

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-Wide Financial Statements:		
Statement of Net Assets	A	13
Statement of Activities	B	14-15
Governmental Fund Financial Statements:		
Balance Sheet	C	16
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	17
Statement of Revenues, Expenditures and Changes in Fund Balances	E	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	19
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	20
Statement of Revenues, Expenses and Changes in Net Assets	H	21
Statement of Cash Flows	I	22
Notes to Basic Financial Statements		23-34
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund		35-36
Budgetary Comparison Schedule - Budget to GAAP Reconciliation		37
Notes to Required Supplementary Information - Budgetary Reporting		38
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	39
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	40
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	41
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	4	42
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		43-44
Schedule of Findings		45-47

Interstate 35 Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2004 Election)		
Bill Seibert	President	2005
Leah Gray	Vice President	2004
Alan Brommel	Board Member	2004
Bruce McCuddin	Board Member	2006
Bret Smith	Board Member	2006
Board of Education (After September 2004 Election)		
Bill Seibert	President	2005
Bret Smith	Vice President	2006
Bruce McCuddin	Board Member	2006
Charles Walters	Board Member	2007
Leah Gray	Board Member	2007
School Officials		
Henry Eggert	Superintendent	2005
Lisa Brown	District Secretary	2005
Ahlers and Cooney, P.C.	Attorney	2005

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Interstate 35 Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Interstate 35 Community School District, Truro, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

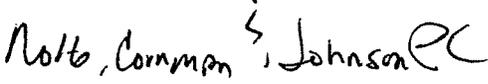
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Interstate 35 Community School District at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 9, 2005 on our consideration of the Interstate 35 Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts 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. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Interstate 35 Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

September 9, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Interstate 35 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 \$5,454,772 in fiscal 2004 to \$5,858,622 in fiscal 2005, while General Fund expenditures increased from \$5,485,874 in fiscal 2004 to \$5,951,129 in fiscal 2005. This resulted in a decrease in the District's General Fund balance from a deficit \$99,865 in fiscal 2004 to a deficit of \$191,030 in fiscal 2005, a 91.29% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in local option sales and services tax and state grant revenues in fiscal 2005. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures.
- An increase in interest rates during the past fiscal year, combined with more cash available to be invested, resulted in interest earnings in the General Fund alone to increase from \$5,128 in fiscal year 2004 to \$39,590 in fiscal year 2005.
- The Interstate 35 Community School District expended the preschool early childhood program to enhance the education of the students in the district. With the expansion of the program came additional revenues; however, the expenditures to start a program greatly outweighed the revenues the first year. The District will strive to balance the revenues and expenditures each year for this program.

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 Interstate 35 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 Interstate 35 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 Interstate 35 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.

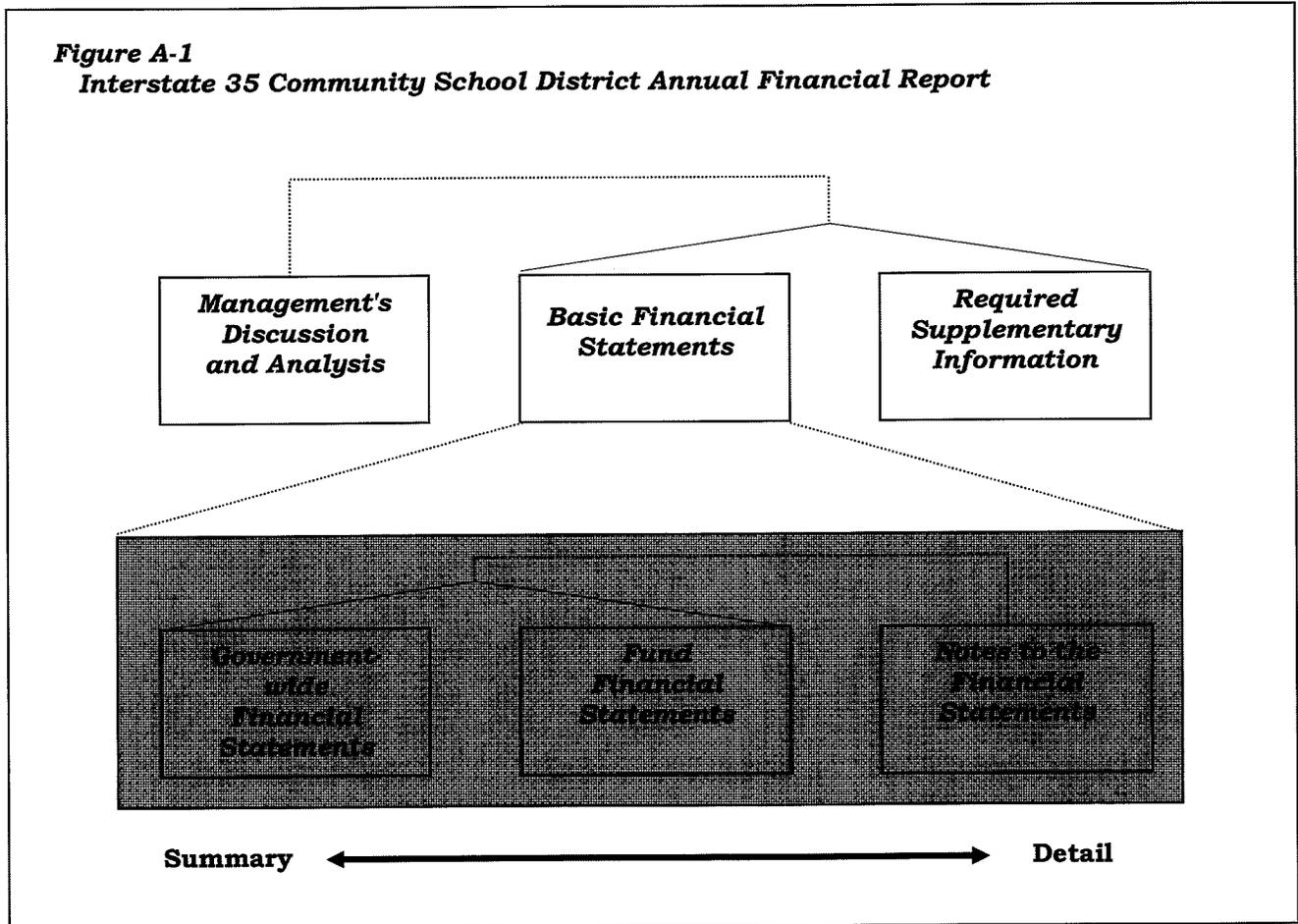


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
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
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 Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
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
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
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

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 two kinds of funds:

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Current and other assets	\$ 5,335,949	5,057,257	23,406	41,825	5,359,355	5,099,082	5.10%
Capital assets	9,880,795	9,974,049	186,075	201,356	10,066,870	10,175,405	-1.07%
Total assets	15,216,744	15,031,306	209,481	243,181	15,426,225	15,274,487	0.99%
Long-term obligations	5,118,861	5,517,551	0	0	5,118,861	5,517,551	-7.23%
Other liabilities	4,968,887	4,822,898	12,889	9,727	4,981,776	4,832,625	3.09%
Total liabilities	10,087,748	10,340,449	12,889	9,727	10,100,637	10,350,176	-2.41%
Net assets:							
Invested in capital assets, net of related debt	4,871,210	4,604,340	186,075	201,356	5,057,285	4,805,696	5.24%
Restricted	546,334	205,822	0	0	546,334	205,822	165.44%
Unrestricted	(288,548)	(119,305)	10,517	32,098	(278,031)	(87,207)	-218.82%
Total net assets	\$ 5,128,996	4,690,857	196,592	233,454	5,325,588	4,924,311	8.15%

The District's combined net assets increased by 8.15%, or \$401,277, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$340,512, or 165.44% over the prior year. The increase was primarily a result of the District's increase in the Special Revenue, Management Fund and Capital Project Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$190,824, or 218.82%. This decrease in unrestricted net assets was primarily a result of the District decrease in the General Fund balance and Special Revenue, Physical Plant and Equipment Levy Fund.

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

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Revenues:							
Program revenues:							
Charges for services	\$ 604,348	528,845	222,344	212,116	826,692	740,961	11.57%
Operating grants and contributions and restricted interest	733,598	682,965	110,138	97,196	843,736	780,161	8.15%
General revenues:							
Property tax	2,603,180	2,503,938	0	0	2,603,180	2,503,938	3.96%
Local option sales and services tax	358,454	0	0	0	358,454	0	100.00%
Unrestricted state grants	2,973,440	2,787,133	0	0	2,973,440	2,787,133	6.68%
Other	42,222	9,383	341	221	42,563	9,604	343.18%
Total revenues	<u>7,315,242</u>	<u>6,512,264</u>	<u>332,823</u>	<u>309,533</u>	<u>7,648,065</u>	<u>6,821,797</u>	<u>12.11%</u>
Program expenses:							
Governmental activities:							
Instructional	4,157,927	3,884,615	0	0	4,157,927	3,884,615	7.04%
Support services	2,047,314	1,862,713	0	0	2,047,314	1,862,713	9.91%
Non-instructional programs	0	0	369,685	335,754	369,685	335,754	10.11%
Other expenditures	671,862	669,781	0	0	671,862	669,781	0.31%
Total expenses	<u>6,877,103</u>	<u>6,417,109</u>	<u>369,685</u>	<u>335,754</u>	<u>7,246,788</u>	<u>6,752,863</u>	<u>7.31%</u>
Changes in net assets	438,139	95,155	(36,862)	(26,221)	401,277	68,934	482.12%
Beginning net assets	<u>4,690,857</u>	<u>4,595,702</u>	<u>233,454</u>	<u>259,675</u>	<u>4,924,311</u>	<u>4,855,377</u>	<u>1.42%</u>
Ending net assets	<u>\$ 5,128,996</u>	<u>4,690,857</u>	<u>196,592</u>	<u>233,454</u>	<u>5,325,588</u>	<u>4,924,311</u>	<u>8.15%</u>

Property tax, local option sales and services tax and unrestricted state grants account for 78% of the District's total revenues. The District's expenses primarily relate to instruction and support services, which account for 86% of the total expenses.

Changes in revenues will be as a result of changes in student participation, whether in the regular, special or extracurricular programs. The most significant change in revenues was in the Local Option Sales and Services Tax, unrestricted state grants, and increased interest rates resulted in additional unrestricted investment earnings. Fluctuations in basic enrollment will significantly impact the state revenues, as well as property tax revenues, keeping in mind that neither source of funding will be ever fully realized with current law and funding structure as set by the legislature.

The most significant fluctuation in expenditure levels was caused by increased salary and benefit obligations, in large part resulting from collective bargaining agreements.

Governmental Activities

Revenues for governmental activities were \$7,315,242 and expenses were \$6,877,103.

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	\$ 4,157,927	3,042,784
Support services	2,047,314	2,047,314
Other expenditures	671,862	449,059
Totals	<u>\$ 6,877,103</u>	<u>5,539,157</u>

- The cost financed by users of the District's programs was \$604,348.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$733,598.
- The net cost of governmental activities was financed with \$2,603,180 in property tax, \$358,454 in local option sales and services tax, \$2,973,440 in state foundation aid, \$40,880 in interest income and \$1,342 as a gain on sale of capital assets.

Business-Type Activities

Revenues of the District's business-type activities were \$332,823 and expenses were \$369,685. 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 Interstate 35 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 \$397,457, above last year's ending fund balances of a \$266,161. However, the primary reason for the increase in combined fund balances in fiscal 2005 is due to the District receiving Local Option Sales and Services Tax for the first time.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position from a deficit \$99,865 to a deficit \$191,030 is the product of many factors:
 - Increase in state grants and increase in tax levy during the year resulted in an increase in revenues.
 - The increase in negotiated salary and benefits settlement, as well as existing expenditure commitments of the District, resulted in an increase in expenditures.
 - The increase in expenditures was more than the increase in revenues resulting in a net decrease of \$91,165.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$233,454 at June 30, 2004 to \$196,592 at June 30, 2005, representing a decrease of 15.79%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$221,778 less than budgeted revenues, a variance of 2.89%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the support services and non-instructional programs functional areas 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 \$10,066,870, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$368,948.

The original cost of the District's capital assets was \$15.0 million. Governmental funds account for \$14.7 million with the remainder of \$0.3 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the building category. The District's buildings totaled \$9,092,575 at June 30, 2005, compared to \$9,148,593 reported at June 30, 2004. This decrease resulted from current depreciation expense.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total Change 2004-05
	Activities		Activities		School District		
	2005	2004	2005	2004	2005	2004	
Land	\$ 401,200	401,200	0	0	401,200	401,200	0.00%
Construction in progress	0	22,035	0	0	0	22,035	-100.00%
Buildings	9,092,575	9,148,593	0	0	9,092,575	9,148,593	-0.62%
Land improvements	253,743	272,645	0	0	253,743	272,645	-7.45%
Machinery and equipment	133,277	129,576	186,075	201,356	319,352	330,932	-3.63%
Total	\$ 9,880,795	9,974,049	186,075	201,356	10,066,870	10,175,405	-1.08%

Long-Term Debt

At June 30, 2005, the District had \$5,118,861 in general obligation and other long-term debt outstanding. This represents a decrease of 7.2% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding General Obligation Bonds payable of \$5,070,000 at June 30, 2005.

The District had total outstanding Early Retirement payable from the Special Revenue - Management Fund of \$41,292 at June 30, 2005.

The District had total outstanding Compensated Absences payable from the General Fund of \$7,569 at June 30, 2005.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2005	2004	
General Obligation Bonds	\$ 5,070,000	5,425,000	-6.5%
Early Retirement	41,292	84,555	-51.2%
Compensated Absences	7,569	7,996	-5.3%
	<u>\$ 5,118,861</u>	<u>5,517,551</u>	<u>-7.2%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Low allowable growth over several years 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 Madison, Clarke and Warren Counties passed the Local Option Sales and Services Tax for School Infrastructure (SILO). This 1 cent tax on sales and services will greatly benefit the District in maintaining their buildings, purchasing equipment and debt repayment. The funding will begin in September 2005.

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 Lisa Brown, Board Secretary, Interstate 35 Community School District, P.O. Box 79, Truro, Iowa, 50257.

BASIC FINANCIAL STATEMENTS

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP(Note 3)	\$ 1,681,623	0	1,681,623
Other	716,803	20,466	737,269
Receivables:			
Property tax:			
Delinquent	52,680	0	52,680
Succeeding year	2,656,922	0	2,656,922
Accounts	71	0	71
Accrued ISCAP interest (Note 3)	8,931	0	8,931
Due from other governments	218,919	0	218,919
Inventories	0	2,940	2,940
Capital assets, net of accumulated depreciation (Note 4)	9,880,795	186,075	10,066,870
TOTAL ASSETS	15,216,744	209,481	15,426,225
LIABILITIES			
Accounts payable	7,337	0	7,337
Salaries and benefits payable	569,475	9,247	578,722
ISCAP warrants payable (Note 3)	1,675,000	0	1,675,000
ISCAP interest payable (Note 3)	9,602	0	9,602
ISCAP unamortized premium	20,156	0	20,156
Interest payable	30,395	0	30,395
Deferred revenue:			
Succeeding year property tax	2,656,922	0	2,656,922
Other	0	3,642	3,642
Long-term liabilities (Note 5):			
Portion due within one year:			
General obligation bonds payable	365,000	0	365,000
Early retirement payable	18,418	0	18,418
Compensated absences payable	7,569	0	7,569
Portion due after one year:			
General obligation bonds payable	4,705,000	0	4,705,000
Early retirement payable	22,874	0	22,874
TOTAL LIABILITIES	10,087,748	12,889	10,100,637
NET ASSETS			
Investment in capital assets, net of related debt	4,871,210	186,075	5,057,285
Restricted for:			
Teacher compensation	195	0	195
Talented and gifted	3,497	0	3,497
Capital projects	271,263	0	271,263
Management levy	180,308	0	180,308
Other special revenue purposes	91,071	0	91,071
Unrestricted	(288,548)	10,517	(278,031)
TOTAL NET ASSETS	\$ 5,128,996	196,592	5,325,588

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

INTERSTATE 35 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
Governmental activities:			
Instruction:			
Regular instruction	\$ 2,551,272	224,081	473,626
Special instruction	1,055,555	6,029	37,169
Other instruction	551,100	374,238	0
	<u>4,157,927</u>	<u>604,348</u>	<u>510,795</u>
Support services:			
Student services	173,555	0	0
Instructional staff services	38,465	0	0
Administration services	785,766	0	0
Operation and maintenance of plant services	592,975	0	0
Transportation services	456,553	0	0
	<u>2,047,314</u>	<u>0</u>	<u>0</u>
Other expenditures:			
Long-term debt interest and fiscal charges	187,984	0	0
AEA flowthrough	222,803	0	222,803
Depreciation(unallocated)*	261,075	0	0
	<u>671,862</u>	<u>0</u>	<u>222,803</u>
Total governmental activities	6,877,103	604,348	733,598
Business-Type activities:			
Non-instructional programs:			
Nutrition services	369,685	222,344	110,138
Total business-type activities	369,685	222,344	110,138
Total	\$ 7,246,788	826,692	843,736

General Revenues:

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

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 BASIC FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(1,853,565)	0	(1,853,565)
(1,012,357)	0	(1,012,357)
(176,862)	0	(176,862)
<u>(3,042,784)</u>	<u>0</u>	<u>(3,042,784)</u>
(173,555)	0	(173,555)
(38,465)	0	(38,465)
(785,766)	0	(785,766)
(592,975)	0	(592,975)
(456,553)	0	(456,553)
<u>(2,047,314)</u>	<u>0</u>	<u>(2,047,314)</u>
(187,984)	0	(187,984)
0	0	0
(261,075)	0	(261,075)
<u>(449,059)</u>	<u>0</u>	<u>(449,059)</u>
(5,539,157)	0	(5,539,157)
0	(37,203)	(37,203)
0	(37,203)	(37,203)
<u>(5,539,157)</u>	<u>(37,203)</u>	<u>(5,576,360)</u>
\$ 1,914,533	0	1,914,533
147,246	0	147,246
541,401	0	541,401
358,454	0	358,454
2,973,440	0	2,973,440
40,880	341	41,221
1,342	0	1,342
<u>5,977,296</u>	<u>341</u>	<u>5,977,637</u>
438,139	(36,862)	401,277
<u>4,690,857</u>	<u>233,454</u>	<u>4,924,311</u>
<u>\$ 5,128,996</u>	<u>196,592</u>	<u>5,325,588</u>

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	Other Nonmajor Governmental Funds	Total
ASSETS			
Cash and pooled investments			
ISCAP(Note 3)	\$ 1,681,623	0	1,681,623
Other	311,210	405,593	716,803
Receivables:			
Property tax			
Delinquent	35,703	16,977	52,680
Succeeding year	1,913,047	743,875	2,656,922
Accounts	71	0	71
Accrued ISCAP interest(Note 3)	8,931	0	8,931
Due from other governments	47,378	171,541	218,919
TOTAL ASSETS	\$ 3,997,963	1,337,986	5,335,949
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,713	5,624	7,337
Salaries and benefits payable	569,475	0	569,475
ISCAP warrants payable(Note 3)	1,675,000	0	1,675,000
ISCAP interest payable(Note 3)	9,602	0	9,602
ISCAP unamortized premium	20,156	0	20,156
Deferred revenue:			
Succeeding year property tax	1,913,047	743,875	2,656,922
Total liabilities	<u>4,188,993</u>	<u>749,499</u>	<u>4,938,492</u>
Fund balances:			
Reserved for:			
Debt service	0	90,810	90,810
Salary improvement program	195	0	195
Talented and gifted	3,497	0	3,497
Unreserved:			
Undesignated:			
General	(194,722)	0	(194,722)
Management levy	0	221,600	221,600
Physical plant and equipment levy	0	(86,257)	(86,257)
Capital projects	0	271,263	271,263
Other special revenue purposes	0	91,071	91,071
Total fund balances	<u>(191,030)</u>	<u>588,487</u>	<u>397,457</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,997,963	1,337,986	5,335,949

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

INTERSTATE 35 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)	\$	397,457
 <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.		9,880,795
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.		(30,395)
Long-term liabilities, including general obligation bonds, early retirement and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(5,118,861)</u>
Net assets of governmental activites (page 13)	\$	<u>5,128,996</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	General	Other Nonmajor Governmental Funds	Total
REVENUES:			
Local sources:			
Local tax	\$ 1,764,273	1,197,361	2,961,634
Tuition	230,110	0	230,110
Other	157,842	257,276	415,118
Intermediate sources	180	0	180
State sources	3,534,204	641	3,534,845
Federal sources	172,013	0	172,013
Total revenues	<u>5,858,622</u>	<u>1,455,278</u>	<u>7,313,900</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	2,444,428	122,317	2,566,745
Special instruction	1,054,796	0	1,054,796
Other instruction	309,065	243,704	552,769
	<u>3,808,289</u>	<u>366,021</u>	<u>4,174,310</u>
Support services:			
Student services	177,068	0	177,068
Instructional staff services	37,662	0	37,662
Administration services	786,083	0	786,083
Operation and maintenance of plant services	501,688	174,507	676,195
Transportation services	417,536	66,995	484,531
	<u>1,920,037</u>	<u>241,502</u>	<u>2,161,539</u>
Other expenditures:			
Facilities acquisitions	0	80,903	80,903
Long-term debt:			
Principal	0	355,000	355,000
Interest and fiscal charges	0	189,391	189,391
AEA flowthrough	222,803	0	222,803
	<u>222,803</u>	<u>625,294</u>	<u>848,097</u>
Total expenditures	<u>5,951,129</u>	<u>1,232,817</u>	<u>7,183,946</u>
Excess (deficiency) of revenues over (under) expenditures	(92,507)	222,461	129,954
OTHER FINANCING SOURCES:			
Compensation for loss of capital assets	1,342	0	1,342
Total other financing sources	<u>1,342</u>	<u>0</u>	<u>1,342</u>
Net change in fund balances	(91,165)	222,461	131,296
Fund balance beginning of year	(99,865)	366,026	266,161
Fund balance end of year	<u>\$ (191,030)</u>	<u>588,487</u>	<u>397,457</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds (page 18) \$ 131,296

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

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

Expenditures for capital assets	\$ 250,738	
Depreciation expense	<u>(343,992)</u>	(93,254)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 355,000

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. 1,407

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

Early retirement	\$ 43,263	
Compensated absences	<u>427</u>	<u>43,690</u>

Changes in net assets of governmental activities (page 15) \$ 438,139

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2005

	School Nutrition
ASSETS	
Cash and pooled investments	\$ 20,466
Inventories	2,940
Capital assets, net of accumulated depreciation (Note 4)	186,075
TOTAL ASSETS	209,481
 LIABILITIES	
Salaries and benefits payable	9,247
Deferred revenues:	
Other	3,642
TOTAL LIABILITIES	12,889
 NET ASSETS	
Investment in capital assets	186,075
Unrestricted	10,517
TOTAL NET ASSETS	\$ 196,592

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

INTERSTATE 35 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	\$ 222,344
TOTAL OPERATING REVENUES	222,344
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	125,434
Benefits	44,041
Services	4,072
Supplies	168,691
Depreciation	24,956
Other	2,491
TOTAL OPERATING EXPENSES	369,685
OPERATING LOSS	(147,341)
NON-OPERATING REVENUES:	
State sources	4,577
Federal sources	105,561
Interest income	341
TOTAL NON-OPERATING REVENUES	110,479
Change in net assets	(36,862)
Net assets beginning of year	233,454
Net assets end of year	\$ 196,592

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

INTERSTATE 35 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	\$ 221,625
Cash payments to employees for services	(165,549)
Cash payments to suppliers for goods or services	(162,148)
Net cash used in operating activities	(106,072)
Cash flows from non-capital financing activities:	
State grants received	4,577
Federal grants received	93,317
Net cash provided by non-capital financing activities	97,894
Cash flows from capital financing activities:	
Purchase of assets	(9,675)
Net cash used in capital financing activities	(9,675)
Cash flows from investing activities:	
Interest on investments	341
Net cash provided by investing activities	341
Net decrease in cash and cash equivalents	(17,512)
Cash and cash equivalents at beginning of year	37,978
Cash and cash equivalents at end of year	\$ 20,466
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (147,341)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	12,244
Depreciation	24,956
Decrease in inventories	907
Decrease in accounts payable	(45)
Increase in salaries and benefits payable	3,926
Decrease in deferred revenue	(719)
Net cash used in operating activities	\$ (106,072)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 20,466
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	

During the year ended June 30, 2005, the District received Federal commodities valued at \$12,244.
SEE NOTES TO BASIC FINANCIAL STATEMENTS.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2005

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

The Interstate 35 Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the City of Truro, New Virginia and St. Charles, Iowa, and the predominate agricultural territory in Madison, Clarke and Warren 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, Interstate 35 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 Interstate 35 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 Madison, Clarke and Warren 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 District reports the following major proprietary funds:

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

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of

related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

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

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

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

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

Asset Class	Amount
Land	\$ 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 Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

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

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

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

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A

liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, expenditures in the support services and non-instructional programs functional areas exceeded the amount budgeted and the District exceeded its General Fund unspent authorized budget.

(2) **Cash and Pooled Investments**

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

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

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

	Amortized Cost
Diversified Porfolio	\$ 69,724

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

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

(3) 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	\$ 190	0	0	0
2004-05B	1/28/05	1/27/06	642,852	8,709	641,000	9,404
2005-06A	6/28/05	6/28/06	1,038,581	222	1,034,000	198
Total			<u>\$ 1,681,623</u>	<u>8,931</u>	<u>1,675,000</u>	<u>9,602</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. ISCAP advance activity in the General Fund for the year ended June 30, 2005 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2004-05A	\$ 0	200,000	200,000	0

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%
2004-05B	3.500%	3.232%
2005-06A	3.500%	3.903%

(4) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 401,200	0	0	401,200
Construction in progress	22,035	163,040	185,075	0
Total capital assets not being depreciated	<u>423,235</u>	<u>163,040</u>	<u>185,075</u>	<u>401,200</u>
Capital assets being depreciated:				
Buildings	11,877,168	185,075	0	12,062,243
Land improvements	518,794	1,080	0	519,874
Machinery and equipment	1,689,976	86,618	27,000	1,749,594
Total capital assets being depreciated	<u>14,085,938</u>	<u>272,773</u>	<u>27,000</u>	<u>14,331,711</u>
Less accumulated depreciation for:				
Buildings	2,728,575	241,093	0	2,969,668
Land improvements	246,149	19,982	0	266,131
Machinery and equipment	1,560,400	82,917	27,000	1,616,317
Total accumulated depreciation	<u>4,535,124</u>	<u>343,992</u>	<u>27,000</u>	<u>4,852,116</u>
Total capital assets being depreciated, net	<u>9,550,814</u>	<u>(71,219)</u>	<u>0</u>	<u>9,479,595</u>
Governmental activities capital assets, net	<u>\$ 9,974,049</u>	<u>91,821</u>	<u>185,075</u>	<u>9,880,795</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 296,401	9,675	0	306,076
Less accumulated depreciation	95,045	24,956	0	120,001
Business-type activities capital assets, net	<u>\$ 201,356</u>	<u>(15,281)</u>	<u>0</u>	<u>186,075</u>

Depreciation expense was charged by the District as follows:

Governmental activities:			
Instruction:			
Regular		\$	23,253
Special			759
Other			13,740
Support services:			
Student			270
Instructional staff			803
Administration			1,364
Operation and maintenance of plant			3,518
Transportation			39,210
			<u>82,917</u>
Unallocated depreciation			<u>261,075</u>
		\$	<u>343,992</u>
Business-type activities:			
Food services		\$	24,956
Total business-type activities depreciation expense		\$	<u>24,956</u>

(5) 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	\$ 5,425,000	0	355,000	5,070,000	365,000
Early Retirement	84,555	11,242	54,505	41,292	18,418
Compensated Absences	7,996	7,569	7,996	7,569	7,569
	<u>\$ 5,517,551</u>	<u>18,811</u>	<u>417,501</u>	<u>5,118,861</u>	<u>390,987</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 December 1, 2002			
	Interest Rates	Principal	Interest	Total
2006	2.50-3.00 %	\$ 365,000	180,123	545,123
2007	3.00	375,000	169,548	544,548
2008	3.00-3.25	385,000	158,223	543,223
2009	3.20-3.25	400,000	145,785	545,785
2010	3.20-3.45	410,000	132,935	542,935
2011	3.45-3.65	425,000	118,867	543,867
2012	3.65-3.70	440,000	103,474	543,474
2013	3.70-3.85	460,000	87,062	547,062
2014	3.85-4.00	475,000	69,329	544,329
2015	4.00-4.10	495,000	50,305	545,305
2016	4.10-4.20	515,000	30,030	545,030
2017	4.20-4.30	325,000	9,575	334,575
Total		\$ 5,070,000	1,255,256	6,325,256

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement cash incentive for each eligible employee is equal to 1% of the previous year contract times each year of employment. The District also pays \$25 for each unused sick day. The retiree also receives a health insurance incentive for a period determined by the Board, but before the retiree reaches age sixty-five. Early retirement benefits paid during the year ended June 30, 2005, totaled \$54,505. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(6) Advance Refunding

On April 25, 1996, the District issued refunding bonds in the amount of \$1,950,000 of outstanding general obligation bonds. The proceeds of the refunding issues have been placed in an irrevocable escrow account and have been invested by the U.S. Government Obligations which have been certified to be sufficient to pay all principal and interest on the new advance refunding bonds added to the appropriate financial statements and schedules. The District remains contingently liable in the remote possibility the account is unable to pay the refunded bonds. At June 30, 2005, \$450,000 of such bonds is outstanding. Repayments of principal and interest for the year was \$200,000 and \$40,125 respectively.

On December 1, 2002, the District issued refunding bonds in the amount of \$5,925,000 to advance refund \$5,245,000 of outstanding general obligation bonds. The proceeds of the refunding issues have been placed in an irrevocable escrow account and have been invested by the U.S. Government Obligations which have been certified to be sufficient to pay all principal and interest on the new advance refunding bonds added to the appropriate financial statements and schedules. The District remains contingently liable in the remote possibility the account is unable to pay the refunded bonds. At June 30, 2005, \$4,780,000

of such bonds is outstanding. Repayments of principal and interest for the year was \$195,000 and \$282,673 respectively.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$195,267, \$179,072 and \$172,457 respectively, equal to the required contributions for each year.

(8) Risk Management

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

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members 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 which was paid with the 2004-2005 premiums was \$17,636 and the remainder of the assessment is an unknown 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 \$881,823.

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.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$222,803 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Deficit Fund Balances

The Special Revenue - Physical Plant and Equipment Fund had a deficit undesignated fund balance of \$86,257 at June 30, 2005. The General Fund had a deficit undesignated fund balance of \$194,722 at June 30, 2005.

(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, disbursements in the support services and non-instruction program functional areas exceeded the amount budgeted. The District also exceeded its General Fund unspent authorized budget.

REQUIRED SUPPLEMENTARY INFORMATION

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF RECEIPTS, DISBURSEMENTS AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 3,451,870	221,966
Intermediate sources	660	0
State sources	3,544,919	4,577
Federal sources	135,804	105,561
Total receipts	<u>7,133,253</u>	<u>332,104</u>
Disbursements:		
Instruction	4,172,288	0
Support services	2,195,416	0
Non-instructional programs	0	349,616
Other expenditures	848,097	0
Total disbursements	<u>7,215,801</u>	<u>349,616</u>
Deficiency of receipts under disbursements	(82,548)	(17,512)
Other financing sources, net	<u>1,342</u>	<u>0</u>
Deficiency of receipts and other financing sources under disbursements	(81,206)	(17,512)
Balance beginning of year	<u>798,009</u>	<u>37,978</u>
Balance end of year	<u>\$ 716,803</u>	<u>20,466</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
3,673,836	3,838,654	3,838,654	(164,818)
660	79,000	79,000	(78,340)
3,549,496	3,559,481	3,559,481	(9,985)
241,365	210,000	210,000	31,365
<u>7,465,357</u>	<u>7,687,135</u>	<u>7,687,135</u>	<u>(221,778)</u>
4,172,288	4,840,557	4,840,557	668,269
2,195,416	2,117,110	2,117,110	(78,306)
349,616	341,510	341,510	(8,106)
848,097	965,680	965,680	117,583
<u>7,565,417</u>	<u>8,264,857</u>	<u>8,264,857</u>	<u>699,440</u>
(100,060)	(577,722)	(577,722)	477,662
1,342	0	0	1,342
(98,718)	(577,722)	(577,722)	479,004
835,987	945,838	945,838	(109,851)
<u>737,269</u>	<u>368,116</u>	<u>368,116</u>	<u>369,153</u>

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2005

	Governmental Fund Types		
	Cash Basis	Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 7,133,253	180,647	7,313,900
Expenses	7,215,801	(31,855)	7,183,946
Net	(82,548)	212,502	129,954
Other financing sources	1,342	0	1,342
Beginning fund balances	798,009	(531,848)	266,161
Ending fund balances	\$ 716,803	(319,346)	397,457

	Proprietary Fund Type		
	Cash Basis	Enterprise Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 332,104	719	332,823
Expenses	349,616	20,069	369,685
Net	(17,512)	(19,350)	(36,862)
Beginning net assets	37,978	195,476	233,454
Ending net assets	\$ 20,466	176,126	196,592

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INTERSTATE 35 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 functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2005, disbursements in the support services and non-instructional programs functional areas exceeded the amount budgeted. The District also exceeded its General Fund unspent authorized budget.

OTHER SUPPLEMENTARY INFORMATION

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2005

	Special Revenue Funds						Total Other Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Projects	Debt Service	
ASSETS							
Cash and pooled investments	\$ 218,559	96,695	(89,158)	226,096	99,722	79,775	405,593
Receivables:							
Property tax:							
Delinquent	3,041	0	2,901	5,942	0	11,035	16,977
Succeeding year property tax	150,000	0	48,452	198,452	0	545,423	743,875
Due from other governments	0	0	0	0	171,541	0	171,541
TOTAL ASSETS	\$ 371,600	96,695	(37,805)	430,490	271,263	636,233	1,337,986
LIABILITIES AND FUND EQUITY							
Liabilities:							
Accounts payable	\$ 0	5,624	0	5,624	0	0	5,624
Deferred revenue:							
Succeeding year property tax	150,000	0	48,452	198,452	0	545,423	743,875
	150,000	5,624	48,452	204,076	0	545,423	749,499
Fund equity:							
Fund balances:							
Reserved for debt service	0	0	0	0	0	90,810	90,810
Unreserved, undesignated	221,600	91,071	(86,257)	226,414	271,263	0	497,677
	221,600	91,071	(86,257)	226,414	271,263	90,810	588,487
TOTAL LIABILITIES AND FUND EQUITY	\$ 371,600	96,695	(37,805)	430,490	271,263	636,233	1,337,986

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2005

	Special Revenue Funds					Debt Service	Total Other Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Project		
REVENUES:							
Local sources:							
Local tax	\$ 150,260	0	147,246	297,506	358,454	541,401	1,197,361
Other	2	241,219	16,053	257,274	0	2	257,276
State sources	115	0	109	224	0	417	641
TOTAL REVENUES	150,377	241,219	163,408	555,004	358,454	541,820	1,455,278
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	122,317	0	0	122,317	0	0	122,317
Other instruction	0	243,704	0	243,704	0	0	243,704
Support services:							
Operation and maintenance of plant services	0	0	174,507	174,507	0	0	174,507
Transportation services	0	0	66,995	66,995	0	0	66,995
Other expenditures:							
Facilities acquisitions	0	0	0	0	80,903	0	80,903
Long-term debt:							
Principal	0	0	0	0	0	355,000	355,000
Interest and fiscal charges	0	0	0	0	0	189,391	189,391
TOTAL EXPENDITURES	122,317	243,704	241,502	607,523	80,903	544,391	1,232,817
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	28,060	(2,485)	(78,094)	(52,519)	277,551	(2,571)	222,461
FUND BALANCE BEGINNING OF YEAR	193,540	93,556	(8,163)	278,933	(6,288)	93,381	366,026
FUND BALANCE END OF YEAR	\$ 221,600	91,071	(86,257)	226,414	271,263	90,810	588,487

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INTERSTATE 35 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
AED Grant	\$ 0	2,380	3,276	(896)
Interest	0	1,286	1,286	0
Candy	888	855	881	862
HS Book Club	294	718	462	550
Senior Breakfast	165	0	0	165
Class of 2005	512	172	494	190
Class of 2006	1,801	945	2,104	642
Class of 2007	570	1,933	109	2,394
Class of 2008	966	300	966	300
Class of 2009	0	100	0	100
HS General Athletics	2,524	8,190	8,542	2,172
Middle School Classes	4,208	6,027	1,228	9,007
Elementary Classes	31,690	22,552	32,083	22,159
EL/MS Fundraising	3,285	7,348	8,580	2,053
JH Athletics	2,218	6,181	8,399	0
Uniform Fund	1,644	694	610	1,728
Athletic Complex	0	1,702	203	1,499
Speech	532	15	313	234
HS Vocal	1,515	1,904	3,419	0
7th and 8th Vocal	209	196	137	268
Elem Vocal	140	0	53	87
HS Band	56	3,185	3,241	0
7th and 8th Band	214	4,143	3,575	782
5th and 6th Band	583	0	0	583
Band Entry Fees	623	0	24	599
Vocal Entry Fees	61	0	61	0
Cross Country	944	1,413	1,799	558
Boys Basketball	1,739	6,842	6,912	1,669
Football	2,369	23,692	19,426	6,635
Baseball	(2,119)	10,760	8,079	562
Boys Track	306	1,583	1,710	179
Wrestling	2,786	16,028	17,592	1,222
HS Cheerleaders	1,394	7,530	5,210	3,714
MS Cheerleaders	52	15	0	67
Dance Team	2,449	4,675	4,515	2,609
Girls Basketball	(383)	10,315	9,280	652
Volleyball	1,168	5,990	5,240	1,918
Softball	(52)	4,277	4,155	70
Girls Track	1,858	6,051	5,150	2,759
Booster Club	10,948	35,408	39,142	7,214
Honor Society	1,292	851	948	1,195
HS Student Council	3,539	5,195	7,319	1,415
JH Student Council	4,457	18,733	17,662	5,528
FFA	3,017	8,951	8,493	3,475
FCCLA	(145)	593	448	0
Art Club	1,156	0	40	1,116
Beep Club	2,083	1,491	538	3,036
	<u>\$ 93,556</u>	<u>241,219</u>	<u>243,704</u>	<u>91,071</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 2,961,634	2,503,938	2,338,840	2,118,838
Tuition	230,110	188,971	150,598	156,330
Other	415,118	345,482	382,539	550,185
Intermediate sources	180	860	1,285	0
State sources	3,534,845	3,343,852	3,307,612	2,987,066
Federal sources	172,013	125,386	172,027	131,681
Total	\$ 7,313,900	6,508,489	6,352,901	5,944,100
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 2,566,745	2,453,170	2,440,909	2,405,788
Special instruction	1,054,796	843,303	816,042	909,978
Other instruction	552,769	539,517	539,466	495,319
Support services:				
Student services	177,068	174,280	167,047	152,342
Instructional staff services	37,662	73,135	30,381	52,362
Administration services	786,083	670,130	648,010	593,692
Operation and maintenance of plant services	676,195	553,359	651,427	584,649
Transportation services	484,531	458,525	396,955	411,260
Other expenditures:				
Facilities acquisitions	80,903	510	151,600	3,044,506
Long-term debt:				
Principal	355,000	350,000	235,000	165,000
Interest and fiscal charges	189,391	196,648	236,558	311,848
AEA flow-through	222,803	216,931	224,858	208,058
Total	\$ 7,183,946	6,529,508	6,538,253	9,334,802

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

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

To the Board of Education of the
Interstate 35 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 Interstate 35 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 9, 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 Interstate 35 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

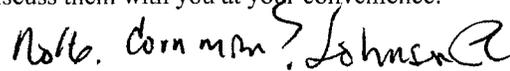
As part of obtaining reasonable assurance about whether Interstate 35 Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part 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 Interstate 35 Community School District and other parties to whom Interstate 35 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 Interstate 35 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.

September 9, 2005

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

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 Bank Reconciliations - We noted during our audit that the District did not reconcile bank balances to the general ledger on a timely basis.

Recommendation - The District needs to perform reconciliations of bank statements and then reconcile to the general ledger balance. This reconciliation should be performed each month.

Response - We are working on this.

Conclusion - Response accepted.

I-C-05 Miscoding of Accounts - We noted during our audit that accounts for some State and Federal grants did not conform to the Uniform Financial Accounting Chart of Accounts.

Recommendation - The District should utilize the Iowa Department of Education's Uniform Financial Accounting for Iowa LEAs and AEAs Manual which provides project codes for the specific State and Federal grants. With the use of these codes, the District would be able to prepare final reports with greater accuracy.

Response - We will review the Uniform Financial Accounting Manual and utilize the software to code the State and Federal grants to the appropriate accounts.

Conclusion - Response accepted.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part II: Other Findings Related to Statutory Reporting

- II-A-05 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
- II-B-05 Certified Budget - District disbursements for the year ended June 30, 2005 exceeded the amount budgeted in the support services and non-instructional programs functional areas. The District also exceeded its unspent authorized budget for the year ended June 30, 2005 by approximately \$40,000.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget. The District should contact the Iowa Department of Education and the School Budget Review Committee to resolve the unspent authorized budget issue.

Response - We will amend the budget if necessary in the future. We will contact the Iowa Department of Education and the School Budget Review Committee to resolve the issue regarding the unspent authorized budget.

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 and employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Connie Kephart, Bus Driver Spouse owns Kephart Construction	Purchased Services	\$20,222

In accordance with the Attorney's General's opinion dated November 9, 1976, the above transactions with the spouse of the bus driver do not appear to represent a conflict of interest.

- II-F-05 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-G-05 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

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

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

Conclusion - Response accepted.

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

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

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

II-K-05 Financial Condition - The District had a deficit undesignated fund balance of \$194,722 in the General Fund. The District also had a deficit undesignated fund balance of \$86,257 in the Special Revenue, Physical Plant and Equipment Levy Fund. The District also had several deficit account balances in the Special Revenue, Student Activity Fund.

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

Response - We will monitor these funds and investigate any available options to eliminate these deficits.

Conclusion - Response accepted.