

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

NEWS RELEASE

Nolte, Cornman & Johnson P.C. today released an audit report on the Brooklyn-Guernsey-Malcom Community School District in Brooklyn, Iowa.

The District has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements include a Statement of Net Assets and a Statement of Activities which provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Also included is Management's Discussion and Analysis of the District's financial statements.

The District's revenues for the governmental funds totaled \$6,204,726 for the year ended June 30, 2004 and included \$2,682,910 in local tax, \$2,464,710 from the state, \$571,600 from the federal government, \$43,605 in interest on investments and 3,725,000 from the sale of bonds.

Governmental fund expenditures for the year totaled \$7,389,217 and included \$3,079,587 for instruction, \$1,583,397 for support services and \$2,726,233 for other expenditures.

A copy of the audit report is available for review in the office of the Auditor of State and the District Secretary's office.

Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-13
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	14
Statement of Activities	B	15-16
Governmental Fund Financial Statements:		
Balance Sheet	C	17
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	18
Statement of Revenues, Expenditures and Changes in Fund Balances	E	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	20
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	21
Statement of Revenues, Expenses and Changes in Net Assets	H	22
Statement of Cash Flows	I	23
Notes to Financial Statements		24-35
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual (GAAP Basis) - All Governmental Funds and Proprietary Fund		36-37
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 Student Activity Accounts	3	41
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	4	42
Schedule of Federal Awards	5	43
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		44-45
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance.		46-47
Schedule of Findings and Questioned Costs		48-52

Brooklyn-Guernsey-Malcom Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Scott Steffen	President	2003
Duane McDonald	Vice President	2004
Lavern Bartachek	Board Member	2004
Gaynelle Connor	Board Member	2005
Wayne Cooper	Board Member	2005
Bill Korns	Board Member	2003
Bob Parker	Board Member	2005
Board of Education (After September 2003 Election)		
Scott Steffen	President	2006
Lavern Bartackek	Vice President	2004
Duane McDonald	Board Member	2004
Gaynelle Connor	Board Member	2005
Wayne Cooper	Board Member	2005
Bev Rens	Board Member	2006
Bob Parker	Board Member	2005
School Officials		
Terry A McLeod	Superintendent	2004
Sharon Goodrich	District Secretary/Treasurer and Business Manager	2004
Brian Gruhn	Attorney	2004

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
Brooklyn-Guernsey-Malcom Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Brooklyn-Guernsey-Malcom Community School District as of and for the year ended June 30, 2004, 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, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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, business-type activities, each major fund, and the aggregate remaining fund information of the Brooklyn-Guernsey-Malcom Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with U.S. generally accepted accounting principles.

As described in Note 13 to the financial statements, during the year ended June 30, 2004, Brooklyn-Guernsey-Malcom Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments; Statement No. 37, Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule- Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated August 13, 2004 on our consideration of the Brooklyn-Guernsey-Malcom Community School District's internal control over financial reporting and our tests of its compliance with certain

Members American Institute & Iowa Society of Certified Public Accountants

provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 36 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing 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. However, 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 Brooklyn-Guernsey-Malcom 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, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

August 13, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Brooklyn-Guernsey-Malcom 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, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$4,406,391 in fiscal 2003 to \$4,624,927 in fiscal 2004, while General Fund expenditures increased from \$3,915,252 in fiscal 2003 to \$4,644,117 in fiscal 2004. This resulted in a decrease in the District's General Fund balance from \$798,550 in fiscal 2003 to a balance of \$790,002 in fiscal 2004, a 1% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in local tax in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits. One reason the General Fund balance decreased is because the negotiated salary and benefits settlement was greater than the increase in the District's General Fund revenue for fiscal 2004.
- A decline in interest rates during the past fiscal year, combined with less cash available to be invested, resulted in interest earnings in the increase in the General Fund alone to decrease from \$40,787 in fiscal year 2003 to \$18,104 in fiscal year 2004.

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 Brooklyn-Guernsey-Malcom 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 Brooklyn-Guernsey-Malcom 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 Brooklyn-Guernsey-Malcom 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.

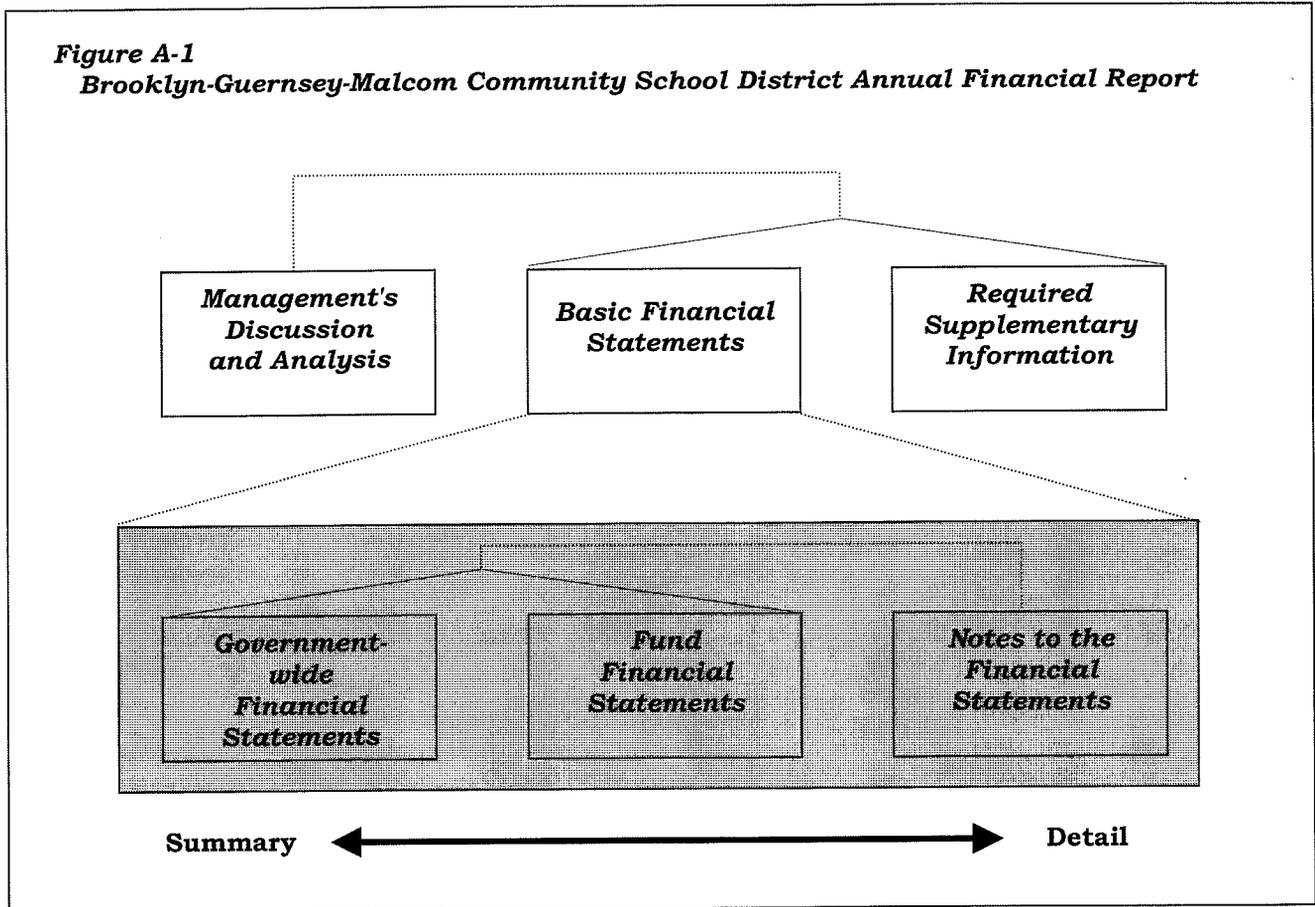


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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, Capital Projects Fund, and Debt Service Fund.

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

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise fund, the School Nutrition Fund, and the Daycare 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, 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Current and other assets	\$ 8,568,050	35,928	8,603,978
Capital assets	5,618,645	59,609	5,678,254
Total assets	<u>14,186,695</u>	<u>95,537</u>	<u>14,282,232</u>
Long-term obligations	5,035,390	0	5,035,390
Other liabilities	3,609,201	5,122	3,614,323
Total liabilities	<u>8,644,591</u>	<u>5,122</u>	<u>8,649,713</u>
Net assets:			
Invested in capital assets, net of related debt	4,286,383	59,609	4,345,992
Restricted	792,128	0	792,128
Unrestricted	463,593	30,806	494,399
Total net assets	<u>\$ 5,542,104</u>	<u>90,415</u>	<u>5,632,519</u>

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

Figure A-4
Changes of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Revenues:			
Program revenues:			
Charges for services	\$ 441,901	168,144	610,045
Operating grants and contributions and restricted interest	681,669	92,628	774,297
Capital grants and contributions and restricted interest	485,824	0	485,824
General revenues:			
Local tax	2,680,113	0	2,680,113
Unrestricted state grants	1,868,817	0	1,868,817
Other	3,636,459	239	3,636,698
Total revenues	9,794,783	261,011	9,445,749
Program expenses:			
Governmental activities:			
Instructional	3,076,290	0	3,076,290
Support services	1,449,269	0	1,449,269
Non-instructional programs	0	240,851	240,851
Other expenses	1,886,406	0	1,886,406
Total expenses	6,411,965	240,851	6,652,816
Changes in net assets	3,382,818	20,160	2,792,933
Net assets beginning of year	2,159,286	70,255	2,229,541
Net assets end of year	\$ 5,542,104	90,415	5,022,474

Property tax and unrestricted state grants account for 48% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 68% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$9,794,783 and expenses were \$6,411,965. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 3,076,290	1,650,330
Support services	1,449,269	1,449,269
Other expenses	1,886,406	1,702,972
Totals	\$ 6,411,965	4,802,571

- The cost financed by users of the District's programs was \$441,901.

-
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,167,493.
 - The net cost of governmental activities was financed with \$2,680,113 in local tax, \$1,868,817, in unrestricted state grants, and \$43,605 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$261,011 and expenses were \$240,851. 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 Brooklyn-Guernsey-Malcom 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 \$4,770,755, above last year's ending fund balances of a \$2,219,604. However, the primary reason for the increase was the sale of bonds in the Debt Service Fund.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors. Increase in the tax levy during the year in tax and grants resulted in an increase in revenues. However, the increase in revenues was less than the District's increase in General Fund expenditures resulting in a decrease in the financial position of the District.
- The Management, and Activity Fund combined balance decreased from \$51,464 in 2003, to \$48,633 in 2004, due to the increase in expenditures in both funds.
- The Physical Plant and Equipment Levy (PPEL) fund balance increased from \$352,495 to \$467,195, due to an increase in local tax for the year.
- The Capital Projects fund balance decreased from \$828,152 in 2003 to a deficit of \$192,382 in 2004, due to an increase in total expenditures.
- The Debt Service fund balance increased from \$188,943 in 2003, to \$3,657,307 in 2004, due to a sale of bonds during the year to crossover refund existing bonds.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$79,723 at June 30, 2003 to \$101,554 at June 30, 2004, representing an increase of approximately 27%. For fiscal 2004, the District increased meal prices, resulting in increased revenues. While the Daycare Fund net assets decreased from a deficit of \$9,468 to a deficit of \$11,139.

BUDGETARY HIGHLIGHTS

Over the course of the year, Brooklyn-Guernsey-Malcom Community School District amended its annual budget one time to reflect additional expenditures associated with all functional areas.

The District's revenues were \$506,868 more than budgeted revenues, a variance of 8%. The most significant variance resulted from the District receiving less in federal sources than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget exceeded in the support services and other expenditures 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, 2004, the District had invested \$5.7 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of less than 1% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$241,505.

The original cost of the District's capital assets was \$7.9 million. Governmental funds account for \$7.8 million with the remainder of \$0.1 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 \$5,362,756 at June 30, 2004, compared to \$5,491,683 reported at June 30, 2003. This decrease resulted from the current year depreciation expense.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Land	\$ 65,520	0	65,520
Buildings	5,362,756	0	5,362,756
Improvements other than buildings	11,516	0	11,516
Machinery and equipment	178,853	59,609	238,462
Total	<u>\$ 5,618,645</u>	<u>59,609</u>	<u>5,678,254</u>

Long-Term Debt

At June 30, 2004, the District had long-term debt outstanding of \$5,035,390 in general obligation bonds, bond anticipation notes, and early retirement. This represents a decrease of approximately 14.1% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had total outstanding general obligation bonds payable of \$4,950,000 at June 30, 2004.

The District had a bond anticipation note payable of \$25,718 at June 30, 2004.

The District also had total outstanding early retirement payable of \$59,672 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
General obligation bonds	\$ 4,950,000	5,020,000	-1.4%
Bond anticipation note	25,718	782,443	-96.7%
Early retirement	59,672	61,326	-2.7%
Total	\$ 5,035,390	5,863,769	-14.1%

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:

- Although the District has experienced declining enrollment for a few years, the District expects a slight increase in enrollment.
- SILO tax is bringing in money to help pay the deficits that have been made by the cuts in funding.
- The School District received a matching Harkin Grant that allowed for improvements to the High School building. It allowed for a new roof, tuck-pointing, new doors, and windows, and landscaping of the front of the building. Matching funds were the SILO funds.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sharon Goodrich, District Board Secretary, Brooklyn-Guernsey-Malcom Community School District, 1090 Jackson Street, Brooklyn, Iowa, 52211.

BASIC FINANCIAL STATEMENTS

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments			
ISCAP(Note 5)	\$ 861,752	0	861,752
Other	5,289,744	30,093	5,319,837
Receivables:			
Property tax:			
Delinquent	107,272	0	107,272
Succeeding year	2,017,297	0	2,017,297
Income surtax	227,663	0	227,663
Accounts	51	0	51
Accrued interest			
ISCAP(Note 5)	3,237	0	3,237
Due from other governments	3,774	0	3,774
Prepaid expenses	57,260	0	57,260
Inventories	0	5,835	5,835
Capital assets, net of accumulated depreciation(Note 6)	5,618,645	59,609	5,678,254
TOTAL ASSETS	14,186,695	95,537	14,282,232
LIABILITIES			
Accounts payable	315,077	0	315,077
Salaries and benefits payable	369,501	1,679	371,180
Interest payable	39,569	0	39,569
ISCAP warrants payable(Note 5)	860,000	0	860,000
ISCAP accrued interest payable(Note 5)	4,908	0	4,908
ISCAP premiums payable	2,849	0	2,849
Deferred revenue:			
Succeeding year property tax	2,017,297	0	2,017,297
Other	0	3,443	3,443
Long-term liabilities(Note 7):			
Portion due within one year:			
General obligation bonds	220,000	0	220,000
Bond anticipation note	25,718	0	25,718
Early retirement	16,958	0	16,958
Portion due after one year:			
General obligation bonds	4,730,000	0	4,730,000
Early retirement	42,714	0	42,714
TOTAL LIABILITIES	8,644,591	5,122	8,649,713
NET ASSETS			
Investment in capital assets, net of related debt	4,286,383	59,609	4,345,992
Restricted for:			
Other-SBRC	119,000	0	119,000
Physical plant & equipment levy	637,942	0	637,942
Other special revenue purposes	35,186	0	35,186
Unrestricted	463,593	30,806	494,399
TOTAL NET ASSETS	\$ 5,542,104	90,415	5,632,519

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

	Expenses	Charges for Services	Program Revenues	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs				
Governmental activities:				
Instruction:				
Regular instruction	\$ 2,088,437	316,213	498,235	485,824
Special instruction	549,516	3,154	0	0
Other instruction	438,337	122,534	0	0
	3,076,290	441,901	498,235	485,824
Support services:				
Student services	41,703	0	0	0
Instructional staff services	108,106	0	0	0
Administration services	517,721	0	0	0
Operation and maintenance of plant services	630,690	0	0	0
Transportation services	151,049	0	0	0
	1,449,269	0	0	0
Other expenditures:				
Facilities acquisitions	1,211,670	0	0	0
Long-term debt interest	355,670	0	0	0
AEA flowthrough	183,434	0	183,434	0
Depreciation (unallocated)*	135,632	0	0	0
	1,886,406	0	183,434	0
Total governmental activities	6,411,965	441,901	681,669	485,824
Business-Type activities:				
Non-instructional programs:				
Nutrition services	227,160	156,124	92,628	0
Daycare	13,691	12,020	0	0
Total business-type activities	240,851	168,144	92,628	0
Total	\$ 6,652,816	610,045	774,297	485,824

General Revenues:

Local tax for:
 General purposes
 Debt services
 Capital outlay
Local option sales and service tax
Unrestricted state grants
Unrestricted investment earnings
Sale of bonds
Compensation on loss of fixed assets
Sales of equipment and material

Total general revenues

Changes in net assets

Net assets beginning of year, as restated (Note 13)

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(788,165)	0	(788,165)
(546,362)	0	(546,362)
(315,803)	0	(315,803)
(1,650,330)	0	(1,650,330)
(41,703)	0	(41,703)
(108,106)	0	(108,106)
(517,721)	0	(517,721)
(630,690)	0	(630,690)
(151,049)	0	(151,049)
(1,449,269)	0	(1,449,269)
(1,211,670)	0	(1,211,670)
(355,670)	0	(355,670)
0	0	0
(135,632)	0	(135,632)
(1,702,972)	0	(1,702,972)
(4,802,571)	0	(4,802,571)
0	21,592	21,592
0	(1,671)	(1,671)
0	19,921	19,921
(4,802,571)	19,921	(4,782,650)
\$ 1,812,267	0	1,812,267
274,244	0	274,244
253,378	0	253,378
340,224	0	340,224
1,868,817	0	1,868,817
43,605	239	43,844
3,585,000	0	3,585,000
7,550	0	7,550
304	0	304
8,185,389	239	8,185,628
3,382,818	20,160	3,402,978
2,159,286	70,255	2,229,541
\$ 5,542,104	90,415	5,632,519

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Capital Projects	Debt Service	Other Governmental Funds	Total
ASSETS					
Cash and pooled investments					
ISCAP (Note 5)	\$ 861,752	0	0	0	861,752
Other	1,258,135	158,882	3,653,682	219,045	5,289,744
Receivables:					
Property tax					
Delinquent	22,843	78,664	3,625	2,140	107,272
Succeeding year	1,468,623	0	370,245	178,429	2,017,297
Income surtax	56,916	0	0	170,747	227,663
Interfund	6,290	0	0	238,638	244,928
Accounts	51	0	0	0	51
Accrued interest:					
ISCAP (Note 5)	3,237	0	0	0	3,237
Due from other governments	3,774	0	0	0	3,774
Prepaid expenses	0	0	0	57,260	57,260
TOTAL ASSETS	\$ 3,681,621	237,546	4,027,552	866,259	8,812,978
LIABILITIES AND FUND BALANCES					
Liabilities:					
Interfund payable	\$ 0	244,928	0	0	244,928
Accounts payable	128,822	185,000	0	1,255	315,077
Salaries and benefits payable	369,501	0	0	0	369,501
ISCAP warrants payable (Note 5)	860,000	0	0	0	860,000
ISCAP accrued interest payable (Note 5)	4,908	0	0	0	4,908
ISCAP premiums payable	2,849	0	0	0	2,849
Deferred revenue:					
Succeeding year property tax	1,468,623	0	370,245	178,429	2,017,297
Income surtax	56,916	0	0	170,747	227,663
Total liabilities	2,891,619	429,928	370,245	350,431	4,042,223
Fund balances:					
Reserved for:					
Other- SBRC	119,000	0	0	0	119,000
Unreserved:					
Undesignated	671,002	(192,382)	3,657,307	515,828	4,651,755
Total fund balances	790,002	(192,382)	3,657,307	515,828	4,770,755
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,681,621	237,546	4,027,552	866,259	8,812,978

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2004

Total fund balances of governmental funds (page 17)	\$ 4,770,755
 <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 report as assets in in the governmental funds.	5,618,645
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(39,569)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	227,663
Long-term liabilities, including bonds payable, notes payable, and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(5,035,390)
Net assets of governmental activites (page 14)	<u>\$ 5,542,104</u>

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	General	Capital Projects	Debt Service	Other Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 1,736,970	0	274,244	331,472	2,342,686
LCSSP	0	340,224	0	0	340,224
Tuition	277,792	0	0	0	277,792
Other	59,679	3,636	21,014	123,385	207,714
State sources	2,464,710	0	0	0	2,464,710
Federal sources	85,776	485,824	0	0	571,600
Total revenues	4,624,927	829,684	295,258	454,857	6,204,726
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	2,091,818	0	0	0	2,091,818
Special instruction	549,516	0	0	0	549,516
Other instruction	314,620	0	0	123,633	438,253
	2,955,954	0	0	123,633	3,079,587
Support services:					
Student services	42,443	0	0	0	42,443
Instructional staff services	108,106	0	0	0	108,106
Administration services	511,743	0	0	0	511,743
Operation and maintenance of plant services	541,230	0	0	77,852	619,082
Transportation services	301,207	0	0	816	302,023
	1,504,729	0	0	78,668	1,583,397
Other expenditures:					
Facilities acquisitions	0	1,075,983	0	140,687	1,216,670
Long-term debt:					
Principal	0	0	966,725	0	966,725
Interest and fiscal charges	0	0	359,404	0	359,404
AEA flowthrough	183,434	0	0	0	183,434
	183,434	1,075,983	1,326,129	140,687	2,726,233
Total expenditures	4,644,117	1,075,983	1,326,129	342,988	7,389,217
Excess (deficiency) of revenues over (under) expenditures	(19,190)	(246,299)	(1,030,871)	111,869	(1,184,491)
Other financing sources (uses):					
Sale of bonds	0	0	3,725,000	0	3,725,000
Transfers in	0	0	774,235	0	774,235
Transfers out	0	(774,235)	0	0	(774,235)
Compensation for loss of fixed assets	7,550	0	0	0	7,550
Sales of equipment and material	3,092	0	0	0	3,092
Total other financing sources (uses)	10,642	(774,235)	4,499,235	0	3,735,642
Net change in fund balances	(8,548)	(1,020,534)	3,468,364	111,869	2,551,151
Fund balance beginning of year	798,550	828,152	188,943	403,959	2,219,604
Fund balance end of year	\$ 790,002	(192,382)	3,657,307	515,828	4,770,755

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM 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, 2004

Net change in fund balances - total governmental funds (page 19) \$ 2,551,151

*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. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 240,632	
Depreciation expense	(235,493)	5,139

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. 826,725

The proceeds from the sale of equipment (\$3,092) are reported as revenue in the governmental funds. However, the cost of the equipment as well as the corresponding depreciation (\$2,788) is removed from the capital assets account in the Statement of Net Assets and offset against the sale proceeds resulting in a "loss on disposal of equipment" which is reported within the government-type expenses. Thus, more revenue is reported in the governmental funds than the Statement of Activities. (2,788)

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. 3,734

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.
 Early retirement 1,654

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. (2,797)

Changes in net assets of governmental activities (page 16) \$ 3,382,818

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2004

	School		Total
	Nutrition	Daycare	
ASSETS			
Cash and cash equivalents	\$ 39,553	(9,460)	30,093
Inventories	5,835	0	5,835
Capital assets, net of accumulated depreciation	59,609	0	59,609
TOTAL ASSETS	104,997	(9,460)	95,537
LIABILITIES			
Salaries and benefits payable	0	1,679	1,679
Deferred revenues	3,443	0	3,443
TOTAL LIABILITES	3,443	1,679	5,122
NET ASSETS			
Invested in capital assets, net of related debt	59,609	0	59,609
Unrestricted	41,945	(11,139)	30,806
TOTAL NET ASSETS	\$ 101,554	(11,139)	90,415

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	School		
	Nutrition	Daycare	Total
OPERATING REVENUE:			
Local sources:			
Other local sources:			
Sale of lunches and breakfasts:			
Students	\$ 152,971	0	152,971
Adults	1,674	0	1,674
Miscellaneous	1,479	12,020	13,499
TOTAL OPERATING REVENUES	156,124	12,020	168,144
OPERATING EXPENSES:			
Food service operations:			
Salaries	84,554	13,691	98,245
Benefits	10,263	0	10,263
Services	4,167	0	4,167
Supplies	122,164	0	122,164
Depreciation	6,012	0	6,012
TOTAL OPERATING EXPENSES	227,160	13,691	240,851
OPERATING LOSS	(71,036)	(1,671)	(72,707)
NON-OPERATING REVENUES:			
Interest	239	0	239
State sources	3,896	0	3,896
Federal sources	88,732	0	88,732
TOTAL NON-OPERATING REVENUES	92,867	0	92,867
Net income(loss)	21,831	(1,671)	20,160
Net assets at beginning of year	79,723	(9,468)	70,255
Net assets end of year	\$ 101,554	(11,139)	90,415

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	School Nutrition	Daycare	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 158,088	0	158,088
Cash received from miscellaneous operating activities	1,479	12,020	13,499
Cash payments to employees for services	(94,817)	(13,410)	(108,227)
Cash payments to suppliers for goods or services	(107,048)	0	(107,048)
Net cash used in operating activities	(42,298)	(1,390)	(43,688)
Cash flows from non-capital financing activities:			
State grants received	3,896	0	3,896
Federal grants received	70,671	0	70,671
Net cash provided by non-capital financing activities	74,567	0	74,567
Cash flows from investing activities:			
Interest on investments	239	0	239
Net cash provided by investing activities	239	0	239
Cash flows from capital financing activities:			
Purchase of assets	(38,460)	0	(38,460)
Net cash used in financing activities	(38,460)	0	(38,460)
Net decrease in cash and cash equivalents	(5,952)	(1,390)	(7,342)
Cash and cash equivalents at beginning of year	45,505	(8,070)	37,435
Cash and cash equivalents at end of year	\$ 39,553	(9,460)	30,093
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	\$ (71,036)	(1,671)	(72,707)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Commodities consumed	18,061	0	18,061
Depreciation	6,012	0	6,012
Decrease in inventories	1,222	0	1,222
Increase in salaries and benefits payable	0	281	281
Increase in deferred revenue	3,443	0	3,443
Net cash used in operating activities	\$ (42,298)	(1,390)	(43,688)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and pooled investments	\$ 39,553	(9,460)	30,093
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
During the year ended June 30, 2004, the District received Federal commodities valued at \$18,061.			

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

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

The Brooklyn-Guernsey-Malcom Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Brooklyn, Iowa, and the predominate agricultural territory in Poweshiek 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, Brooklyn-Guernsey-Malcom Community School District has included all funds, organizations, account groups, 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 Brooklyn-Guernsey-Malcom 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 Poweshiek County Assessors' Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that 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 Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

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

The District's proprietary funds are the School Nutrition Fund, and Daycare 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 financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to

customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

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	\$ 1,000
Buildings	1,000
Improvements other than buildings	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Live (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-12 years

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

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

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

Long-term obligations - 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, 2004, disbursements in the support services functional program area and the other disbursements area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2004 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.

(3) **Due From and Due to Other Funds**

The detail of interfund receivables and payables at June 30, 2004 is as follows:

Receivable Fund	Payable Fund	Amount
General	Capital Projects	\$ 6,290
PPEL	Capital Projects	238,638
		<u>\$ 244,928</u>

The Capital Projects Fund is repaying the General Fund and PPEL Fund for bills paid at the end of the prior year. The balance will be repaid by June 30, 2005.

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 774,235

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

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2004 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2003-04B	1/30/04	1/28/05	595,025	3,237	591,000	4,908
2004-05A	6/30/04	6/30/05	266,727	0	269,000	0
Total			\$ 861,752	3,237	860,000	4,908

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

Series	Interest Rates on Warrants	Interest Rates on Investments
2003-04A	2.000%	1.050%
2003-04B	2.000%	1.310%
2004-05A	3.000%	2.463%

(6) Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year, as restated (Note 13)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 65,520	0	0	65,520
Construction in progress	0	0	0	0
Total capital assets not being depreciated	65,520	0	0	65,520
Capital assets being depreciated:				
Buildings	6,657,008	5,000	0	6,662,008
Land improvements	34,092	0	0	34,092
Machinery and equipment	1,108,825	235,632	203,885	1,140,572
Total capital assets being depreciated	7,799,925	240,632	203,885	7,836,672
Less accumulated depreciation for:				
Buildings	1,165,325	133,927	0	1,299,252
Land improvements	20,871	1,705	0	22,576
Machinery and equipment	1,062,955	99,861	201,097	961,719
Total accumulated depreciation	2,249,151	235,493	201,097	2,283,547
Total capital assets being depreciated, net	5,550,774	5,139	2,788	5,553,125
Governmental activities capital assets, net \$	5,616,294	5,139	2,788	5,618,645

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 70,529	38,460	0	108,989
Less accumulated depreciation	43,368	6,012	0	49,380
Business-type activities capital assets, net \$	27,161	32,448	0	59,609

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 21,364
Other	6,177
Support services:	
Student services	8,763
Administration services	5,978
Operation and maintenance of plant services	11,608
Transportation	45,971
	99,861
Unallocated depreciation	135,632
Total governmental activities depreciation expense	\$ 235,493
Business-type activities:	
Food services	\$ 6,012

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation	\$ 5,020,000	3,725,000	3,795,000	4,950,000	220,000
Bond anticipation note	782,443	0	756,725	25,718	25,718
Early retirement	61,326	35,087	36,741	59,672	16,958
Total	\$ 5,863,769	3,760,087	4,588,466	5,035,390	262,676

General Obligation

Details of the District's June 30, 2004 General Obligation bonds indebtedness is as follows:

Year Ending June 30,	Interest Rate	Bond issue September 1, 1999		
		Principal	Interest	Total
2005	5.75 %	\$ 220,000	65,268	285,268
2006	5.75	230,000	52,618	282,618
2007	5.75	245,000	39,393	284,393
2008	4.80	260,000	25,305	285,305
2009	4.75	270,000	12,825	282,825
Subtotal		\$ 1,225,000	195,408	1,420,408

Year Ending June 30,	Interest Rate	Bond issue March 1, 2004		
		Principal	Interest	Total
2005	3.00 %	\$ 0	151,171	151,171
2006	3.00	0	130,195	130,195
2007	3.00	0	130,195	130,195
2008	3.00	0	130,195	130,195
2009	3.00	0	130,195	130,195
2010	3.00	335,000	127,720	462,720
2011	3.00	350,000	117,520	467,520
2012	3.00-3.20	360,000	106,945	466,945
2013	3.20-3.30	370,000	95,525	465,525
2014	3.30-3.50	380,000	83,325	463,325
2015	3.50-3.70	395,000	70,128	465,128
2016	3.70-3.75	410,000	55,615	465,615
2017	3.75-3.90	425,000	40,103	465,103
2018	3.90-4.00	440,000	23,490	463,490
2019	4.00	260,000	7,900	267,900
Subtotal		\$ 3,725,000	1,400,221	5,125,221
Total		\$ 4,950,000	1,595,629	6,545,629

Bond Anticipation Notes

Details of the District's June 30, 2004 Revenue Bonds indebtedness are as follows:

Year Ending June 30,	Interest Rate	Bond issue February 27, 2003		
		Principal	Interest	Total
2005	4.25 %	\$ 25,718	0	25,718
Total		\$ 25,718	0	25,718

Early Retirement

The District offers a voluntary early retirement plan to its full-time certified employees. Eligible employees must be at least age fifty-five, and less than sixty-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. A cash payment will be made in either one or two payments, at the discretion of the employees, on July 15, September 15, November 15, or January 15 of the following year, based on the formula using unused leave days, the daily substitute teacher pay rate, and years of District service. The District will also continue paying the health insurance coverage for a single policy at the rate of the cost of a single policy in effect at the time of retirement until the retiree reaches age 65. During the year ended June 30, 2004, the District paid \$36,471 in early retirement benefits.

(8) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$137,933, \$135,079, and \$141,527 respectively, equal to the required contributions for each year.

(9) Risk Management

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

Each member's contributions to ISEBA funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and

administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions 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, 2004 were \$22,333.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the District's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

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. ISEBA will pay claims incurred before the termination date.

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

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$183,434 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional are level. During the year ended June 30, 2004, expenditures in the support services and other expenditures functional program areas exceeded the amount budgeted.

(12) Deficit Fund Balance

The District had two deficit fund balances at June 30, 2004. The Enterprise fund - Daycare fund had a deficit undesignated

balance of \$11,139. The Capital Projects fund had a deficit fund balance of \$192,382.

(13) Accounting Change and Restatements

Governmental Accounting Standards Board Interpretation No.6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No.38, Certain Financial Statement Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended June 30, 2004. The statement create new basic financial statements for reporting the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements separate the District's programs between governmental and business type activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

Beginning capital assets for governmental activities of \$7,641,607 were restated to \$7,865,445. The restatement primarily added assets that were not previously reported prior to an inventory count by the District.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund			Other	Total
	General	Capital Projects	Debt Service	Governmental Funds	
Net assets, June 30, 2003, as previously reported \$	798,550	828,152	188,943	403,959	2,219,604
GASB Interpretation 6 adjustments	0	0	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	\$ 798,550	828,152	188,943	403,959	2,219,604
GASB 34 adjustments:					
Capital assets, net of accumulated depreciation of \$2,249,151					5,616,294
Income surtax					230,460
Long-term liabilities:					
General obligation bonds				5,020,000	
Bond anticipation note				782,443	
Early retirement				61,326	(5,863,769)
Accrued interest					(43,303)
Net assets July 1, 2003, as restated					\$ 2,159,286

REQUIRED SUPPLEMENTAL INFORMATION

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (GAAP BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Revenues:		
Local sources	\$ 3,168,416	168,383
State sources	2,464,710	3,896
Federal sources	571,600	88,732
Total revenue	6,204,726	261,011
Expenditures:		
Instruction	3,079,587	0
Support services	1,583,397	0
Non-instructional programs	0	240,851
Other expenditures	2,726,233	0
Total expenditures	7,389,217	240,851
Excess(deficiency) of revenues over(under) expenditures	(1,184,491)	20,160
Other financing sources, net	3,735,642	0
Excess(deficiency) of revenues and other financing sources over(under) expenditures	2,551,151	20,160
Balance beginning of year	2,219,604	70,255
Balance end of year	\$ 4,770,755	90,415

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
3,336,799	3,108,568	3,108,568	228,231
2,468,606	2,640,301	2,640,301	(171,695)
660,332	210,000	210,000	450,332
6,465,737	5,958,869	5,958,869	506,868
3,079,587	3,623,288	3,633,288	553,701
1,583,397	1,413,997	1,424,427	(158,970)
240,851	240,000	313,000	72,149
2,726,233	1,591,434	1,617,064	(1,109,169)
7,630,068	6,868,719	6,987,779	(642,289)
(1,164,331)	(909,850)	(1,028,910)	(135,421)
3,735,642	0	0	3,735,642
2,571,311	(909,850)	(1,028,910)	3,600,221
2,289,859	1,483,203	1,483,203	806,656
4,861,170	573,353	454,293	4,406,877

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private-Purpose Trust and Agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the 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, the District adopted one budget amendment increasing budgeted expenditures by \$119,060.

During the year ended June 30, 2004, expenditures in the support services functional program area and other expenditures area exceeded the amounts budgeted.

OTHER SUPPLEMENTAL INFORMATION

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2004

	Manage- ment	Physical Plant & Equipment Levy	Student Activity	Total Nonmajor Governmental Funds
ASSETS				
Cash and pooled investments	\$ (44,825)	228,684	35,186	219,045
Receivables:				
Property tax:				
Current year delinquent	1,034	1,106	0	2,140
Succeeding year	97,500	80,929	0	178,429
Income surtax	0	170,747	0	170,747
Interfund	0	238,638	0	238,638
Prepaid expenses	57,260	0	0	57,260
TOTAL ASSETS	\$ 110,969	720,104	35,186	866,259
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts payable	\$ 22	1,233	0	1,255
Deferred revenue:				
Succeeding year property tax	97,500	80,929	0	178,429
Income surtax	0	170,747	0	170,747
	97,522	252,909	0	350,431
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	13,447	467,195	35,186	515,828
Total fund balances	13,447	467,195	35,186	515,828
TOTAL LIABILITIES AND FUND EQUITY	\$ 110,969	720,104	35,186	866,259

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2004

	Manage- ment	Physical Plant & Equipment Levy	Student Activity	Total Nonmajor Governmental Funds
REVENUES:				
Local sources:				
Local tax	\$ 75,996	255,476	0	331,472
Other	0	727	122,658	123,385
TOTAL REVENUES	75,996	256,203	122,658	454,857
EXPENDITURES:				
Current:				
Instruction:				
Other instruction	0	0	123,633	123,633
Support services:				
Operation and maintenance of plant services	77,852	0	0	77,852
Transportation services	0	816	0	816
	77,852	816	0	78,668
Other expenditures:				
Facility acquisition	0	140,687	0	140,687
TOTAL EXPENDITURES	77,852	141,503	123,633	342,988
Excess(deficiency) of revenues over(under) expenditures	(1,856)	114,700	(975)	111,869
Fund balance beginning of year	15,303	352,495	36,161	403,959
Fund balance end of year	\$ 13,447	467,195	35,186	515,828

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2004

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Interest	\$ 1,044	124	0	1,168
Dramatics	1,958	0	0	1,958
Vocal music	1,467	1,785	1,365	1,887
JH vocal music	543	0	0	543
Band Resale	(578)	1,842	1,264	0
Band uniform cleaning	438	540	0	978
Athletics	(2,598)	32,973	42,467	(12,092)
Volleyball	0	430	310	120
Band instrument rent	311	205	147	369
Pool activity	1,253	6,829	6,715	1,367
Boys basketball	12	0	0	12
Football	23	1,000	1,494	(471)
Wrestling	0	500	0	500
Girls basketball	0	1,102	420	682
Girls softball	239	0	0	239
Girls track	0	2,458	1,827	631
Boys track	0	342	340	2
Student council	8,428	17,417	18,440	7,405
JH student council	36	4,090	3,804	322
Elementary student council	1,997	8,247	5,784	4,460
Silver spirit poms	1,672	4,529	4,234	1,967
Elementary student council camp	481	4,220	2,590	2,111
Elementary student welfare	367	2,120	1,546	941
Echo	4,430	6,883	7,212	4,101
FHA	239	0	0	239
Pep club	84	0	0	84
Boys letter club	38	0	0	38
Girls letter club	36	0	0	36
HS cheerleaders	1,919	5,502	5,935	1,486
JH cheerleaders	10	0	0	10
French club	97	0	17	80
Jump rope for heart	2,253	0	366	1,887
FCA	1,600	215	70	1,745
Elementary resale	559	0	0	559
Special athletics	2,038	8,625	6,657	4,006
AFS	170	0	0	170
Class of 2004	3,936	1,867	4,619	1,184
Class of 2005	1,504	6,574	5,921	2,157
Class of 2006	155	1,979	28	2,106
Class of 2007	0	260	61	199
Total	\$ 36,161	122,658	123,633	35,186

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BROOKLYN-GUERNSEY-MALCOM 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,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 2,682,910	2,354,566	2,373,353	1,989,406
Tuition	277,792	197,101	133,575	149,098
Other	207,714	276,838	223,445	180,471
State sources	2,464,710	2,530,862	2,472,930	2,411,327
Federal sources	571,600	119,985	104,111	81,269
Total	\$ 6,204,726	5,479,352	5,307,414	4,811,571
Expenditures:				
Instruction:				
Regular instruction	\$ 2,091,818	1,866,606	1,990,129	2,023,056
Special instruction	549,516	497,093	551,189	501,625
Other instruction	438,253	356,892	398,780	385,605
Support services:				
Student services	42,443	68,474	41,135	43,507
Instructional staff services	108,106	69,346	131,166	101,030
Administration services	511,743	479,280	433,456	429,806
Operation and maintenance of plant services	619,082	424,908	482,306	417,331
Transportation services	302,023	130,252	185,448	142,017
Other expenditures:				
Facilities acquisitions	1,216,670	179,214	1,482,741	3,640,377
Long Term Debt:				
Principal	966,725	262,557	192,000	7,000
Interest	359,404	283,475	281,919	281,670
AEA flow-through	183,434	189,299	188,016	188,633
Total	\$ 7,389,217	4,807,396	6,358,285	8,161,657

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2004

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION (non-cash)	10.550	FY 04	\$ 18,061
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 04	8,435
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 04	62,236
			<u>70,671</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	0846-G	2,532
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	0846-GC	44,083
			<u>46,615</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 04	2,536
FUNDS FOR THE IMPROVEMENT OF EDUCATION - (IOWA DEMONSTRATION CONSTRUCTION GRANT)	84.215	FY 04	485,824
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 04	3,838
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 04	23,963
DATA DRIVEN LEADERSHIP	84.348	FY 04	2,579
TOTAL			<u>\$ 654,087</u>

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Board of Education of the
Brooklyn-Guernsey-Malcom Community School District:

We have audited the financial statements of Brooklyn-Guernsey-Malcom Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated August 13, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Brooklyn-Guernsey-Malcom 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 grants, 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 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. Prior year statutory comments have all been resolved except for IV-K-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Brooklyn-Guernsey-Malcom Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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 the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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 II-A-04 is a material weakness. Prior year reportable conditions have all been resolved, except II-A-04.

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

August 13, 2004

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 Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance

To the Board of Education of
Brooklyn-Guernsey-Malcom Community School District

Compliance

We have audited the compliance of Brooklyn-Guernsey-Malcom Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Brooklyn-Guernsey-Malcom Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Brooklyn-Guernsey-Malcom Community School District's management. Our responsibility is to express an opinion on Brooklyn-Guernsey-Malcom Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Brooklyn-Guernsey-Malcom Community School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Brooklyn-Guernsey-Malcom Community School District's compliance with those requirements.

In our opinion, Brooklyn-Guernsey-Malcom Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Brooklyn-Guernsey-Malcom Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Brooklyn-Guernsey-Malcom Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in

our judgment, could adversely affect Brooklyn-Guernsey-Malcom Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described as item III-A-04 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulation, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance 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 a material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Brooklyn-Guernsey-Malcom Community School District and other parties to whom Brooklyn-Guernsey-Malcom Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

August 13, 2004

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - CFDA Number 84.215 - Funds for the Improvement of Education
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Brooklyn-Guernsey-Malcom Community School District did not qualify as a low-risk auditee.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part II: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-04 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. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared 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 - Deposits are verified by another office employee. Signatures are being placed on the cash receipts journals. Bills are reviewed by two board members monthly. Computer generated check listing is given to the Board each month.

Conclusion - Response accepted.

II-B-04 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year.

Recommendation - The District needs to forward these checks to the Treasurer of Iowa after a reasonable length of time.

Response - The District will send the outstanding fund into the State of Iowa for the Great Iowa Treasurer Hunt as soon as possible.

Conclusion - Response accepted.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 84.215: Funds for the Improvement of Education
Federal Award Year: 2004
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-04 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. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared 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 - Deposits are verified by another office employee. Signatures are being placed on the cash receipts journals. Bills are reviewed by two board members monthly. Computer generated check listing is given to the Board each month.

Conclusion - Response accepted.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part IV: Other Findings Related to Statutory Reporting

IV-A-04 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, 2004.

IV-B-04 Certified Budget - District disbursements for the year ended June 30, 2004, exceeded the amount budgeted in the support services functional area and the other disbursements functional area.

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

Response - We will make sure that the budget is amended in the future before disbursements are made. The Board is given a budget report each month of what the budget is and the actual figures.

Conclusion - Response accepted.

IV-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-E-04 Business Transactions - No business transactions between the District and District officials were noted.

IV-F-04 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-H-04 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-I-04 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-J-04 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.

IV-K-04 Financial Condition - The District had a deficit unreserved fund balance in the Enterprise– Daycare fund and the Capital Projects Fund. The Daycare fund had a deficit balance of \$11,139, while the Capital Projects had a \$192,382 deficit balance.

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

Response - We will investigate alternative to eliminate the deficits.

Conclusion - Response accepted.