbook	(884)	0	0	(884)
	(300)	14,340	13,179	861
District-wide Accounts:				
Great Race	(39)	88	(58)	107
Activity Tickets	0	4,760	4,760	0
Interest	5	687	692	0
Paperback Books	70	110	180	0
Field Trips	0	2,485	2,471	14
After Prom	665	3,355	3,476	544
Accruals	0	2,506	7,369	(4,863)
	701	13,991	18,890	(4,198)
Total	\$ 47,890	173,243	176,376	44,757

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
ASSETS				
Due from other groups	\$ 11,423	52,220	45,634	18,009
LIABILITIES				
Excess of warrants issued over bank balance	\$ 11,423	52,220	45,634	18,009

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BEDFORD 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	\$ 1,916,676	1,715,835	1,612,417	1,494,350
Tuition	286,952	226,566	256,724	310,678
Other	223,187	255,583	256,587	392,791
Intermediate sources	0	13,842	36,558	31,888
State sources	2,448,145	2,387,939	2,292,532	2,885,352
Federal sources	276,921	202,782	301,054	203,435
Total	<u>\$ 5,151,881</u>	<u>4,802,547</u>	<u>4,755,872</u>	<u>5,318,494</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 1,685,586	1,827,291	1,903,975	1,991,396
Special instruction	631,157	681,621	570,619	452,316
Other instruction	699,544	461,861	463,915	436,425
Support services:				
Student services	119,110	126,943	133,220	173,115
Instructional staff services	145,669	66,160	65,210	57,022
Administration services	470,936	516,767	507,742	478,466
Operation and maintenance of plant services	473,976	362,397	397,100	345,795
Transportation services	205,110	174,590	172,462	230,758
Central support services	0	64,068	211,177	92,194
Other expenditures:				
Facilities acquisitions	86,976	56,448	345,850	396,497
Long-term debt:				
Principal	180,000	180,000	140,000	168,450
Interest and other charges	45,377	194,065	94,758	91,766
AEA flow-through	159,710	161,018	172,244	174,426
Total	<u>\$ 4,903,151</u>	<u>4,873,229</u>	<u>5,178,272</u>	<u>5,088,626</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
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
Bedford 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 Bedford 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 1, 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 Bedford Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

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

Compliance and Other Matters

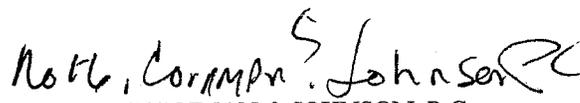
As part of obtaining reasonable assurance about whether Bedford Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a 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 such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Members American Institute & Iowa Society of Certified Public Accountants

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

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Bedford Community School District and other parties to Bedford 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 Bedford 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 1, 2005

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

Part I: Findings Related to the Basic Financial Statements:

REPORTABLE CONDITIONS:

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

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

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

Conclusion - Response accepted.

I-B-05 Checks Outstanding - We noted during our audit that the District had checks included in the Activity Fund bank reconciliation which have been outstanding for over a year.

Recommendation - The District should research the outstanding checks to determine if they should be re-issued, voided or submitted to the Treasurer of Iowa as unclaimed property.

Response - Iowa's unclaimed property laws state the dormancy period is two years for governmental agencies. We submit qualifying outstanding checks over two years old to the Treasurer of Iowa and void non-qualifying outstanding checks (outstanding amounts less than \$50). We review this annually, and submit UP4-Negative Report to the Treasurer of Iowa if there are no checks to be submitted. Only payroll checks are to be submitted after one year of dormancy.

Conclusion - Response accepted.

I-C-05 Student Activity Fund - We noted during our audit that the Student Activity Fund included several deficit account balances at June 30, 2005.

Recommendation - The District should review purchase approval procedures for the Student Activity Fund and may wish to require additional approval before ordering goods and services from these accounts. The District should investigate alternatives to eliminate the deficit balances.

Response - We will monitor these accounts.

Conclusion - Response accepted.

I-D-05 Student Activity Fund - We noted during our audit of the Student Activity Fund that the District had an account called paperback books. This account would appear to be more appropriately handled in the General Fund.

Recommendation - The District should review the transactions in this account and make necessary transfers to provide that transactions are recorded in the proper fund.

Response - We will review these transactions and make sure they are recorded in the proper fund in the future.

Conclusion - Response accepted.

BEDFORD 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 expenditures for the year ended June 30, 2005, exceeded the amount budgeted in the other expenditures functional area.

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

Response - We will monitor future budgets more closely to avoid exceeding the budget 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 - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Tony Brown, Board Member Manager of Hy-Vee	Supplies	\$43,124
Jackie Spencer, Board Member Coach for JH girls	Coaching	\$1,284

According to Chapter 279.7A of the Code of Iowa, the transactions with Jackie Spencer do not appear to represent a conflict of interest; however, the transactions with Tony Brown may present a conflict of interest.

Recommendation - The District should consult legal council to determine if the transactions with Tony Brown represent a conflict of interest to the District.

Response - We will consult legal council to determine if there is a conflict of interest with the transactions involving Board Member Brown and the Hy-Vee Food Store.

Conclusion - Response accepted.

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

- II-G-05 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-H-05 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-I-05 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-J-05 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.