

**DOWS COMMUNITY SCHOOL DISTRICT
DOWS, IOWA**

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

YEAR ENDED JUNE 30, 2005

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Dows Community School District
Dows, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2004 Election)		
Shelly Howard	President	2006
Corey Jacobson	Board Member	2004
Kristi Hinkle	Board Member	2005
Marty Osterman	Board Member	2005
Pam Odland	Board Member	2006
Board of Education (After September 2004 Election)		
Shelly Howard	President	2006
Corey Jacobson	Board Member	2006
Kristi Hinkle	Board Member	2005
Marty Osterman	Board Member	2005
Pam Odland	Board Member	2006
School Officials		
Lyle Schwartz	Superintendent	Resigned 6-30-05
Carol Hanson	District Secretary/Treasurer and Business Manager	2005
Rick Engel	Attorney	Indefinite

Independent Auditor's Report

To the Board of Education of
Dows 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 Dows Community School District, Dows, 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 Dows 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 August 19, 2005 on our consideration of Dows 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 41 through 44 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. 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 Dows 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 two years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cornwell, Frideres, Maher & Associates, P.C.
Certified Public Accountants

August 19, 2005

Basic Financial Statements

Dows Community School District
Dows, Iowa

Exhibit A

Statement of Net Assets

June 30, 2005

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents:			
ISCAP	\$ 82,237	-	82,237
Other	1,038,492	14,618	1,053,110
Receivables:			
Property tax:			
Delinquent	20,843	-	20,843
Succeeding year	950,306	-	950,306
Accounts	1,901	-	1,901
Accrued interest:			
ISCAP	986	-	986
Due from other governments	22,920	-	22,920
Prepaid expenses	13,976	-	13,976
Inventories	-	2,784	2,784
Capital assets, net of accumulated depreciation	<u>317,596</u>	<u>6,741</u>	<u>324,337</u>
Total assets	<u>2,449,257</u>	<u>24,143</u>	<u>2,473,400</u>
 Liabilities			
Excess of warrants issued over bank balance	148,934	-	148,934
Accounts payable	3,664	-	3,664
Salaries and benefits payable	2,311	480	2,791
Deferred revenue - succeeding year property tax	950,306	-	950,306
ISCAP warrants payable	82,000	-	82,000
ISCAP accrued interest payable	1,103	-	1,103
Other current liabilities	487	-	487
Long-term liabilities:			
Portion due within one year:			
Early retirement	5,388	-	5,388
Portion due after one year:			
Early retirement	21,552	-	21,552
Compensated absences	<u>14,459</u>	<u>-</u>	<u>14,459</u>
Total liabilities	<u>1,230,204</u>	<u>480</u>	<u>1,230,684</u>

(continued)

Dows Community School District
Dows, Iowa

Exhibit A

Statement of Net Assets

June 30, 2005

	Governmental <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>
Net assets			
Invested in capital assets, net of related debt	317,596	6,741	324,337
Restricted for:			
Management levy	46,723	-	46,723
Physical plant and equipment levy	123,698	-	123,698
Other special revenue purposes	17,244	-	17,244
Unrestricted	<u>713,792</u>	<u>16,922</u>	<u>730,714</u>
Total net assets	<u>\$ 1,219,053</u>	<u>23,663</u>	<u>1,242,716</u>

See notes to financial statements.

Dows Community School District
Dows, Iowa
Statement of Activities
Year ended June 30, 2005

		Program Revenues		
<u>Expenses</u>	<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>	
<u>Functions/Programs</u>				
Governmental activities:				
Instruction:				
Regular instruction	\$ 789,618	69,641	120,088	-
Special instruction	392,669	110,265	45,457	-
Other instruction	62,078	27,477	-	-
	<u>1,244,365</u>	<u>207,383</u>	<u>165,545</u>	<u>-</u>
Support services:				
Student services	25,552	-	-	-
Instructional staff services	59,594	-	6,500	-
Administration services	197,003	-	-	-
Operation and maintenance of plant services	142,178	-	-	-
Transportation services	81,273	630	-	-
Central support services	34,327	-	-	-
	<u>539,927</u>	<u>630</u>	<u>6,500</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	66,753	-	-	5,880
AEA flowthrough	52,655	-	52,655	-
	<u>119,408</u>	<u>-</u>	<u>52,655</u>	<u>5,880</u>
Total governmental activities	<u>1,903,700</u>	<u>208,013</u>	<u>224,700</u>	<u>5,880</u>
Business type activities:				
Non-instructional programs:				
Food service operations	74,634	24,095	47,254	-
Total	<u>\$ 1,978,334</u>	<u>232,108</u>	<u>271,954</u>	<u>5,880</u>
General Revenues:				
Property tax levied for:				
General purposes				
Capital outlay				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
Change in net assets				
Net assets beginning of year				
Net assets end of year				

See notes to financial statements.

Net (Expense) Revenue
and Changes in Net Assets

<u>Governmental</u> <u>Activities</u>	<u>Business Type</u> <u>Activities</u>	<u>Total</u>
(599,889)	-	(599,889)
(236,947)	-	(236,947)
<u>(34,601)</u>	<u>-</u>	<u>(34,601)</u>
<u>(871,437)</u>	<u>-</u>	<u>(871,437)</u>
(25,552)	-	(25,552)
(53,094)	-	(53,094)
(197,003)	-	(197,003)
(142,178)	-	(142,178)
(80,643)	-	(80,643)
<u>(34,327)</u>	<u>-</u>	<u>(34,327)</u>
<u>(532,797)</u>	<u>-</u>	<u>(532,797)</u>
(60,873)	-	(60,873)
<u>-</u>	<u>-</u>	<u>-</u>
<u>(60,873)</u>	<u>-</u>	<u>(60,873)</u>
<u>(1,465,107)</u>	<u>-</u>	<u>(1,465,107)</u>
<u>-</u>	<u>(3,285)</u>	<u>(3,285)</u>
<u>(1,465,107)</u>	<u>(3,285)</u>	<u>(1,468,392)</u>
\$ 870,271	-	870,271
63,131	-	63,131
54,507	-	54,507
474,362	-	474,362
20,347	48	20,395
<u>26,067</u>	<u>235</u>	<u>26,302</u>
<u>1,508,685</u>	<u>283</u>	<u>1,508,968</u>
43,578	(3,002)	40,576
<u>1,175,475</u>	<u>26,665</u>	<u>1,202,140</u>
<u>\$ 1,219,053</u>	<u>23,663</u>	<u>1,242,716</u>

Dows Community School District
Dows, Iowa

Exhibit C

Balance Sheet
Governmental Funds

June 30, 2005

	<u>General</u>	Physical Plant and Equipment <u>Levy</u>	Nonmajor <u>Governmental</u>	<u>Total</u>
Assets				
Cash and pooled investments:				
ISCAP	\$ 82,237	-	-	82,237
Other	852,968	117,273	68,251	1,038,492
Receivables:				
Property tax:				
Delinquent	18,088	1,410	1,345	20,843
Succeeding year	765,549	64,757	120,000	950,306
Accounts	1,901	-	-	1,901
Accrued interest:				
ISCAP	986	-	-	986
Due from other funds	-	5,015	-	5,015
Due from other governments	16,260	-	6,660	22,920
Prepaid expenses	<u>13,976</u>	<u>-</u>	<u>-</u>	<u>13,976</u>
Total assets	<u>\$ 1,751,965</u>	<u>188,455</u>	<u>196,256</u>	<u>2,136,676</u>
Liabilities and Fund Balances				
Liabilities:				
Excess of warrants issued over bank balance	\$ 148,934	-	-	148,934
Accounts payable	3,664	-	-	3,664
Salaries and benefits payable	2,311	-	-	2,311
Due to other funds	5,015	-	-	5,015
ISCAP warrants payable	82,000	-	-	82,000
ISCAP accrued interest payable	1,103	-	-	1,103
Other current liabilities	487	-	-	487
Deferred revenue:				
Succeeding year property tax	<u>765,549</u>	<u>64,757</u>	<u>120,000</u>	<u>950,306</u>
Total liabilities	<u>1,009,063</u>	<u>64,757</u>	<u>120,000</u>	<u>1,193,820</u>
Fund balances:				
Unreserved	<u>742,902</u>	<u>123,698</u>	<u>76,256</u>	<u>942,856</u>
Total fund balances	<u>742,902</u>	<u>123,698</u>	<u>76,256</u>	<u>942,856</u>
Total liabilities and fund balances	<u>\$ 1,751,965</u>	<u>188,455</u>	<u>196,256</u>	<u>2,136,676</u>

See notes to financial statements.

Dows Community School District
Dows, Iowa

Exhibit D

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2005

Total fund balances of governmental funds (page 17)	\$ 942,856
 <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 the governmental funds.	317,596
Long-term liabilities, including bonds and notes payable and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(41,399)</u>
Net assets of governmental activities (page 14)	<u>\$ 1,219,053</u>

See notes to financial statements.

Dows Community School District
Dows, Iowa

Exhibit E

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2005

	<u>General</u>	Physical Plant and Equipment <u>Levy</u>	Nonmajor Governmental	<u>Total</u>
Revenues:				
Local sources:				
Local tax	\$ 809,511	63,089	114,685	987,285
Tuition	179,867	-	-	179,867
Other	48,572	1,327	29,182	79,081
State sources	623,404	42	40	623,486
Federal sources	<u>68,054</u>	<u>5,880</u>	<u>-</u>	<u>73,934</u>
Total revenues	<u>1,729,408</u>	<u>70,338</u>	<u>143,907</u>	<u>1,943,653</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	755,874	-	-	755,874
Special instruction	392,669	-	-	392,669
Other instruction	<u>33,533</u>	<u>-</u>	<u>28,545</u>	<u>62,078</u>
	<u>1,182,076</u>	<u>-</u>	<u>28,545</u>	<u>1,210,621</u>
Support services:				
Student services	25,552	-	-	25,552
Instructional staff services	59,594	-	-	59,594
Administration services	197,003	-	-	197,003
Operation and maintenance of plant services	123,743	12,002	-	135,745
Transportation services	54,594	-	-	54,594
Central support services	<u>-</u>	<u>-</u>	<u>34,327</u>	<u>34,327</u>
	<u>460,486</u>	<u>12,002</u>	<u>34,327</u>	<u>506,815</u>
Other expenditures:				
Facilities acquisition	-	20,000	46,753	66,753
AEA flowthrough	<u>52,655</u>	<u>-</u>	<u>-</u>	<u>52,655</u>
	<u>52,655</u>	<u>20,000</u>	<u>46,753</u>	<u>119,408</u>
Total expenditures	<u>1,695,217</u>	<u>32,002</u>	<u>109,625</u>	<u>1,836,844</u>
Excess of revenues over expenditures	34,191	38,336	34,282	106,809
Other financing sources:				
Sale of equipment	<u>3,625</u>	<u>-</u>	<u>-</u>	<u>3,625</u>
Net change in fund balances	37,816	38,336	34,282	110,434
Fund balances beginning of year	<u>705,086</u>	<u>85,362</u>	<u>41,974</u>	<u>832,422</u>
Fund balances end of year	<u>\$ 742,902</u>	<u>123,698</u>	<u>76,256</u>	<u>942,856</u>

See notes to financial statements.

Dows Community School District
Dows, Iowa

Exhibit F

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 19) \$ 110,434

**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 not 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 for the current year is as follows:

Depreciation expense (33,112)

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, as follows:

Early Retirement (26,940)
Compensated Absences (6,804)

Change in net assets of governmental activities (page 16) \$ 43,578

See notes to financial statements.

Dows Community School District
Dows, Iowa

Exhibit G

Statement of Net Assets
Proprietary Fund

June 30, 2005

	<u>School Nutrition</u>
Assets	
Cash and cash equivalents	\$ 14,618
Inventories	2,784
Capital assets, net of accumulated depreciation	<u>6,741</u>
Total assets	<u>24,143</u>
Liabilities	
Salaries and benefits payable	<u>480</u>
Total liabilities	<u>480</u>
Net Assets	
Invested in capital assets, net of related debt	6,741
Unrestricted	<u>16,922</u>
Total net assets	<u>\$ 23,663</u>

See notes to financial statements.

Dows Community School District
Dows, Iowa

Exhibit H

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund

Year ended June 30, 2005

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for service	\$ 24,095
Miscellaneous	235
Total operating revenues	<u>24,330</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries and benefits	38,695
Purchased services	341
Supplies	34,278
Depreciation	1,320
Total operating expenses	<u>74,634</u>
Operating loss	<u>(50,304)</u>
Non-operating revenues:	
State sources	1,067
Federal sources	46,187
Interest income	48
Total non-operating revenues	<u>47,302</u>
Change in net assets	(3,002)
Net assets beginning of year	<u>26,665</u>
Net assets end of year	<u>\$ 23,663</u>

See notes to financial statements.

Dows Community School District
Dows, Iowa

Exhibit I

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2005

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 24,095
Cash received from miscellaneous receipts	235
Cash paid to employees for services	(38,675)
Cash paid to suppliers for goods or services	<u>(30,362)</u>
Net cash used by operating activities	<u>(44,707)</u>
 Cash flows from non-capital financing activities:	
State grants received	1,067
Federal grants received	<u>42,253</u>
Net cash provided by non-capital financing activities	<u>43,320</u>
 Cash flows from capital and related financial activities:	
Acquisition of fixed assets	<u>(2,512)</u>
 Cash flows from investing activities:	
Interest on investments	<u>48</u>
 Net decrease in cash and cash equivalents	(3,851)
Cash and cash equivalents beginning of year	<u>18,469</u>
Cash and cash equivalents end of year	<u>\$ 14,618</u>
 Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (50,304)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	3,934
Depreciation	1,320
Decrease in inventories	323
Increase in salaries and benefits payable	<u>20</u>
Net cash used by operating activities	<u>\$ (44,707)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received \$3,934 of federal commodities.

See notes to financial statements.

Dows Community School District
Dows, Iowa

Exhibit J

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2005

	<u>Private Purpose Trust Scholarship</u>
Assets	
Cash and pooled investments	\$ 20,122
Accrued interest receivable	<u>40</u>
Total assets	<u>20,162</u>
Liabilities	<u>---</u>
Net assets	
Reserved for scholarships	<u><u>\$ 20,162</u></u>

See notes to financial statements

Dows Community School District
Dows, Iowa

Exhibit K

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2005

	<u>Private Purpose Trust</u> <u>Scholarship</u>
Additions:	
Local sources:	
Gifts and contributions	\$ 5,000
Interest income	<u>155</u>
Total additions	5,155
Deductions:	
Support services:	
Scholarships awarded	<u>4,300</u>
Change in net assets	855
Net assets beginning of year	<u>19,307</u>
Net assets end of year	<u>\$ 20,162</u>

See notes to financial statements.

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

Dows Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of Dows, Iowa, and the predominate agricultural territory in Wright and Franklin 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, Dows 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. Dows Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Wright and Franklin County Assessor's Conference boards.

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2005

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 the interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

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

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those 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 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.

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2005

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 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 revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Physical Plant and Equipment Levy Fund is used to account for the revenues and resources used in the acquisition of equipment and improvements to buildings.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This 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 principal and 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.

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2005

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 the 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.

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2005

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

The District maintained 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, have a maturity date no longer than three months.

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2005

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, furniture 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 repair 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.

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2005

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 5,000
Buildings	5,000
Improvements other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund equipment	300
Other furniture and equipment	5,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	8-10 years

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

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

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2005

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

Compensated Absences – District employees accumulate a limited amount of earned but unused sick leave hours for subsequent use in accordance with Dows Community School District’s collective bargaining agreement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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. Budgets and Budgetary Accounting

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

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2005

(2) Cash and Pooled Investments

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

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

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

	<u>Amortized Cost</u>
Diversified Portfolio	\$ 948,936 =====

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

Interest rate risk. The District's investment policy limits the investment of operation funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

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

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2005

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2005 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Special Revenue:		
Physical Plant & Equipment Levy	General	\$ 5,015
		=====

The General Fund is repaying the Physical Plant and Equipment Levy Fund for expenses that were incorrectly recorded in the prior year. The balance will be repaid by June 30, 2006.

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School 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. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2005 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Invest-ments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
2004-05B	1/28/05	1/27/06	\$ 82,237	986	82,000	1,103
			=====	=====	=====	=====

Dows Community School District
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Notes to Financial Statements

June 30, 2005

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. In addition, the District 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. ISCAP advance activity in the General Fund for the year ended June 30, 2005 is as follows:

<u>Series</u>	<u>Balance Beginning of Year</u>	<u>Advances Received</u>	<u>Advances Repaid</u>	<u>Balance End of Year</u>
2004-05B	\$ --- =====	50,000 =====	50,000 =====	--- =====

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2004-05B	3.50%	3.232%

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2005

(5) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 4,258	---	---	4,258
Construction in progress	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>
Total capital assets not being depreciated	<u>4,258</u>	<u>---</u>	<u>---</u>	<u>4,258</u>
Capital assets being depreciated:				
Buildings	750,531	---	---	750,531
Improvements other than buildings	---	---	---	---
Furniture and equipment	<u>274,539</u>	<u>---</u>	<u>---</u>	<u>274,539</u>
Total capital assets being depreciated	<u>1,025,070</u>	<u>---</u>	<u>---</u>	<u>1,025,070</u>
Less accumulated depreciation for:				
Buildings	543,219	5,550	---	548,769
Improvements other than buildings	---	---	---	---
Furniture and equipment	<u>135,401</u>	<u>27,562</u>	<u>---</u>	<u>162,963</u>
Total accumulated depreciation	<u>678,620</u>	<u>33,112</u>	<u>---</u>	<u>711,732</u>
Total capital assets being depreciated, net	<u>346,450</u>	<u>(33,112)</u>	<u>---</u>	<u>313,338</u>
Governmental activities capital assets, net	<u>\$ 350,708</u>	<u>(33,112)</u>	<u>---</u>	<u>317,596</u>
	=====	=====	=====	=====

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2005

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Furniture and equipment	\$ 36,057	2,512	---	38,569
Less accumulated depreciation	<u>30,508</u>	<u>1,320</u>	<u>---</u>	<u>31,828</u>
Business type activities capital assets, net	\$ 5,549	1,192	---	6,741
	=====	=====	=====	=====

Depreciation expense was charged to the following functions:

Governmental activities:

Support services:

Operation and maintenance of plant

\$ 6,433

Transportation

26,679

Total depreciation expense – governmental activities

\$ 33,112

=====

Business type activities:

Food service operations

\$ 1,320

=====

(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	Reductions	Balance End of Year	Due Within One Year
Compensated absences	\$ 7,655	6,804	---	14,459	---
Early retirement	<u>---</u>	<u>26,940</u>	<u>---</u>	<u>26,940</u>	<u>5,388</u>
Total	\$ 7,655	33,744	---	41,399	5,388
	=====	=====	=====	=====	=====

Early Retirement

The District offered a one time early retirement plan for one employee. The early retirement incentive for the employee is equal to the health insurance until the employee reaches sixty-five years old. There were no early retirement expenditures for the year ended June 30, 2005.

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2005

Risk Management

The District is a member in the Iowa School Employee 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: medical, dental, vision and prescription drugs.

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members 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 \$3,370, of which \$1,685 was paid with the 2004-2005 premiums and \$1,685 is a liability as of June 30, 2005 and will be paid with the 2005-2006 premiums. 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 \$171,858.

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 written notice may withdraw.

The 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.

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2005

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered 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 contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$59,557, \$57,763 and \$58,599, respectively, equal to the required contributions for each year.

(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 \$52,655 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.

Required Supplementary Information

Dows Community School District
Dows, Iowa

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds <u>Actual</u>	Proprietary Fund <u>Actual</u>
Receipts:		
Local sources	\$ 1,223,908	24,378
State sources	623,486	1,067
Federal sources	<u>74,008</u>	<u>42,253</u>
Total receipts	<u>1,921,402</u>	<u>67,698</u>
Disbursements:		
Instruction	1,213,635	-
Support services	516,079	-
Non-instructional programs	-	71,549
Other expenditures	<u>119,408</u>	<u>-</u>
Total disbursements	<u>1,849,122</u>	<u>71,549</u>
Excess (deficiency) of receipts over (under) disbursements	72,280	(3,851)
Other financing sources, net	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	72,280	(3,851)
Balances beginning of year	<u>837,400</u>	<u>18,469</u>
Balances end of year	<u>\$ 909,680</u>	<u>14,618</u>

See accompanying independent auditor's report.

<u>Total Actual</u>	<u>Budgeted Amounts</u>		<u>Final to Actual Variance</u>
	<u>Original</u>	<u>Final</u>	
1,248,286	1,234,515	1,234,515	13,771
624,553	635,999	635,999	(11,446)
<u>116,261</u>	<u>129,000</u>	<u>129,000</u>	<u>(12,739)</u>
<u>1,989,100</u>	<u>1,999,514</u>	<u>1,999,514</u>	<u>(10,414)</u>
1,213,635	1,209,896	1,209,896	(3,739)
516,079	657,339	657,339	141,260
71,549	173,716	173,716	102,167
<u>119,408</u>	<u>84,218</u>	<u>84,218</u>	<u>(35,190)</u>
<u>1,920,671</u>	<u>2,125,169</u>	<u>2,125,169</u>	<u>204,498</u>
68,429	(125,655)	(125,655)	194,084
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
68,429	(125,655)	(125,655)	194,084
<u>855,869</u>	<u>465,803</u>	<u>465,803</u>	<u>390,066</u>
<u>924,298</u>	<u>340,148</u>	<u>340,148</u>	<u>584,150</u>

Dows Community School District
Dows, Iowa

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds		
	Cash	Accrual	Modified
	<u>Basis</u>	<u>Adjustments</u>	<u>Basis</u>
Revenues	\$ 1,921,402	27,406	1,948,808
Expenditures	<u>1,849,122</u>	<u>(9,663)</u>	<u>1,839,459</u>
Net	72,280	37,069	109,349
Other financing sources, net	-	3,625	3,625
Beginning fund balances	<u>837,400</u>	<u>14,329</u>	<u>851,729</u>
Ending fund balances	<u><u>\$ 909,680</u></u>	<u><u>55,023</u></u>	<u><u>964,703</u></u>
	Proprietary Fund		
	Enterprise		
	Cash	Accrual	Accrual
	<u>Basis</u>	<u>Adjustments</u>	<u>Basis</u>
Revenues	\$ 67,698	3,934	71,632
Expenses	<u>71,549</u>	<u>3,085</u>	<u>74,634</u>
Net	(3,851)	849	(3,002)
Beginning net assets	<u>18,469</u>	<u>8,196</u>	<u>26,665</u>
Ending net assets	<u><u>\$ 14,618</u></u>	<u><u>9,045</u></u>	<u><u>23,663</u></u>

See accompanying independent auditor's report.

Dows Community School District
Dows, Iowa

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. 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 instruction and other expenditures functions exceeded the amounts budgeted.

Other Supplementary Information

Dows Community School District
Dows, Iowa

Schedule 1

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2005

	Special Revenue			
	Management Levy	Student Activity	Capital Projects	Total
Assets				
Cash and pooled investments	\$ 45,378	17,244	5,629	68,251
Receivables:				
Property tax:				
Delinquent	1,345	-	-	1,345
Succeeding year	120,000	-	-	120,000
Due from other governments	-	-	6,660	6,660
Total assets	\$ 166,723	17,244	12,289	196,256
Liabilities and Fund Equity				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	\$ 120,000	-	-	120,000
Total liabilities	120,000	-	-	120,000
Fund equity:				
Unreserved fund balances	46,723	17,244	12,289	76,256
Total liabilities and fund equity	\$ 166,723	17,244	12,289	196,256

See accompanying independent auditor's report.

Dows Community School District
Dows, Iowa

Schedule 2

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2005

	Special Revenue			
	Management Levy	Student Activity	Capital Projects	Total
Revenues:				
Local sources:				
Local tax	\$ 60,178	-	54,507	114,685
Other	1,651	27,531	-	29,182
State sources	40	-	-	40
Total revenues	61,869	27,531	54,507	143,907
Expenditures:				
Current:				
Instruction:				
Other instruction	-	28,545	-	28,545
Central support services	34,327	-	-	34,327
Other expenditures:				
Facilities acquisition	-	-	46,753	46,753
Total expenditures	34,327	28,545	46,753	109,625
Excess (deficiency) of revenues over (under) expenditures	27,542	(1,014)	7,754	34,282
Fund balances beginning of year	19,181	18,258	4,535	41,974
Fund balances end of year	\$ 46,723	17,244	12,289	76,256

See accompanying independent auditor's report.

Dows Community School District
Dows, Iowa

Schedule 3

Schedule of Changes in Special Revenue Fund,
Student Activity Accounts

Year ended June 30, 2005

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Balance End of Year</u>
Key to the Stars	\$ 2,246	1,813	2,201	1,858
Athletics	633	6,065	6,330	368
Class of:				-
2006	2,103	-	2,103	-
2007	1,581	-	-	1,581
2008	1,790	-	-	1,790
2009	8	1,239	155	1,092
Concessions	197	3,842	2,406	1,633
FHA	112	978	954	136
Revolving Account	-	-	-	-
Instrumental Music	-	385	414	(29)
Vocal Music	41	-	-	41
Book Orders	1,036	1,944	1,512	1,468
Screenprinting	180	-	-	180
Postage	-	114	607	(493)
Interest	5,594	65	18	5,641
Drama	345	471	650	166
Fundraisers	1,540	9,392	10,036	896
Horticulture	12	-	-	12
Elementary Fund	840	1,223	1,159	904
	<u>840</u>	<u>1,223</u>	<u>1,159</u>	<u>904</u>
Total	\$ 18,258	27,531	28,545	17,244

See accompanying independent auditor's report.

Dows Community School District
Dows, Iowa

Schedule 4

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Three Years

	Modified Accrual Basis		
	2005	2004	2003
Revenues:			
Local sources:			
Local tax	\$ 987,285	962,111	869,942
Tuition	179,867	187,512	157,575
Other	84,236	69,945	48,879
State sources	623,486	560,494	552,508
Federal sources	73,934	111,486	52,915
Total	\$ 1,948,808	1,891,548	1,681,819
Expenditures:			
Instruction:			
Regular instruction	\$ 754,189	748,746	710,491
Special instruction	392,669	387,814	282,988
Other instruction	62,078	60,483	107,336
Support services:			
Student services	29,852	27,784	41,185
Instructional staff services	59,594	50,958	72,235
Administration services	197,003	223,840	223,806
Operation and maintenance of plant services	135,745	131,125	104,896
Transportation services	54,594	88,930	63,697
Central support services	34,327	30,244	-
Other expenditures:			
Facilities acquisition	66,753	120,508	-
AEA flowthrough	52,655	54,272	57,892
Total	\$ 1,839,459	1,924,704	1,664,526

See accompanying independent auditor's report.

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

To the Board of Education of
Dows 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 Dows Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 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 Dows 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 Dows 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.

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

Cornwell, Frideres, Maher & Associates, P.C.
Certified Public Accountants

August 19, 2005

Dows Community School District
Dows, Iowa

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-05 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of 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 are doing everything we can within our situation and make improvements as the situation changes.

Conclusion - Response acknowledged. The District could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Part II: Other Findings Related to Statutory Reporting:

II-A-05 Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

II-B-05 Certified Budget - Disbursements for the year ended June 30, 2005 exceeded the certified budget amount in the instruction and other expenditures function.

Dows Community School District
Dows, Iowa

Schedule of Findings

Year ended June 30, 2005

Recommendation – The certified 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 – Future budgets will be amended in the future to insure the certified budget is not exceeded.

Conclusion – Response accepted.

II-C-05 Questionable Expenditures - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

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 or employees 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 is reviewed annually to insure that the coverage is adequate for current operations.

II-G-05 Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted. We noted however, that the minutes were not always published timely as required by Chapter 279.35 of the Code of Iowa.

Recommendation – The District should insure that all minutes are published within two weeks of the Board meeting as required by the Code of Iowa.

Response – This was an oversight this year.

Conclusion – Response accepted.

Dows Community School District
Dows, Iowa

Schedule of Findings

Year ended June 30, 2005

- II-H-05 Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.
- II-I-05 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- II-J-05 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- II-K-05 Deficit Balances – Several student activity accounts had deficit balances at June 30, 2005.

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

Response – We will do this.

Conclusion – Response accepted.