

ENGLISH VALLEYS COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

JUNE 30, 2004

ENGLISH VALLEYS COMMUNITY SCHOOL DISTRICT  
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ENGLISH VALLEYS COMMUNITY SCHOOL DISTRICT  
 Officials  
 June 30, 2004

<u>Name</u>	<u>Board of Education</u> (After September 2003 Election)	<u>Term Expires</u>
Dan Strohman	Board President	2003
Paula Thomas	Board Member	2003
Tom Voss	Board Member	2004
Ted Oswald	Board Member	2005
John Gent	Board Member	2005

(After September 2003 Election)

Tom Voss	Board President	2004
Ted Oswald	Board Member	2005
John Gent	Board Member	2005
Paula Thomas	Board Member	2006
Alan Ackerman	Board Member	2006

**School Officials**

Alan J. Jensen	Superintendent	2004
Wendy Ayers	District Secretary/Treasurer	2004
Orville W. Bloethe	Attorney	2004
Elwood & Elwood	Attorney	2004
Belin, Harris, Lamson & McCormick	Attorney	2004

**KAY L. CHAPMAN, CPA PC**

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Muscatine, Iowa 52761  
563-264-1385

INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
English Valleys Community School District  
North English, Iowa

I have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of English Valleys Community School District, North English, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I 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. I believe my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of English Valleys Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 10 to the financial statements, during the year ended June 30, 2004, English Valleys 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 Disclosure; 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, I have also issued my reports dated October 1, 2004 on my consideration of English Valleys Community School District's internal

control over financial reporting and my tests of its compliance with certain provisions of laws, regulations and contracts. 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 my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 40 through 41 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise English Valleys Community School District's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 7, 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 my audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.



Kay L. Chapman, CPA PC  
October 1, 2004

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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English Valleys 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 \$3,632,705 in fiscal 2003 to \$3,757,834 in fiscal 2004, and General Fund expenditures increased from \$3,575,848 in fiscal 2003 to \$3,765,215 in fiscal 2004. The District's General Fund balance decreased from \$411,554 in fiscal 2003 to \$404,173 in fiscal 2004, a 2% decrease.
- The increase in General Fund revenues was attributable to an increase in property tax and state and federal grant revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures. One reason the General Fund balance decreased is because the negotiated salary and benefits settlement was greater than the District's increase in General Fund revenue for fiscal 2004. As a result, the District funded a portion of the current year General Fund salaries and benefits from the carryover fund balance.
- A decline in interest rates during the past three fiscal years, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone decreasing from \$28,892 in fiscal 2003 to \$13,365 in fiscal 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 English Valleys 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 English Valleys Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to 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 Governmental Funds.

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

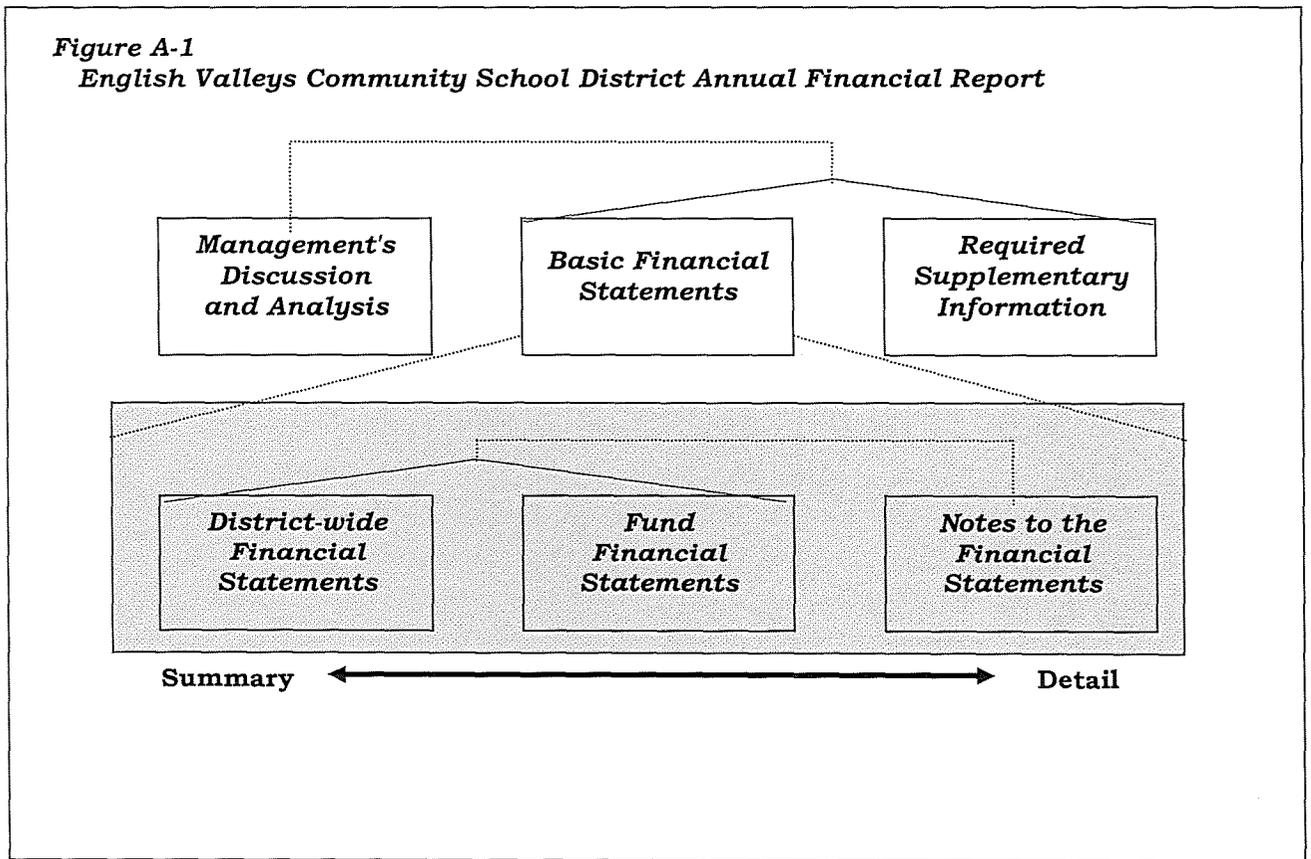


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

## **REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statements*

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

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial 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 and student-built house programs are included here.

#### *Fund Financial Statements*

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

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

The District has two kinds of funds:

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

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

The required financial statements for 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 Funds, the School Nutrition Fund and Student-built House Fund. Internal Service Funds, the other type of proprietary fund, are optional and available to report activities that provide supplies and services for other District

programs and activities. The District currently has one Internal Service Fund, the Flex Benefit Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund 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 at June 30, 2004 compared to June 30, 2003.

	Figure A-3 Condensed Statement of Net Assets						
	Governmental		Business Type		Total		Total
	Activities		Activities		School District		
	2004	2003	2004	2003	2004	2003	2003-2004
Current and other assets	\$ 3,247,894	\$ 2,966,586	\$ 62,282	\$ 104,640	\$ 3,310,176	\$ 3,071,226	7.78%
Capital assets	<u>3,739,481</u>	<u>4,009,625</u>	<u>28,664</u>	<u>34,254</u>	<u>3,768,145</u>	<u>4,043,879</u>	-6.82%
Total assets	<u>6,987,375</u>	<u>6,976,211</u>	<u>90,946</u>	<u>138,894</u>	<u>7,078,321</u>	<u>7,115,105</u>	-0.52%
Long-term obligations	2,359,874	2,463,049	-	-	2,359,874	2,463,049	-4.19%
Other liabilities	<u>2,265,609</u>	<u>1,978,483</u>	<u>9,630</u>	<u>68,028</u>	<u>2,275,239</u>	<u>2,046,511</u>	11.18%
Total liabilities	<u>4,625,483</u>	<u>4,441,532</u>	<u>9,630</u>	<u>68,028</u>	<u>4,635,113</u>	<u>4,509,560</u>	2.78%
Net assets							
Invested in capital assets, net of related debt	1,284,481	1,664,625	28,664	34,254	1,313,145	1,698,879	-22.71%
Restricted	431,008	189,453	-	-	431,008	189,453	127.50%
Unrestricted	<u>646,403</u>	<u>680,601</u>	<u>52,652</u>	<u>36,612</u>	<u>699,055</u>	<u>717,213</u>	-2.53%
Total net assets	<u>\$ 2,361,892</u>	<u>\$ 2,534,679</u>	<u>\$ 81,316</u>	<u>\$ 70,866</u>	<u>\$ 2,443,208</u>	<u>\$ 2,605,545</u>	-6.23%

The District's combined net assets decreased by approximately 6.23%, or \$162,337, from the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$241,555, or 127% over the prior year. The increase was primarily a result of an advance refunding of general obligation bonds that was done during fiscal 2004.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$18,158, or 2.53%. This

reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

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

Figure A-4

Change in Net Assets

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total School District</u>
Revenues			
Program revenues			
Charges for service and sales	\$ 720,847	\$ 118,847	\$ 839,694
Operating grants, contributions and restricted interest	385,768	81,307	467,075
General revenues			
Property tax	1,664,110	-	1,664,110
Unrestricted state grants	1,635,798	-	1,635,798
Unrestricted investment earnings	16,015	286	16,301
Other	<u>133</u>	<u>-</u>	<u>133</u>
Total revenues	<u>4,422,671</u>	<u>200,440</u>	<u>4,623,111</u>
Program expenses			
Governmental activities			
Instruction	2,994,177	-	2,994,177
Support services	1,184,601	-	1,184,601
Non-instructional programs	21,853	189,990	211,843
Other expenses	<u>394,827</u>	<u>-</u>	<u>394,827</u>
Total expenses	<u>4,595,458</u>	<u>189,990</u>	<u>4,785,448</u>
Change in net assets	<u><u>\$ (172,787)</u></u>	<u><u>\$ 10,450</u></u>	<u><u>\$(162,337)</u></u>

Property tax and unrestricted state grants account for 72% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 88% of the total expenses.

**Governmental Activities**

Revenues for governmental activities were \$4,422,671 and expenses were \$4,595,458. 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

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 2,994,177	\$ 2,057,843
Support services	1,184,601	1,160,422
Non-instructional programs	21,853	21,853
Other expenses	<u>394,827</u>	<u>248,725</u>
 Total expenses	 <u>\$ 4,595,458</u>	 <u>\$ 3,488,843</u>

- The cost financed by users of the District's programs was \$720,847.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$385,768.
- The net cost of governmental activities was financed with \$1,664,110 in property and other taxes and \$1,635,798 in unrestricted state grants.

**Business Type Activities**

Revenues for business type activities were \$200,440 and expenses were \$189,990. The District's business type activities include the School Nutrition Fund and Student-built House Fund. Revenues of these activities were comprised of charges for service, gain on sale of house, federal and state reimbursements and investment income.

During the year ended June 30, 2004, the District increased meal prices for the first time in three years. This increase resulted in increased revenue to the School Nutrition Fund which the District has obligated to cover increased salaries.

**INDIVIDUAL FUND ANALYSIS**

As previously noted, English Valleys 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 a combined fund balance of \$696,695, slightly below last year's ending fund balances of \$719,715. However, the primary reason for the decrease in combined fund balances in fiscal 2004 is due to costs associated with refunding bonds.

**Governmental Fund Highlights**

- The District's declining General Fund financial position is the result of many factors. Growth during the year in tax and grants resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's

increase in General Fund expenditures requiring the District to use carryover fund balance to meet its financial obligations during the year.

- The General Fund balance decreased from \$411,554 to \$404,173, due in part to the negotiated salary and benefits settlement, the prior year reduction in state aid and existing expenditure commitments of the District.

### **Proprietary Fund Highlights**

Enterprise Fund net assets increased from \$70,866 at June 30, 2003 to \$81,316 at June 30, 2004, representing an increase of approximately 15%. For fiscal 2004, the District increased meal prices, resulting in the increase in net assets. The District also revamped its school lunch program to provide students with the option of salad and/or specialty bars at lunch with little additional cost to the program. This change resulted in an increase in meals served and a related increase in revenue and net assets.

### **BUDGETARY HIGHLIGHTS**

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

The District's receipts were \$117,552 less than budgeted receipts, a variance of 3%. The most significant variance resulted from the District receiving less in state aid than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the instruction, non-instructional programs and other expenditures functional areas due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### **Capital Assets**

At June 30, 2004, the District had invested \$3,768,145, 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 represents a net decrease of 7% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$383,350.

The original cost of the District's capital assets was \$7,639,697. Governmental funds account for \$7,555,872 (Note 5 257413+7298459), with the remainder of \$83,825 accounted for in the Proprietary, School Nutrition Fund.

Figure A-6

## Capital Assets, Net of Depreciation

	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	2004	2003	2004	2003	2004	2003	2003-2004
Land	\$ 257,413	\$ 257,413	\$ -	\$ -	\$ 257,413	\$ 257,413	0.00%
Buildings and improvements	2,651,213	2,759,121	-	-	2,651,213	2,759,121	-3.91%
Furniture and equipment	<u>830,855</u>	<u>993,091</u>	<u>28,664</u>	<u>34,254</u>	<u>859,519</u>	<u>1,027,345</u>	-16.34%
Totals	<u>\$3,739,481</u>	<u>\$4,009,625</u>	<u>\$ 28,664</u>	<u>\$ 34,254</u>	<u>\$3,768,145</u>	<u>\$4,043,879</u>	-6.82%

**Long-Term Debt**

At June 30, 2004, the District had \$2,641,114 in general obligation and other long-term debt outstanding. This represents an increase of approximately 7% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

In July 2003 the District issued general obligation bonds of \$2,650,000 for the purpose of refinancing the bond issue from 1996. The District entered into an escrow agreement whereby the proceeds from general obligation refunding bonds were converted into U.S. Securities. These securities were placed in an escrow account for the express purpose of paying the principal and interest on the refunded general obligation bonds as they become due. After the principal and interest on all of the outstanding bonds have been paid, the remaining funds in the escrow account, together with any interest thereon, shall be returned to the District. The transactions, balances and liabilities of the escrow account are not recorded by the District. The amount of the refunded general obligation bonds that was considered extinguished and, therefore, excluded from long-term debt was \$2,345,000 at June 30, 2004.

Figure A-7

## Outstanding Long-term Obligations

	Total		Total
	School District		Change
	2004	2003	2003-2004
General obligation bonds	\$ 2,455,000	\$ 2,345,000	4.69%
Early retirement	<u>186,114</u>	<u>118,049</u>	57.66%
Total	<u>\$ 2,641,114</u>	<u>\$ 2,463,049</u>	7.23%

**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:

- Iowa and Keokuk Counties have advised the District that, due to the recent completion of property reevaluation assessments, the District's total taxable valuation will increase 5 percent for property tax collected in fiscal 2005.
- Although the District has experienced declining enrollment for the past three years, the District expects a the enrollment to become steady for the next several years.
- Fiscal 2004 was the last year of a three-year contract with the English Valleys Education Teacher Association (EVEA). The District will negotiate a new agreement during fiscal 2005. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.

### **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 Wendy Ayers, District Secretary/Treasurer and Business Manager, English Valleys Community School District, PO Box 490, North English, Iowa 52316.

## Basic Financial Statements

ENGLISH VALLEYS COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2004

Exhibit A

<b>ASSETS</b>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Cash and cash equivalents			
ISCAP	\$ 790,763	\$ -	\$ 790,763
Other	948,625	60,333	1,008,958
Receivables			
Property tax			
Delinquent	20,383	-	20,383
Succeeding year	1,452,994	-	1,452,994
Accrued interest			
ISCAP	1,983	-	1,983
Accounts receivable	14,664	559	15,223
Prepaid expenses	100	-	100
Due from other governments	8,944	-	8,944
Due from other funds	9,438	-	9,438
Inventories	-	1,390	1,390
Capital assets, net of accumulated depreciation	<u>3,739,481</u>	<u>28,664</u>	<u>3,768,145</u>
Total assets	<u>6,987,375</u>	<u>90,946</u>	<u>7,078,321</u>
 <b>LIABILITIES</b>			
Accounts payable	4,860	192	5,052
Salaries and benefits payable	100	-	100
Due to other funds	-	9,438	9,438
Accrued interest payable	10,923	-	10,923
Deferred revenue - succeeding year property tax	1,452,994	-	1,452,994
ISCAP warrants payable	786,000	-	786,000
ISCAP accrued interest payable	3,106	-	3,106
ISCAP unamortized premium	7,626	-	7,626
Long-term liabilities			
Portion due within one year			
Bonds payable	180,000	-	180,000
Early retirement	26,433	-	26,433
Portion due after one year			
Bonds payable	2,275,000	-	2,275,000
Unamortized discount	(9,220)	-	(9,220)
Unamortized deferred charge	(272,020)	-	(272,020)
Early retirement	<u>159,681</u>	<u>-</u>	<u>159,681</u>
Total liabilities	<u>4,625,483</u>	<u>9,630</u>	<u>4,635,113</u>

See notes to financial statements and Independent Auditor's Report.

ENGLISH VALLEYS COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2004

Exhibit A

	<u>Governmental</u> <u>Activities</u>	<u>Business Type</u> <u>Activities</u>	<u>Total</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 1,284,481	\$ 28,664	1,313,145
Restricted for			
Physical plant and equipment levy	91,559	-	91,559
Other special revenue purposes	44,378	-	44,378
Debt service	295,071	-	295,071
Unrestricted	<u>646,403</u>	<u>52,652</u>	<u>699,055</u>
 Total net assets	 <u>\$ 2,361,892</u>	 <u>\$ 81,316</u>	 <u>\$ 2,443,208</u>

See notes to financial statements and Independent Auditor's Report.

ENGLISH VALLEYS COMMUNITY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2004

Exhibit B

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Governmental activities							
Instruction							
Regular instruction	\$ 1,872,410	\$ 380,461	\$ 175,583	\$ -	\$ (1,316,366)	\$ -	\$ (1,316,366)
Special instruction	631,898	128,511	58,577	-	(444,810)	-	(444,810)
Other instruction	489,869	187,696	5,506	-	(296,667)	-	(296,667)
	<u>2,994,177</u>	<u>696,668</u>	<u>239,666</u>	<u>-</u>	<u>(2,057,843)</u>	<u>-</u>	<u>(2,057,843)</u>
Support services							
Student services	165,053	-	-	-	(165,053)	-	(165,053)
Instructional staff services	56,127	-	-	-	(56,127)	-	(56,127)
Administration services	527,092	24,179	-	-	(502,913)	-	(502,913)
Operation and maintenance of plant services	250,612	-	-	-	(250,612)	-	(250,612)
Transportation services	185,717	-	-	-	(185,717)	-	(185,717)
	<u>1,184,601</u>	<u>24,179</u>	<u>-</u>	<u>-</u>	<u>(1,160,422)</u>	<u>-</u>	<u>(1,160,422)</u>
Non-instructional programs	<u>21,853</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(21,853)</u>	<u>-</u>	<u>(21,853)</u>
Other expenditures							
Facilities acquisition	69,127	-	9,983	-	(59,144)	-	(59,144)
Long-term debt interest	74,874	-	-	-	(74,874)	-	(74,874)
AEA flowthrough	136,119	-	136,119	-	-	-	-
Depreciation (unallocated) *	114,707	-	-	-	(114,707)	-	(114,707)
	<u>394,827</u>	<u>-</u>	<u>146,102</u>	<u>-</u>	<u>(248,725)</u>	<u>-</u>	<u>(248,725)</u>
Total governmental activities	<u>4,595,458</u>	<u>720,847</u>	<u>385,768</u>	<u>-</u>	<u>(3,488,843)</u>	<u>-</u>	<u>(3,488,843)</u>

See notes to financial statements and Independent Auditor's Report.

ENGLISH VALLEYS COMMUNITY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2004

Exhibit B

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Business type activities							
Non-instructional programs							
Nutrition services	\$ 186,560	\$ 94,862	\$ 81,307	\$ -	\$ -	\$(10,391)	\$ (10,391)
Student-built house	3,430	23,985	-	-	-	20,555	20,555
Total business type activities	<u>189,990</u>	<u>118,847</u>	<u>81,307</u>	<u>-</u>	<u>-</u>	<u>10,164</u>	<u>10,164</u>
Total	<u>\$4,785,448</u>	<u>\$ 839,694</u>	<u>\$ 467,075</u>	<u>\$ -</u>	<u>(3,488,843)</u>	<u>10,164</u>	<u>(3,478,679)</u>
<b><u>General Revenues</u></b>							
Property tax levied for							
General purposes					1,299,867	-	1,299,867
Capital projects					110,057	-	110,057
Debt service					254,186	-	254,186
Unrestricted state grants					1,635,798	-	1,635,798
Unrestricted investment earnings					16,015	286	16,301
Other					<u>133</u>	<u>-</u>	<u>133</u>
Total general revenues					<u>3,316,056</u>	<u>286</u>	<u>3,316,342</u>
Change in net assets					(172,787)	10,450	(162,337)
Net assets, beginning of year, as restated					<u>2,534,679</u>	<u>70,866</u>	<u>2,605,545</u>
Net assets, end of year					<u>\$ 2,361,892</u>	<u>\$ 81,316</u>	<u>\$ 2,443,208</u>

\* This amount excludes the depreciation included in the direct expenses of the various programs.

See notes to financial statements and Independent Auditor's Report.

ENGLISH VALLEYS COMMUNITY SCHOOL DISTRICT

Exhibit C

Balance Sheet  
Governmental Funds  
June 30, 2004

	<u>General</u>	Nonmajor <u>Governmental</u> <u>Funds</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and pooled investments			
ISCAP	\$ 790,763	\$ -	\$ 790,763
Other	363,593	288,519	652,112
Receivables			
Property tax			
Delinquent	14,757	5,626	20,383
Succeeding year	1,117,141	335,853	1,452,994
Accounts receivable	14,239	425	14,664
Accrued interest			
ISCAP	1,983	-	1,983
Prepaid expenditures	100	-	100
Due from other funds	11,046	2,590	13,636
Due from other governments	8,944	-	8,944
Total assets and other debits	<u>\$ 2,322,566</u>	<u>\$ 633,013</u>	<u>\$ 2,955,579</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts payable	\$ 4,420	\$ 440	\$ 4,860
Salaries and benefits payable	100	-	100
Due to other funds	-	4,198	4,198
ISCAP warrants payable	786,000	-	786,000
ISCAP accrued interest payable	3,106	-	3,106
ISCAP unamortized premium	7,626	-	7,626
Deferred revenue - Succeeding year property tax	1,117,141	335,853	1,452,994
Total liabilities	<u>1,918,393</u>	<u>340,491</u>	<u>2,258,884</u>
Fund balances			
Reserved for			
Debt service	-	994	994
Unreserved, undesignated			
Special revenue	-	291,528	291,528
Other governmental	404,173	-	404,173
Total fund balances	<u>404,173</u>	<u>292,522</u>	<u>696,695</u>
Total liabilities and fund balances	<u>\$ 2,322,566</u>	<u>\$ 633,013</u>	<u>\$ 2,955,579</u>

See notes to financial statements and Independent Auditor's Report.

ENGLISH VALLEYS COMMUNITY SCHOOL DISTRICT  
Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets  
June 30, 2004

Exhibit D

<b>Total fund balances of governmental funds</b>	\$ 696,695
<b>Amounts reported for governmental activities in the statement of net assets are different because:</b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	3,739,481
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(10,923)
The Internal Service Fund is used by the District to charge the costs of the flex-benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the Statement of Net Assets.	296,513
Long-term liabilities, including bonds payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(2,359,874)</u>
<b>Net assets of governmental activities</b>	<u><u>\$ 2,361,892</u></u>

See notes to financial statements and Independent Auditor's Report.

ENGLISH VALLEYS COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2004

Exhibit E

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues			
Local sources			
Local tax	\$ 1,200,746	\$ 463,364	\$ 1,664,110
Tuition	406,331	-	406,331
Other	139,174	191,490	330,664
State sources	1,896,927	-	1,896,927
Federal sources	114,656	9,983	124,639
Total revenues	<u>3,757,834</u>	<u>664,837</u>	<u>4,422,671</u>
Expenditures			
Current			
Instruction			
Regular instruction	1,787,505	62,960	1,850,465
Special instruction	631,898	-	631,898
Other instruction	292,158	188,633	480,791
	<u>2,711,561</u>	<u>251,593</u>	<u>2,963,154</u>
Support services			
Student services	1,481	-	1,481
Instructional staff services	56,127	-	56,127
Administration services	417,704	103,715	521,419
Operation and maintenance of plant services	248,278	-	248,278
Transportation services	172,092	-	172,092
	<u>895,682</u>	<u>103,715</u>	<u>999,397</u>
Non-instructional programs	21,853	-	21,853
Other expenditures			
Facilities acquisition	-	69,127	69,127
Long-term debt			
Principal	-	195,000	195,000
Interest and fiscal charges	-	61,041	61,041
AEA flowthrough	136,119	-	136,119
	<u>136,119</u>	<u>325,168</u>	<u>461,287</u>
Total expenditures	<u>3,765,215</u>	<u>680,476</u>	<u>4,445,691</u>

See notes to financial statements and Independent Auditor's Report.

ENGLISH VALLEYS COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2004

Exhibit E

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Deficiency of revenues under expenditures	\$ (7,381)	\$ (15,639)	\$ (23,020)
Other financing sources (uses)			
Proceeds from sale of refunding bonds	-	2,650,000	2,650,000
Discount on bonds sold	-	(10,000)	(10,000)
Payment to refunding bond escrow agent	-	<u>(2,640,000)</u>	<u>(2,640,000)</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(7,381)	(15,639)	(23,020)
Fund balance, beginning of year	<u>411,554</u>	<u>308,161</u>	<u>719,715</u>
Fund balance, end of year	<u>\$ 404,173</u>	<u>\$ 292,522</u>	<u>\$ 696,695</u>

See notes to financial statements and Independent Auditor's Report.

ENGLISH VALLEYS COMMUNITY SCHOOL DISTRICT  
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances-  
 Governmental Funds to the Statement of Activities  
 For the Year Ended June 30, 2004

Exhibit F

**Net change in fund balances - total governmental funds** \$ (23,020)

**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	\$ 107,616	
Depreciation expense	<u>(377,760)</u>	(270,144)

The Internal Service Fund is used by the District to charge the costs of the flex-benefit plan to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities. 7,275

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded issues, as follows:

Issued	(2,345,000)	
Repaid	<u>2,540,000</u>	195,000

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 governmental funds, as follows:

Early retirement		(68,065)
------------------	--	----------

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. (13,833)

**Change in net assets of governmental activities** \$ (172,787)

See notes to financial statements and Independent Auditor's Report.

ENGLISH VALLEYS COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
Proprietary Funds  
June 30, 2004

Exhibit G

	Business Type <u>Activities</u>	<u>Governmental</u> <u>Activity</u>
	Nonmajor <u>Enterprise</u>	Internal <u>Service</u>
<b>ASSETS</b>		
Cash and pooled investments	\$ 60,333	\$ 296,513
Accounts receivable	559	-
Inventories	1,390	-
Capital assets, net of accumulated depreciation	<u>28,664</u>	<u>-</u>
Total assets	<u>90,946</u>	<u>296,513</u>
<b>LIABILITIES</b>		
Accounts payable	192	-
Due to other funds	<u>9,438</u>	<u>-</u>
Total liabilities	<u>9,630</u>	<u>-</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	28,664	-
Unreserved retained earnings	<u>52,652</u>	<u>296,513</u>
Total net assets	<u>\$ 81,316</u>	<u>\$ 296,513</u>

See notes to financial statements and Independent Auditor's Report.

ENGLISH VALLEYS COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Funds  
For the Year Ended June 30, 2004

Exhibit H

	<u>Business Type</u> <u>Activities</u>	<u>Governmental</u> <u>Activity</u>
	<u>Nonmajor</u> <u>Enterprise</u>	<u>Internal</u> <u>Service</u>
Operating revenue		
Local sources		
Charges for service	\$ 98,127	\$ 456,087
Gain on sale of inventory	20,720	-
Total operating revenue	<u>118,847</u>	<u>456,087</u>
Operating expenses		
Non-instructional programs		
Salaries	63,661	-
Benefits	33,501	-
Purchased services	300	-
Supplies	70,633	-
Miscellaneous	12,875	448,812
Interest expense	3,430	-
Depreciation	5,590	-
Total operating expenses	<u>189,990</u>	<u>448,812</u>
Operating income (loss)	<u>(71,143)</u>	<u>7,275</u>
Non-operating revenues		
Interest income	286	-
State sources	3,010	-
Federal sources	78,297	-
Total non-operating revenues	<u>81,593</u>	<u>-</u>
Change in net assets	10,450	7,275
Net assets, beginning of year, as restated	<u>70,866</u>	<u>289,238</u>
Net assets, end of year	<u>\$ 81,316</u>	<u>\$ 296,513</u>

See notes to financial statements and Independent Auditor's Report.

ENGLISH VALLEYS COMMUNITY SCHOOL DISTRICT  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2004

Exhibit I

	<u>Business Type</u>	<u>Governmental</u>
	<u>Activities</u>	<u>Activity</u>
	<u>Nonmajor</u>	<u>Internal</u>
	<u>Enterprise</u>	<u>Service</u>
Cash flows from operating activities		
Cash received from sale of lunches and breakfasts	\$ 98,118	\$ -
Cash received from sale of inventory	167,798	-
Cash received for services	-	456,087
Cash payments to employees for services	(87,724)	-
Cash payments to suppliers for goods and services	<u>(151,478)</u>	<u>(448,812)</u>
Net cash provided by operating activities	<u>26,714</u>	<u>7,275</u>
Cash flows from non-capital financing activities		
State grants received	3,010	-
Federal grants received	<u>66,383</u>	-
Net cash provided by non-capital financing activities	<u>69,393</u>	-
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>
Cash flows from investing activities		
Loan proceeds	76,163	-
Repayment of loans	(144,549)	-
Interest paid on loans	(3,430)	-
Interest on investments	<u>286</u>	-
Net cash (used in) investing activities	<u>(71,530)</u>	-
Net increase in cash and cash equivalents	24,577	7,275
Cash and cash equivalents, beginning of year	<u>35,756</u>	<u>289,238</u>
Cash and cash equivalents, end of year	<u>\$ 60,333</u>	<u>\$ 296,513</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>		
Operating income (loss)	\$ (71,143)	\$ 7,275
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	11,914	-
Commodities used	5,590	-
(Increase) in accounts receivable	(559)	-
Decrease in inventories	139,310	-
Increase in due to other funds	9,438	-
(Decrease) in bank loans payable	(68,028)	-
Decrease in accounts payable	<u>192</u>	-
Net cash provided by operating activities	<u>\$ 26,714</u>	<u>\$ 7,275</u>

**Non-cash investing, capital and financing activities**

During the year ended June 30, 2004, the District received \$11,914 of federal commodities.

See notes to financial statements and Independent Auditor's Report.

ENGLISH VALLEYS COMMUNITY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2004

**Note 1. Summary of Significant Accounting Policies**

The English Valleys Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of North English, Iowa, and the agricultural territory in Iowa and Keokuk 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, English Valleys Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. The English Valleys Community School District has no component units, which meet the Governmental Accounting Standards Board criteria.

The District does not participate in any jointly governed organizations for which the District is financially accountable or that the nature and significance of the relationship with the District are such that exclusion would cause the District's financial statements to be misleading.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the 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 service.

The Statement of Net Assets presents the District's 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 asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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

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

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. 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 fund:

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

The District reports no major proprietary funds. However, the District reports a nonmajor proprietary fund, Internal Service Fund. The Internal Service, Flex Benefit Fund is utilized to account for employee flexible benefits.

### C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when

they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

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

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

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

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

The District 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 governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year 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 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, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and 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.

<u>Asset Class</u>	<u>Amount</u>
Land	\$2,500
Buildings	\$2,500
Improvements other than buildings	\$2,500
Furniture and equipment:	
School Nutrition Fund equipment	\$ 500
Other furniture and equipment	\$1,500

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

<u>Asset Class</u>	<u>Useful Life</u>
Buildings & Improvements	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Early Retirement - District employees meeting certain requirements are eligible for early retirement benefits. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2004. The early retirement liability attributable to the governmental activities will be paid primarily from the Management Fund.

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

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

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

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

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

#### E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, expenditures exceeded the amounts budgeted in the Instruction, Non-instructional Programs and Other Expenditures functions; however, the District did not exceed its General Fund unspent authorized budget.

**Note 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.

The District had investments in the Iowa Schools Joint Investment Trust, which are valued at an amortized cost of \$904,5854 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement Number 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

**Note 3. Due From and Due to Other Funds**

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Management Fund	Debt Service Fund	\$ 2,590
General Fund	Management Fund	1,608
General Fund	School Nutrition Fund	<u>9,438</u>
Totals		<u>\$ 13,636</u>

The Management Fund is repaying the General Fund for checks written in excess of the Management Fund's portion of a shared bank account and the School Nutrition Fund is repaying the General Fund for salaries and benefits which were originally paid from General Fund.

**Note 4. Iowa Schools Cash Anticipation Program (ISCAP)**

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each

outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2004, is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>	<u>Unamortized Premium</u>
2003-04B	1/30/04	1/28/05	\$ 364,465	\$1,983	\$ 362,000	\$ 3,106	\$ 1,745
2004-05A	6/30/04	6/30/05	<u>426,298</u>	<u>-</u>	<u>424,000</u>	<u>-</u>	<u>5,881</u>
			<u>\$ 790,763</u>	<u>\$1,983</u>	<u>\$ 786,000</u>	<u>\$ 3,106</u>	<u>\$ 7,626</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In additions, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no ISCAP advance activity for the year ended June 30, 2004.

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

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2003-04A	2.000%	2.6030%
2003-04B	2.000%	1.3920%
2004-05A	3.000%	2.4600%

## Note 5. Capital Assets

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

<u>Governmental activities</u>	<u>Balance, Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, End of Year</u>
Capital assets not being depreciated:				
Land	\$ 257,413	\$ -	\$ -	\$ 257,413
Capital assets being depreciated:				
Buildings and improvements	4,700,307	-	-	4,700,307
Furniture and equipment	<u>2,490,536</u>	<u>107,616</u>	<u>-</u>	<u>2,598,152</u>
Total capital assets being depreciated	<u>7,190,843</u>	<u>107,616</u>	<u>-</u>	<u>7,298,459</u>

Less accumulated depreciation for:

Buildings and improvements	1,941,186	107,908	-	2,049,094
Furniture and equipment	<u>1,497,445</u>	<u>269,852</u>	-	<u>1,767,297</u>
Total accumulated depreciation	<u>3,438,631</u>	<u>377,760</u>	-	<u>3,816,391</u>
Total capital assets being depreciated, net	<u>3,752,212</u>	<u>(270,144)</u>	-	<u>3,482,068</u>
Governmental activities capital assets, net	<u>\$ 4,009,625</u>	<u>\$(270,144)</u>	<u>\$ -</u>	<u>\$ 3,739,481</u>

Business-type activities

Furniture and equipment	\$ 83,825	\$ -	\$ -	\$ 83,825
Less accumulated depreciation	<u>49,571</u>	<u>5,590</u>	-	<u>55,161</u>
Business-type activities capital assets, net	<u>\$ 34,254</u>	<u>\$(5,590)</u>	<u>\$ -</u>	<u>\$ 28,664</u>

Depreciation expense was charged to the following functions:

**Governmental activities**

Instruction	
Regular	\$ 50,971
Other	9,078
Support services	
Student	163,572
Administration	5,673
Operation and maintenance of plant	2,334
Transportation	31,425
Unallocated depreciation	<u>114,707</u>
Total governmental activities depreciation expense	<u>\$ 377,760</u>

**Business-type activities**

Food services	<u>\$ 5,590</u>
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During the year ended June 30, 2004, the District hired an outside company to perform a physical inventory of its capital assets. Also during the year ended June 30, 2004 the District changed its criteria for determining capitalized assets. Prior to the fiscal year ended June 30, 2004 the District included all assets costing more than \$500 in the General Fixed Asset Account Group. However, beginning in FY04 the District only includes items costing in excess of the limits summarized in Note 1, item D as capital assets. Due to these changes, the District's beginning cost of capital assets in the year ended June 30, 2004 is more than the amounts reported on the financial statements of the prior fiscal year by \$2,115,616.

## Note 6. Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
General obligation bonds	\$ 2,345,000	\$ 2,650,000	\$(2,540,000)	\$ 2,455,000	\$ 180,000
Early retirement	<u>118,049</u>	<u>93,357</u>	<u>(25,292)</u>	<u>186,114</u>	<u>26,433</u>
Totals	<u>\$ 2,463,049</u>	<u>\$ 2,743,357</u>	<u>\$(2,565,292)</u>	<u>\$ 2,641,114</u>	<u>\$ 206,433</u>

### General Obligation Bonds Payable

Details of the District's June 30, 2004 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Refunding Bonds Dated 7-1-03		
		Principal	Interest	Total
2005	2.00	\$ 180,000	\$ 68,990	\$ 248,990
2006	2.00	180,000	65,390	245,390
2007	2.50	185,000	61,790	246,790
2008	2.50	185,000	57,165	242,165
2009	2.50	190,000	52,540	242,540
2010	2.75	195,000	47,790	242,790
2011	3.00	205,000	42,427	247,427
2012	3.00	215,000	36,277	251,277
2013	3.00	220,000	29,827	249,827
2014	3.25	225,000	23,227	248,227
2015	3.30	235,000	15,915	250,915
2016	3.40	<u>240,000</u>	<u>8,160</u>	<u>248,160</u>
Total		<u>\$ 2,455,000</u>	<u>\$ 509,498</u>	<u>\$ 2,964,498</u>

During the year ended June 30, 2004, the District issued \$2,650,000 in general obligation bonds and retired general obligation bonds of \$2,540,000. The unamortized discount totaled \$9,220 at June 30, 2004.

### Refunded General Obligation Bonds

During the year ended June 30, 2004, the District entered into an escrow agreement whereby the proceeds from general obligation refunding bonds were converted into U.S. Securities. These securities were placed in an escrow account for the express purpose of paying

the principal and interest on the refunded general obligation bonds as they become due. After the principal and interest on all of the outstanding bonds have been paid, the remaining funds in the escrow account, together with any interest thereon, shall be returned to the District. The transactions, balances and liabilities of the escrow account are not recorded by the District. The amount of the refunded general obligation bonds that was considered extinguished and, therefore, excluded from long-term debt was \$2,345,000 at June 30, 2004.

The reacquisition price exceeded the net carrying amount of the old debt by \$295,000. This amount has been shown as a contra liability account against the new debt and is being amortized over the remaining life of the new debt issued, which is the same as the life of the refunded debt. This advance refunding was undertaken to reduce total debt service payments over the next twelve years by \$149,113 and resulted in economic gain of \$82,637.

#### **Note 7. Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$128,853, \$125,898 and \$122,516 respectively, equal to the required contributions for each year.

#### **Note 8. Risk Management**

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

#### **Note 9. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$136,119 adjusting entry to the cash basis financial statements.

**Note 10. Accounting Change and Restatements**

Governmental Accounting Standards Board (GASB) 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 (GASB) 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; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements 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.

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

	<u>General</u>	<u>Total Nonmajor</u>	<u>Total</u>
Net assets June 30, 2003, as previously reported	\$411,554	\$ 308,161	\$ 719,715
GASB Interpretation 6 adjustments	-	-	-
Net assets July 1, 2003, as restated for governmental funds	<u>\$411,554</u>	<u>\$ 308,161</u>	719,715
GASB 34 adjustments:			
Capital assets, net of accumulated depreciation of \$3,438,631			4,009,625
Long-term liabilities:			
General obligation bonds		\$(2,345,000)	
Early retirement		<u>(118,049)</u>	(2,463,049)
Internal Service Fund balance			289,238
Accrued interest payable			<u>(20,850)</u>
Net assets July 1, 2003, as restated			<u>\$2,534,679</u>

**Note 11. Correction of Beginning Balance**

During the year ended June 30, 2004 capital assets, corresponding accumulated depreciation and depreciation expense were recorded in the Enterprise, School Nutrition Fund. These amounts had not been reported by the District in prior years. Therefore, the beginning balance of the Enterprise, School Nutrition Fund increased by \$34,254.

**Note 12. Subsequent Event – Local Option Sales and Services Tax**

Keokuk County voters authorized the Local Option Sales and Services Tax beginning July 1, 2004. This tax is an additional sales tax of 1% on all taxable sales in Keokuk County and will continue for 10 years. The revenue from this tax will be distributed to all school districts with students residing in Keokuk County on a per student basis. English Valleys Community School District anticipates receiving revenue from this tax annually beginning with the fiscal year ending June 30, 2005.

Required Supplementary Information

ENGLISH VALLEYS COMMUNITY SCHOOL DISTRICT  
 Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual  
 All Governmental Funds and Proprietary Funds  
 Required Supplementary Information  
 For the Year Ended June 30, 2004

	Governmental	Proprietary	Total	Less Funds Not Required to be Budgeted	Net	Budgeted Amounts		Final to Actual Variance
	Funds Actual	Funds Actual				Actual	Original	
Revenues								
Local sources	\$ 2,401,105	\$ 575,220	\$ 2,976,325	\$ (456,087)	\$ 2,520,238	\$ 2,511,575	\$ 2,601,991	\$ (81,753)
State sources	1,896,927	3,010	1,899,937	-	1,899,937	1,994,672	1,994,672	(94,735)
Federal sources	124,639	78,297	202,936	-	202,936	144,000	144,000	58,936
Total revenues	<u>4,422,671</u>	<u>656,527</u>	<u>5,079,198</u>	<u>(456,087)</u>	<u>4,623,111</u>	<u>4,650,247</u>	<u>4,740,663</u>	<u>(117,552)</u>
Expenditures								
Instruction	2,963,154	-	2,963,154	-	2,963,154	2,875,000	2,875,000	(88,154)
Support services	999,397	-	999,397	-	999,397	1,181,500	1,554,000	554,603
Non-instructional programs	21,853	638,802	660,655	(448,812)	211,843	202,000	202,000	(9,843)
Other expenditures	461,287	-	461,287	-	461,287	702,584	420,500	(40,787)
Total expenditures	<u>4,445,691</u>	<u>638,802</u>	<u>5,084,493</u>	<u>(448,812)</u>	<u>4,635,681</u>	<u>4,961,084</u>	<u>5,051,500</u>	<u>415,819</u>
Net change in fund balance	(23,020)	17,725	(5,295)	(7,275)	(12,570)	(310,837)	(310,837)	(533,371)
Balance, beginning of year, as restated	<u>719,715</u>	<u>360,104</u>	<u>1,079,819</u>	<u>(289,238)</u>	<u>790,581</u>	<u>677,568</u>	<u>677,568</u>	<u>113,013</u>
Balance, end of year	<u>\$ 696,695</u>	<u>\$ 377,829</u>	<u>\$ 1,074,524</u>	<u>\$ (296,513)</u>	<u>\$ 778,011</u>	<u>\$ 366,731</u>	<u>\$ 366,731</u>	<u>\$ (420,358)</u>

See accompanying Independent Auditor's Report.

ENGLISH VALLEYS COMMUNITY SCHOOL DISTRICT  
Notes to Required Supplementary Information – Budgetary Reporting  
For the 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 Internal Service funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a basis consistent with U.S. generally accepted accounting principles.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$90,416.

During the year ended June 30, 2004, District expenditures exceeded the amounts budgeted in the Instruction, Non-instructional Programs and Other Expenditures functions; however, the General Fund expenditures did not exceed the unspent authorized budget.

Other Supplementary Information

ENGLISH VALLEYS COMMUNITY SCHOOL DISTRICT  
 Combining Balance Sheet  
 Nonmajor Governmental Funds  
 June 30, 2004

Schedule 1

	Special Revenue Funds				<u>Total</u>
	Management <u>Levy</u>	Student <u>Activity</u>	Physical Plant and Equipment <u>Levy</u>	Debt <u>Service</u>	
<b>ASSETS</b>					
Cash and pooled investments	\$ 153,213	\$ 44,393	\$ 90,913	\$ -	\$ 288,519
Receivables					
Property tax					
Current year delinquent	1,396	-	646	3,584	5,626
Succeeding year	50,000	-	36,863	248,990	335,853
Accounts receivable	-	425	-	-	425
Due from other funds	2,590	-	-	-	2,590
Total assets	<u>\$ 207,199</u>	<u>\$ 44,818</u>	<u>\$ 128,422</u>	<u>\$ 252,574</u>	<u>\$ 633,013</u>
 <b>LIABILITIES AND FUND EQUITY</b>					
Liabilities					
Due to other funds	\$ 1,608	\$ -	\$ -	\$ 2,590	\$ 4,198
Accounts payable	-	440	-	-	440
Deferred revenue					
Succeeding year property tax	50,000	-	36,863	248,990	335,853
Total liabilities	<u>51,608</u>	<u>440</u>	<u>36,863</u>	<u>251,580</u>	<u>340,491</u>
Fund Equity					
Reserved for debt service	-	-	-	994	994
Unreserved fund balances	155,591	44,378	91,559	-	291,528
Total fund equity	<u>155,591</u>	<u>44,378</u>	<u>91,559</u>	<u>994</u>	<u>292,522</u>
Total liabilities and fund equity	<u>\$ 207,199</u>	<u>\$ 44,818</u>	<u>\$ 128,422</u>	<u>\$ 252,574</u>	<u>\$ 633,013</u>

See accompanying Independent Auditor's Report.

ENGLISH VALLEYS COMMUNITY SCHOOL DISTRICT  
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2004

Schedule 2

	Special Revenue Funds				<u>Total</u>
	<u>Management Levy</u>	<u>Student Activity</u>	<u>Physical Plant and Equipment Levy</u>	<u>Debt Service</u>	
Revenues					
Local sources					
Local taxes	\$ 99,121	\$ -	\$ 110,057	\$ 254,186	\$ 463,364
Other	1,414	187,886	-	2,190	191,490
Federal sources	-	-	9,983	-	9,983
Total revenues	100,535	187,886	120,040	256,376	664,837
Expenditures					
Instruction					
Regular program instruction	62,960	-	-	-	62,960
Other instruction	-	188,633	-	-	188,633
Support services					
Administration services	54,777	-	48,938	-	103,715
Other expenditures					
Facilities acquisition	-	-	69,127	-	69,127
Long-term debt					
Principal	-	-	-	195,000	195,000
Interest and fiscal charges	-	-	-	61,041	61,041
Total expenditures	117,737	188,633	118,065	256,041	680,476
Excess (deficiency) of revenues over (under) expenditures	(17,202)	(747)	1,975	335	(15,639)
Other financing sources (uses)					
Proceeds from sale of refunding bonds	-	-	-	2,650,000	2,650,000
Discount on bonds	-	-	-	(10,000)	(10,000)
Payment to refunding bond escrow agent	-	-	-	(2,640,000)	(2,640,000)
Total other financing sources	-	-	-	-	-
Net change in fund balances	(17,202)	(747)	1,975	335	(15,639)
Fund balances, beginning of year	172,793	45,125	89,584	659	308,161
Fund balances, end of year	\$ 155,591	\$ 44,378	\$ 91,559	\$ 994	\$ 292,522

See accompanying Independent Auditor's Report.

ENGLISH VALLEYS COMMUNITY SCHOOL DISTRICT  
 Combining Statement of Net Assets  
 Nonmajor Proprietary Funds  
 June 30, 2004

Schedule 3

	Enterprise		
	School Nutrition	Student-built House	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$10,101	\$50,232	\$60,333
Accounts receivable	9	550	559
Inventories	1,390	-	1,390
Capital assets, net of accumulated depreciation	28,664	-	28,664
Total assets	40,164	50,782	90,946
<b>LIABILITIES</b>			
Accounts payable	-	192	192
Due to other funds	9,438	-	9,438
Total liabilities	9,438	192	9,630
<b>NET ASSETS</b>			
Invested in capital assets	28,664	-	28,664
Unrestricted	2,062	50,590	52,652
Total net assets	\$30,726	\$50,590	\$81,316

See accompanying Independent Auditor's Report.

ENGLISH VALLEYS COMMUNITY SCHOOL DISTRICT  
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets  
Nonmajor Proprietary Funds  
For the Year Ended June 30, 2004

Schedule 4

	Enterprise		Total
	School Nutrition	Student-built House	
Operating revenue			
Local sources			
Charges for service	\$ 94,862	\$ 3,265	\$ 98,127
Gain on sale of inventory	-	20,720	20,720
Total operating revenue	94,862	23,985	118,847
Operating expenses			
Non-instructional programs			
Salaries	63,661	-	63,661
Benefits	33,501	-	33,501
Purchased services	300	-	300
Supplies	70,633	-	70,633
Miscellaneous	12,875	-	12,875
Interest expense	-	3,430	3,430
Depreciation	5,590	-	5,590
Total operating expenses	186,560	3,430	189,990
Operating income (loss)	(91,698)	20,555	(71,143)
Non-operating revenue			
Interest income	37	249	286
State sources	3,010	-	3,010
Federal sources	78,297	-	78,297
Total non-operating revenue	81,344	249	81,593
Change in net assets	(10,354)	20,804	10,450
Net assets, beginning of year, as restated	41,080	29,786	70,866
Net assets, end of year	\$ 30,726	\$ 50,590	\$ 81,316

See accompanying Independent Auditor's Report.

ENGLISH VALLEYS COMMUNITY SCHOOL DISTRICT  
Combining Statement of Cash Flows  
Nonmajor Enterprise Funds  
For the Year Ended June 30, 2004

Schedule 5

	Enterprise		<u>Total</u>
	<u>School Nutrition</u>	<u>Student-built House</u>	
Cash flows from operating activities			
Cash received from sale of meals	\$ 94,853	\$ 3,265	\$ 98,118
Cash received from sale of inventory	-	167,798	167,798
Cash payments to employees for services	(87,724)	-	(87,724)
Cash payments to suppliers for goods and services	<u>(72,858)</u>	<u>(78,620)</u>	<u>(151,478)</u>
Net cash provided by (used in) operating activities	<u>(65,729)</u>	<u>92,443</u>	<u>26,714</u>
Cash flows from non-capital financing activities			
State grants received	3,010	-	3,010
Federal grants received	<u>66,383</u>	<u>-</u>	<u>66,383</u>
Net cash provided by non-capital financing activities	<u>69,393</u>	<u>-</u>	<u>69,393</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities			
Loan proceeds	-	76,163	76,163
Repayment of loans	-	(144,549)	(144,549)
Interest paid on loans	-	(3,430)	(3,430)
Interest on investments	<u>37</u>	<u>249</u>	<u>286</u>
Net cash provided by (used in) investing activities	<u>37</u>	<u>(71,567)</u>	<u>(71,530)</u>
Net increase in cash and cash equivalents	3,701	20,876	24,577
Cash and cash equivalents, beginning of year	<u>6,400</u>	<u>29,356</u>	<u>35,756</u>
Cash and cash equivalents, end of year	<u>\$ 10,101</u>	<u>\$ 50,232</u>	<u>\$ 60,333</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>			
Operating income (loss)	\$ (91,698)	\$ 20,555	\$ (71,143)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Commodities used	11,914	-	11,914
Depreciation	5,590	-	5,590
(Increase) in accounts receivable	(9)	(550)	(559)
(Increase) in inventories	(964)	140,274	139,310
Increase in due to other funds	9,438	-	9,438
(Decrease) in bank loans payable	-	(68,028)	(68,028)
Increase in accounts payable	<u>-</u>	<u>192</u>	<u>192</u>
Net cash provided by (used in) operating activities	<u>\$ (65,729)</u>	<u>\$ 92,443</u>	<u>\$ 26,714</u>

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2004, the District received \$11,914 of federal commodities.

See accompanying Independent Auditor's Report.

ENGLISH VALLEYS COMMUNITY SCHOOL DISTRICT  
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts  
 For the Year Ended June 30, 2004

Schedule 6

Account	Balance, Beginning of			Balance, End of Year
	<u>Year</u>	<u>Revenues</u>	<u>Expenditures</u>	
Annual	\$ 776	\$ 9,085	\$ 9,859	\$ 2
Athletics	2,387	68,049	65,182	5,254
Cheerleaders	329	414	593	150
Golf	250	436	684	2
Class of:				
2003	589	-	589	-
2004	453	504	941	16
2005	1,512	2,046	2,620	938
2006	1,508	1,480	156	2,832
2007	68	600	-	668
Concessions	1,399	15,383	15,415	1,367
FFA	1,075	6,681	6,767	989
HS student activities	623	492	1,113	2
Lutton student activities	4,714	3,793	4,216	4,291
National Honor Society	67	-	19	48
Interest	17	190	191	16
Library club	1,028	261	126	1,163
Model UN	928	122	945	105
Music boosters	1,416	10,853	8,174	4,095
Science club	26	-	-	26
Student council	1,408	9,088	9,040	1,456
Spanish club	41	-	-	41
Speech/drama	894	2,216	2,449	661
Girls' softball	48	450	450	48
Girls' basketball	685	14,494	15,096	83
Track	-	1,103	660	443
Boys' basketball	10,201	5,742	7,662	8,281

See accompanying Independent Auditor's Report.

ENGLISH VALLEYS COMMUNITY SCHOOL DISTRICT  
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts  
 For the Year Ended June 30, 2004

Schedule 6

Account	Balance, Beginning of Year	Revenues	Expenditures	Balance, End of Year
Baseball	\$ 2,925	\$ 2,665	\$ 4,253	\$ 1,337
Wrestling	1,401	2,666	2,286	1,781
Football	1,128	4,391	2,868	2,651
Volleyball	651	1,746	2,319	78
Lutton	1,416	1,800	2,188	1,028
Heart fund	384	1,544	1,794	134
Book fair	707	3,630	3,727	610
Family night	31	65	92	4
Bear Essentials	594	7,805	6,317	2,082
Valley rush	<u>3,446</u>	<u>8,092</u>	<u>9,842</u>	<u>1,696</u>
Totals	<u>\$ 45,125</u>	<u>\$ 187,886</u>	<u>\$ 188,633</u>	<u>\$ 44,378</u>

See accompanying Independent Auditor's Report.

ENGLISH VALLEYS COMMUNITY SCHOOL DISTRICT  
Schedule of Revenues by Source and Expenditures by Function  
All Governmental Funds  
For the Last Four Years

Schedule 7

	Modified Accrual Basis			
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues				
Local sources				
Local tax	\$ 1,664,110	\$ 1,629,439	\$ 1,599,624	\$ 1,552,427
Tuition	406,331	366,089	314,901	265,501
Other	330,664	332,526	348,179	500,531
State sources	1,896,927	1,830,632	1,819,592	1,876,751
Federal sources	124,639	124,500	73,825	84,619
Total revenues	<u>\$ 4,422,671</u>	<u>\$ 4,283,186</u>	<u>\$ 4,156,121</u>	<u>\$ 4,279,829</u>
Expenditures				
Instruction				
Regular instruction	1,850,465	1,754,457	1,749,974	1,745,907
Special instruction	631,898	543,040	478,473	407,393
Other instruction	480,791	430,659	430,585	495,490
Support services				
Student services	1,481	39,921	43,446	67,709
Instructional staff services	56,127	52,162	59,438	82,391
Administration services	521,419	507,546	474,032	458,155
Operation and maintenance of plant services	248,278	229,773	254,547	237,118
Transportation services	172,092	167,836	184,655	174,095
Non-instructional programs	21,853	23,277	25,331	22,041
Other expenditures				
Facilities acquisition	69,127	78,786	142,735	42,144
Long-term debt				
Principal	195,000	120,000	110,000	105,000
Interest and other charges	61,041	139,185	145,785	152,010
AEA flowthrough	136,119	139,916	139,078	142,379
Total expenditures	<u>\$ 4,445,691</u>	<u>\$ 4,226,558</u>	<u>\$ 4,238,079</u>	<u>\$ 4,131,832</u>

See accompanying Independent Auditor's Report.

**KAY L. CHAPMAN, CPA PC**

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING

To the Board of Education  
English Valleys Community School District  
North English, Iowa

I have audited the financial statements of the English Valleys Community School District as of and for the year ended June 30, 2004, and have issued my report thereon dated October 1, 2004. I conducted my 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 English Valleys Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of noncompliance that are described below.

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 my audit of the financial statements of the District. Since my 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 not been resolved. Current year statutory comments are detailed as follows:

1. Official Depositories - A resolution naming official depositories has been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

2. Certified Budget - Expenditures for the year ended June 30, 2004, exceeded the amounts budgeted in the Instruction, Non-instructional Programs and Other Expenditures functions. Also, the budget amendment form was not properly completed.

Recommendation - The budget was amended in accordance with Chapter 24.9 of the Code of Iowa. However, the amounts of expenditures authorized in the amendment were not sufficient to cover anticipated expenditures. Also the original amounts listed on the budget amendment form did not agree with the original published budget. The budget should be properly and sufficiently amended in the future, if necessary.

Response - We will amend the budget properly and in sufficient amounts, if necessary, in the future.

Conclusion - Response accepted.

3. Questionable Disbursements - I noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
4. 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.
5. Business Transactions - No business transactions between the District and District officials were noted.
6. 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.
7. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board. However, on one occasion, the board minutes did not indicate that a roll call vote was taken when entering into closed session in accordance with Chapter 21.5 of the Code of Iowa.

Recommendation - Chapter 21.5 of the Code of Iowa requires that closed sessions be entered into upon a roll call vote, and that such be recorded in the minutes. The District should ensure that a roll call vote is taken and indicated in the minutes before entering into any closed sessions.

Response - This was an oversight. The Board Secretary was not present at that board meeting and the temporary Board Secretary designated for that meeting did not understand that the roll call vote needed to be done and recorded in the minutes. We will be more attentive of this in the future and ensure that we comply with Chapter 21.5 of the Code of Iowa when entering into closed sessions.

Conclusion - Response accepted.

8. Certified Enrollment - No variance in the basic enrollment data certified to the Department of Education were noted.
9. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
10. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely; however, I noted several significant deficiencies in the amounts reported.

Recommendation - The Board Secretary should review the instructions for preparing the CAR before preparing the CAR for the fiscal year ending June 30, 2005. Also, the FY04 ending balances affected should be corrected through an auditor's adjustment on the FY05 CAR.

Response - We will comply with the recommendation.

Conclusion - Response accepted.

#### Internal Control Over Financial Reporting

In planning and performing my audit, I considered English Valleys Community School District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect English Valleys Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Prior year reportable conditions have all been resolved, except for item A. Current year reportable conditions are as follows:

- A. 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. I noted that the bank deposits, bank reconciliations, the posting of cash journals, payroll and payroll records are all done by the same person.

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

Response - We will investigate available alternatives and implement as deemed necessary.

Conclusion - Response accepted.

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. My 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, I believe the lack of segregation of duties is a material weakness.

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

I would like to acknowledge the many courtesies and assistance extended to me by the personnel of the English Valleys Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



Kay L. Chapman, CPA PC  
October 1, 2004

ENGLISH VALLEYS COMMUNITY SCHOOL DISTRICT  
Audit Staff  
June 30, 2004

This audit was performed by

Kay Chapman, CPA