

ESSEX COMMUNITY SCHOOL DISTRICT

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

June 30, 2004

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Independent Auditor's Report

To the Board of Education of
Essex Community School District:

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

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Essex 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 11 to the financial statements, during the year ended June 30, 2004, Essex Community School District adopted Governmental Accounting Standards Board Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement Number 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement Number 38, Certain Financial Statement Note Disclosures; Statement Number 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation Number 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated August 17, 2004, on our consideration of Essex Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 40 through 42 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Essex Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003, (none of which are presented herein) and expressed qualified opinions on those financial statements because we were unable to audit the general fixed assets account group. The supplemental information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

August 17, 2004

Essex Community School District

Management Discussion & Analysis

This section of the Essex Community School District's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2004. The analysis focuses on the District's financial performance as a whole. Please read it in conjunction with the District's financial statements, which immediately follow this section. Because the Essex Community School 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.

Financial Highlights

- The Essex CSD Board of Directors approved a Property Tax decrease from \$15.67061 to \$15.41826 per \$1,000 taxable valuation creating a savings to tax payers in the amount of \$66,482.
- The State of Iowa imposed a 2.5% reduction in State Foundation Aid, Instructional Support Programs, Educational Excellence Allocations, Teacher Compensation Allocations, and Iowa Early Intervention Allocations in November, which reduced state FY04 revenues by \$23,649 in the General Fund.
- Since the reduction occurred mid year, the District had already obligated the resources to fund fiscal 2004 salaries and programs. The District absorbed this reduction in general fund money without affecting programs or personnel.
- In spite of the reduction in revenues and the increase in salaries, benefits, utilities and special education costs the District's General Fund balance increased by \$363,141.
- Voters in Page and Montgomery County passed a ten-year one-cent local option sales tax for school facilities in 2000 which is expected to generate at least an additional \$100,000 per year for another 8 years.

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

The first two statements are *Government-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.

- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the Government-wide statements.
- The *governmental funds statements* explain how basic services such as regular and special education were financed in the short term as well as what remains for future spending.

- *Proprietary funds statements* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- *Fiduciary funds statements* provide information about the relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District’s budget for the year.

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

Figure A-1

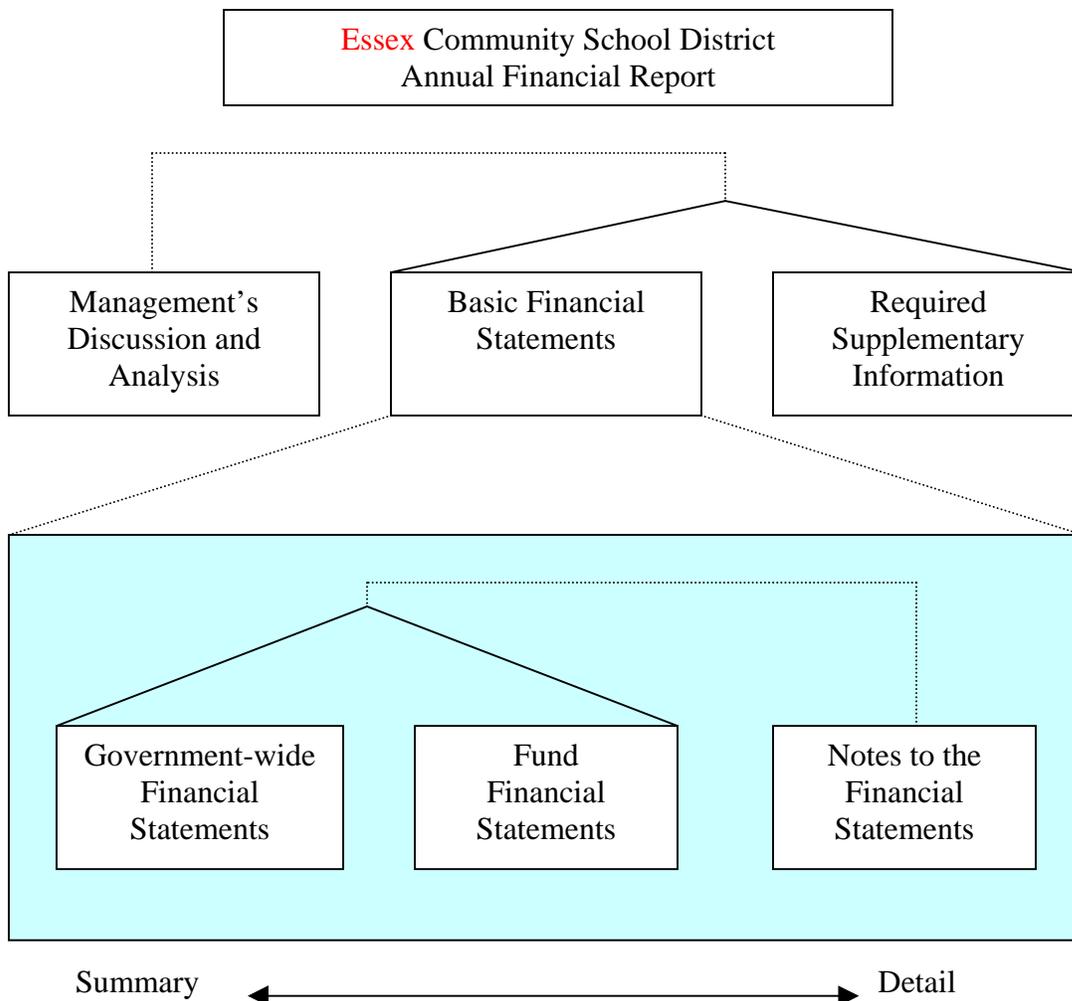


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights the structure and contents of each of the statements.

*Figure A-2
Major Features of the Government-wide and Fund Financial Statements*

	Government-wide Statements	Fund Financial 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 business: food services is included here	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"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balance 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flow 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset / liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow / outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	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

Government-wide Statements

The Government-wide 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 statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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 taxes 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 food service program would be included here.

Fund Financial Statements

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

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

The District has three kinds of funds:

- *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 funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship or differences between the two statements. The District's governmental funds include the General Fund and Special Revenue Funds that consist of Activity, Management, and Physical Plant and Equipment Levy funds.

- *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 statements. The District's enterprise fund, one type of a proprietary fund, is the same as its business-type activities but provides more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as Scholarship funds. The District accounts for outside donations for specific purposes in this fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Net assets. The District's combined net assets were slightly larger on June 30, 2004, than they were the year before, increasing \$513,425 (see Figure A-3). The largest increase is noted in the restricted area where the use of funds are limited by legislation.

Figure A-3

	Governmental Activities 2004	Business Type Activities 2004	Total School District 2004	Total Percentage Change 2003-2004
	\$	\$	\$	%
Current and other assets	2,279,964	1,819	2,281,783	20%
Capital assets	1,396,661	-	1,396,661	5%
Total Assets	3,676,625	1,819	3,678,444	9%
Long-term liabilities	176,460	-	176,460	82%
Other liabilities	2,368,925	1,107	2,370,032	35%
Total liabilities	2,545,385	1,107	2,546,492	7%
Net Assets:				
Invested in capital assets, net of related debt	651,534	-	651,534	
Restricted	217,519	-	217,519	
Unrestricted	262,187	712	262,899	57%
TOTAL NET ASSETS	1,131,240	712	1,131,952	85%

Changes in net assets. Fiscal year 2003-2004 marks the initial District implementation of the GASB-34 financial reporting model. As a result, prior year comparisons are not available but will be provided in all subsequent years. Figure A-4 reflects only totals from the current fiscal year ending June 30, 2004.

Governmental Activities -

Referring to Figure A-4, revenues for the District's governmental activities were \$2,627,143 for fiscal year 2004. Total governmental expenditures were \$2,115,185.

In a difficult budget year, the District did a remarkable job trimming expenses to match available revenues in a year when the Board of Directors had lowered the overall District tax rate from \$15.6701 per thousand dollars of taxable valuation to \$15.41826

Figure A-4

Changes in Net Assets from Operating Results

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
	\$	\$	\$
Revenues			
Program Revenues			
Charges for services	289,149	65,545	354,694
Operating Grants & Contributions	295,240	43,349	338,589
Capital Grants & Contributions	-	-	-
General Revenues			
Property taxes & other taxes	1,156,444	-	1,156,444
Unrestricted State Grants	873,727	-	873,727
Unrestricted Investment Earnings	7,623	23	7,646
Other Revenue	4,960	-	4,960
Total Revenues	2,627,143	108,917	2,736,060
Expenses			
Instruction	1,365,620	-	1,365,620
Support Services	569,309	-	569,309
Non-Instructional Programs	-	107,450	107,450
Other Expenses	180,256	-	180,256
Total Expenses	2,115,185	107,450	2,222,635
Transfers	-	-	-
Change in Net Assets	511,958	1,467	513,425

Figure A-5

Net Cost of Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004
	\$	\$
Instruction	1,365,620	861,331
Support Services	569,309	562,883
Non-instructional Programs	-	-
Other Expenses	180,256	106,582
TOTAL	2,115,185	1,530,796

Figure A-5 presents the cost of the District's major governmental activities: instruction, support services, non-instruction programs and other expenses. The table shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific

programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions. (As with *Figure A-4*, a two-year comparison with the prior fiscal year is not possible under the new GASB 34 format. In the future a two-year comparison will be provided.)

- The cost of all governmental activities this year was \$2,115,185.
- Some of the cost was financed by the users of the District's programs (\$289,149).
- The federal and state governments and private contributors subsidized certain programs with grants and contributions (\$295,240).
- Most of the District's costs (\$1,530,796), however, were financed by District and state taxpayers.
- This portion of governmental activities was financed with \$1,156,444 in property taxes, and \$886,310 in unrestricted state aid (based in large part on the statewide education aid formula), investment earnings and miscellaneous revenues.

Business-Type Activities -

The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements, and investment income. The District's business-type activities show a slight increase in net assets with revenues exceeding expenses \$1,467 (refer to *Figure A-4*). The Board of Education increase school meal prices \$.05 for fiscal year 2004, and made a decision to increase meal prices \$.05 for fiscal year 2005.

Financial Analysis of the District's Funds

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported combined fund balances of \$468,922, approximately 10 times more than last year's ending fund balances of \$46,962.

Governmental Fund Highlights

The General Fund balance increased from \$(157,468) to \$205,673, in spite of lower property valuations, a lower school tax levy and a 2.5% reduction in certain state funds. This was accomplished by reducing staff, reducing the number of bus routes, offering early retirement to three teachers at the top of the salary schedule and limiting outlays for supplies and equipment.

The Nonmajor Governmental Funds balance increased \$52,960 to \$263,249. The increase was due in large part to increased revenues in the Management Fund for improving the financial condition of the fund to cover insurance rate increases and future early retirement payments.

Business Type Fund Highlights

The School Nutrition Fund net assets increased from a deficit \$(755) at June 30, 2003 to \$712 at June 30, 2004, representing an increase of 194%. Ala carte sales more than doubled, and there was a slight increase in free/reduced meals served that contributed to an increase in federal aid reimbursement.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the **cash** basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report.

During FY04, total revenues were above expectations held when the FY04 budget was assembled in February, 2003. Ultimately, actual revenue amounts exceeded budgeted amounts by **\$21,526**. This was due to a variety of factors that could not have been anticipated when a budget estimate was assembled. For example, in November, 2003, the Governor announced a 2.5% across the board cut. Also, open enrollment income had been overestimated, and a shared teacher agreement with a neighboring district was terminated, not only increasing salary obligations but eliminating shared dollar revenues. The District also found out after the budget was established that Phase III revenues were going to be eliminated. On the expense side, the District began adjusting to all of these factors, and succeeded in keeping total disbursements below total receipts. When a preliminary budget is set, the District always requests the ability to expend its full budget if necessary, but has the goal of keeping disbursements in line with revenues as actual revenue accumulates. As a result, the District's certified budget should always exceed the actual expenditures during the year. It is apparent that even in such a difficult fiscal year in which to accurately predict revenues, the District was able to meet its goal and keep total disbursements (**\$2,435,516**) slightly below total receipts (**\$2,768,676**).

Capital Asset and Debt Administration

Capital Assets

By the end of 2004, the District had invested **\$1,396,661**, net of accumulated depreciation, in a broad range of assets, including school buildings, athletic facilities, transportation equipment, and computer and audio-visual equipment (see *Figure A-6*). This amount represents a net decrease of \$69,114 due to annual depreciation expense. (More detailed information about capital assets can be found in Note 4 to the financial statements.) The District was able to stay within its means and not accumulate any debt in FY04.

Figure A-6

Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change 2003-04
	2003	2004	2003	2004	2003	2004	
	\$	\$	\$	\$	\$	\$	
Land	1,000	1,000	-	-	1,000	1,000	0%
Improvements other than buildings	-	-	-	-	-	-	0%
Buildings	1,396,623	1,352,075	-	-	1,396,623	1,352,075	-3%
Equipment & Furniture	68,152	43,586	-	-	68,152	43,586	-36%
TOTAL	1,465,775	1,396,661	-	-	1,465,775	1,396,661	-5%

Long-Term Debt

At June 30, 2004, the District had \$823,127 in general obligation and other long-term debt outstanding (Figure A-7). This represents a decrease of approximately 17% from last year. Additional information about the District’s long-term debt is presented in Note 7 to the financial statements.

Figure A-7

Long-Term Debt

	Balance End of 2004	Due Within One Year
	\$	\$
General obligation bonds	725,000	150,000
Capital Loan notes	20,127	9,780
Early retirement	78,000	16,680
Total	823,127	176,460

Factors Bearing on the District’s Future

The District is projected to remain in good financial health into the near future. Budgeting practices such as making sure disbursements do not exceed receipts, even during challenging years like FY04, combined with a solid foundation of cash balance and unspent balance, allow the District to provide the resources needed for excellent student achievement while still keeping the tax burden reasonable. In FY05, the District received \$46,500 less money, a little over 2% of the total budget. In FY 06, the district will receive over \$96,000 in additional new money when an enrollment increase is combined with projected 4% allowable growth. Enrollment is expected to remain fairly constant over the next few years. Factors outside the Board’s control such as legislative mandates, both state and federal, may impact the operations of the district. Other costs outside the district’s control such as continual increases in health insurance and utility costs, while worrisome, are easier to manage than unfunded mandates and requirements. Employee contract settlements will also have an effect on the District’s financial viability.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability of the money it receives. If you have questions about this report or need additional financial information, contact **William Crilly**, Superintendent, **712-379-3117** Community School District, **111 Forbes** Street, **Essex**, Iowa **51638**.

BASIC FINANCIAL STATEMENTS

ESSEX COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents:			
ISCAP	605,551	-	605,551
Other	644,215	7,471	651,686
Receivables:			
Property tax:			
Delinquent	15,078	-	15,078
Succeeding year	873,659	-	873,659
Accrued interest:			
ISCAP	1,134	-	1,134
Due from other governments	130,827	-	130,827
Interfund receivable/(payable)	9,500	(9,500)	-
Inventories	-	3,848	3,848
Capital assets, net of accumulated depreciation	1,396,661	-	1,396,661
Total assets	3,676,625	1,819	3,678,444
Liabilities			
Warrants issued in excess of bank balance	23,698	-	23,698
Accounts payable	45,655	62	45,717
Salaries and benefits payable	164,755	-	164,755
Accrued interest payable	4,296	-	4,296
Deferred revenue:			
Succeeding year property tax	873,659	-	873,659
Other	-	1,045	1,045
ISCAP warrants payable	602,000	-	602,000
ISCAP accrued interest payable	1,719	-	1,719
ISCAP premium	-	-	-
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	150,000	-	150,000
Revenue bonds payable	-	-	-
Notes payable	9,780	-	9,780
Early retirement	16,680	-	16,680
Portion due after one year:			
General obligation bonds payable	575,000	-	575,000
Notes payable	10,347	-	10,347
Early retirement	61,320	-	61,320
Total liabilities	2,538,909	1,107	2,540,016

See notes to financial statements.

ESSEX COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business Type Activities	Total
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Net assets			
Invested in capital assets, net of related debt	651,534	-	651,534
Restricted for:			
Capital outlay	174,355	-	174,355
Other special revenue purposes	37,252	-	37,252
Debt service	11,926	-	11,926
Unrestricted	<u>256,173</u>	<u>712</u>	<u>256,885</u>
Total net assets	<u><u>1,131,240</u></u>	<u><u>712</u></u>	<u><u>1,131,952</u></u>

ESSEX COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	1,013,590	128,859	157,509	-
Special instruction	167,814	36,475	55,770	-
Other instruction	184,216	123,815	1,861	-
	<u>1,365,620</u>	<u>289,149</u>	<u>215,140</u>	<u>-</u>
Support services:				
Student services	24,112	-	-	-
Instructional staff services	34,772	-	6,426	-
Administration services	262,190	-	-	-
Operation and maintenance of plant services	139,977	-	-	-
Transportation services	108,258	-	-	-
	<u>569,309</u>	<u>-</u>	<u>6,426</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	38,705	-	-	-
Long-term debt interest	23,329	-	-	-
AEA flowthrough	73,674	-	73,674	-
Depreciation (unallocated)*	44,548	-	-	-
	<u>180,256</u>	<u>-</u>	<u>73,674</u>	<u>-</u>
Total governmental activities	<u>2,115,185</u>	<u>289,149</u>	<u>295,240</u>	<u>-</u>
Business type activities:				
Non-instructional programs:				
Food service operations	102,924	61,110	43,349	-
Other business type activities	4,526	4,435	-	-
Total business type activities	<u>107,450</u>	<u>65,545</u>	<u>43,349</u>	<u>-</u>
Total	<u>2,222,635</u>	<u>354,694</u>	<u>338,589</u>	<u>-</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Debt service				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				

Change in net assets

Net assets beginning of year, as restated

Net assets end of year

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

ESSEX COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
(727,222)	-	(727,222)
(75,569)	-	(75,569)
(58,540)	-	(58,540)
<u>(861,331)</u>	<u>-</u>	<u>(861,331)</u>
(24,112)	-	(24,112)
(28,346)	-	(28,346)
(262,190)	-	(262,190)
(139,977)	-	(139,977)
(108,258)	-	(108,258)
<u>(562,883)</u>	<u>-</u>	<u>(562,883)</u>
(38,705)	-	(38,705)
(23,329)	-	(23,329)
-	-	-
<u>(44,548)</u>	<u>-</u>	<u>(44,548)</u>
<u>(106,582)</u>	<u>-</u>	<u>(106,582)</u>
<u>(1,530,796)</u>	<u>-</u>	<u>(1,530,796)</u>
-	1,535	1,535
-	(91)	(91)
<u>-</u>	<u>1,444</u>	<u>1,444</u>
<u>(1,530,796)</u>	<u>1,444</u>	<u>(1,529,352)</u>
793,144	-	793,144
126,943	-	126,943
19,911	-	19,911
80,236	-	80,236
136,210	-	136,210
873,727	-	873,727
7,623	23	7,646
4,960	-	4,960
<u>2,042,754</u>	<u>23</u>	<u>2,042,777</u>
511,958	1,467	513,425
<u>619,282</u>	<u>(755)</u>	<u>618,527</u>
<u>1,131,240</u>	<u>712</u>	<u>1,131,952</u>

ESSEX COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2004

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Assets			
Cash and pooled investments:			
ISCAP	605,551	-	605,551
Other	392,018	252,197	644,215
Receivables:			
Property tax:			
Delinquent	12,482	2,596	15,078
Succeeding year	710,272	163,387	873,659
Accrued interest - ISCAP	1,134	-	1,134
Interfund receivable	9,500	-	9,500
Due from other governments	117,405	13,422	130,827
	<u>1,848,362</u>	<u>431,602</u>	<u>2,279,964</u>
Total assets			
Liabilities and Fund Balances			
Liabilities:			
Warrants issued in excess of bank balance	23,698	-	23,698
Accounts payable	40,689	4,966	45,655
Salaries and benefits payable	164,755	-	164,755
ISCAP warrants payable	602,000	-	602,000
ISCAP accrued interest payable	1,719	-	1,719
ISCAP premium	6,476	-	6,476
Deferred revenue:			
Succeeding year property tax	710,272	163,387	873,659
Other	93,080	-	93,080
Total liabilities	<u>1,642,689</u>	<u>168,353</u>	<u>1,811,042</u>
Fund balances:			
Reserved for:			
Debt service	-	16,222	16,222
Unreserved	205,673	247,027	452,700
Total fund balances	<u>205,673</u>	<u>263,249</u>	<u>468,922</u>
	<u>1,848,362</u>	<u>431,602</u>	<u>2,279,964</u>
Total liabilities and fund balances			

ESSEX COMMUNITY SCHOOL DISTRICT

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

June 30, 2004

Total fund balances of governmental funds (Exhibit C)	468,922
 <i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,396,661
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	93,080
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	(4,296)
Long-term liabilities, including bonds payable, notes payable and early retirement benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(823,127)</u>
Net assets of governmental activities (Exhibit A)	<u><u>1,131,240</u></u>

ESSEX COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	859,094	303,020	1,162,114
Tuition	153,736	-	153,736
Other	18,172	124,864	143,036
State sources	1,060,231	160	1,060,391
Federal sources	104,664	3,912	108,576
Total revenues	<u>2,195,897</u>	<u>431,956</u>	<u>2,627,853</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	1,000,670	22,476	1,023,146
Special instruction	167,814	-	167,814
Other instruction	63,171	121,045	184,216
	<u>1,231,655</u>	<u>143,521</u>	<u>1,375,176</u>
Support services:			
Student services	24,112	-	24,112
Instructional staff services	34,772	-	34,772
Administration services	253,979	-	253,979
Operation and maintenance of plant services	139,977	-	139,977
Transportation services	79,547	18,304	97,851
	<u>532,387</u>	<u>18,304</u>	<u>550,691</u>
Other expenditures:			
Facilities acquisition	-	38,705	38,705
Long-term debt:			
Principal	-	154,251	154,251
Interest and fiscal charges	-	24,215	24,215
AEA flowthrough	73,674	-	73,674
	<u>73,674</u>	<u>217,171</u>	<u>290,845</u>
Total expenditures	<u>1,837,716</u>	<u>378,996</u>	<u>2,216,712</u>
Excess (deficiency) of revenues over (under) expenditures	<u>358,181</u>	<u>52,960</u>	<u>411,141</u>
Other financing sources (uses):			
Compensation for loss of fixed assets	4,250	-	4,250
Sales of materials and equipment	710	-	710
Operating transfers in	-	56,940	56,940
Operating transfers out	-	(56,940)	(56,940)
Total other financing sources (uses)	<u>4,960</u>	<u>-</u>	<u>4,960</u>
Net change in fund balances	363,141	52,960	416,101
Fund balances beginning of year, as restated	<u>(157,468)</u>	<u>210,289</u>	<u>52,821</u>
Fund balances end of year	<u>205,673</u>	<u>263,249</u>	<u>468,922</u>

See notes to financial statements.

ESSEX COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds to the
Statement of Activities

Year ended June 30, 2004

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		416,101
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the year as follows:		
Capital outlay expenditures	-	
Depreciation expense	<u>(69,114)</u>	(69,114)
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.		
		(5,670)
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
		154,251
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.		
		886
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Early retirement		<u>15,504</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>511,958</u></u>

ESSEX COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2004

	Enterprise Funds
	<u>Nonmajor Funds</u>
	\$
Assets	
Cash and cash equivalents	7,471
Inventories	<u>3,848</u>
Total assets	<u>11,319</u>
Liabilities	
Accounts payable	62
Interfund Payable	9,500
Deferred revenue	<u>1,045</u>
Total liabilities	<u>10,607</u>
Net assets	
Unrestricted	<u><u>712</u></u>

ESSEX COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	<u>Enterprise Funds</u>
	<u>Nonmajor Funds</u>
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>65,545</u>
Operating expenses:	
Non-instructional programs:	
Salaries	35,776
Benefits	4,781
Purchased services	866
Supplies	<u>66,027</u>
	<u>107,450</u>
Operating gain (loss)	<u>(41,905)</u>
Non-operating revenue:	
State sources	1,433
Federal sources	41,916
Interest income	23
Total non-operating revenue	<u>43,372</u>
Change in net assets	1,467
Net assets beginning of year	<u>(755)</u>
Net assets end of year	<u><u>712</u></u>

ESSEX COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2004

	Enterprise Funds
	Nonmajor Funds
	\$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	61,289
Cash received from other services	4,435
Cash payments to employees for services	(40,557)
Cash payments to suppliers for goods or services	(59,901)
Net cash used by operating activities	<u>(34,734)</u>
Cash flows from non-capital financing activities:	
State grants received	1,433
Federal grants received	36,052
Net cash provided by non-capital financing activities	<u>37,485</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities:	
Interest on investments	<u>23</u>
Net increase (decrease) in cash and cash equivalents	2,774
Cash and cash equivalents at beginning of year	<u>4,697</u>
Cash and cash equivalents at end of year	<u><u>7,471</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(41,905)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	5,864
Decrease (increase) in inventories	1,066
Decrease (increase) in accounts receivable	15
(Decrease) increase in accounts payable	62
(Decrease) increase in deferred revenue	164
Net cash used in operating activities	<u><u>(34,734)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$5,864 of federal commodities.

ESSEX COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2004

	Private Purpose Trust Scholarship
	<u>\$</u>
Assets	
Cash and pooled investments	50,361
Liabilities	
	<u>-</u>
Net Assets	
Reserved for scholarships	<u>50,361</u>

ESSEX COMMUNITY SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2004

	Private Purpose Trust Scholarship <u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	1,346
Interest	<u>1,113</u>
Total additions	2,459
Deductions:	
Support services:	
Scholarships awarded	<u>1,000</u>
Change in net assets	1,459
Net assets beginning of year	<u>48,902</u>
Net assets end of year	<u><u>50,361</u></u>

ESSEX COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2004

1. Summary of Significant Accounting Policies

Essex 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 Essex, Iowa and the predominately agricultural territory in a portion of Page and Montgomery 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, Essex 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 Essex Community School District has no component units that meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt 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 that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those 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, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

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

The District's proprietary funds are the School Nutrition and Resale Funds which are used to account for the District food service and other resale operations

The District also reports fiduciary funds, which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements, which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and 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 judgements, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% 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 repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Assets Class</u>	<u>Amount</u>
	\$
Land	500
Buildings	1,000
Improvements other than buildings	1,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,500

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	5-20 years
Furniture and equipment	3-10 years

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

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

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds, amounts received in advance for meal sales and succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Employees are not paid for unused vacation and sick leave benefits when employment with the District ends.

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements in the non-instructional programs and other expenditures functions exceeded the amounts budgeted.

2. **Cash and Pooled Investments**

The District's deposits in banks 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 \$394,940 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 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.

3. Interfund Receivables and Payables

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

Receivable Fund	Payable Fund	Amount
		\$
General Fund	Enterprise: School Nutrition Fund	9,500

The General Fund loaned the School Nutrition Fund money for cash flow purposes.

4. Interfund Transfers

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

Transfer to	Transfer from	Amount
		\$
Debt Service	Special Revenue: Physical Plant and Equipment Levy Fund	10,940
Debt Service	Capital Projects Fund	46,000

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

5. Iowa School Cash Anticipation Program (ISCAP)

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

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
			\$	\$	\$	\$
2003-04B	1/30/04	1/28/05	208,410	1,134	207,000	1,719
2004-05A	6/30/04	6/30/05	397,141	-	395,000	-
Total			<u>605,551</u>	<u>1,134</u>	<u>602,000</u>	<u>1,719</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 addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2004, is as follows:

Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
\$	\$	\$	\$
-	-	-	-

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

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

6. Capital Assets

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

	Balance Beginning of Year, as Restated	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	1,000	-	-	1,000
Total capital assets not being depr.	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>1,000</u>
Capital assets being depreciated:				
Buildings	2,296,390	-	-	2,296,390
Improvements other than buildings	73,222	-	-	73,222
Furniture and equipment	357,457	-	10,750	346,707
Total capital assets being deprec.	<u>2,727,069</u>	<u>-</u>	<u>10,750</u>	<u>2,716,319</u>
Less accumulated depreciation for:				
Buildings	899,767	44,548	-	944,315
Improvements other than buildings	73,222	-	-	73,222
Furniture and equipment	289,305	24,566	10,750	303,121
Total accumulated depreciation	<u>1,262,294</u>	<u>69,114</u>	<u>10,750</u>	<u>1,320,658</u>
Total capital assets being depreciated, net	<u>1,464,775</u>	<u>(69,114)</u>	<u>-</u>	<u>1,395,661</u>
Governmental activities capital assets, net	<u>1,465,775</u>	<u>(69,114)</u>	<u>-</u>	<u>1,396,661</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	-	-	-	-
Less accumulated depreciation	-	-	-	-
Business type activities capital assets, net	-	-	-	-

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	5,948
Support Services:	
Administration services	8,211
Transportation	10,407
	<u>24,566</u>
Unallocated depreciation	<u>44,548</u>
Total depreciation expense – governmental activities	<u>69,114</u>
Business type activities:	
Food services	<u>-</u>

7. 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	870,000	-	145,000	725,000	150,000
Capital loan notes	29,378	-	9,251	20,127	9,780
Early retirement	93,504	-	15,504	78,000	16,680
Total	<u>992,882</u>	<u>-</u>	<u>169,755</u>	<u>823,127</u>	<u>176,460</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age [fifty-nine](#) and must have completed twenty-five years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement expenditures for the year ended June 30, [2004](#) totaled \$15,504

General Obligation Bonds Payable

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

Year Ending June 30,	Refunding Bond Issue Sept, 2002			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2005	2.10	150,000	19,688	169,688
2006	2.45	155,000	16,538	171,538
2007	2.80	160,000	12,740	172,740
2008	3.10	160,000	8,260	168,260
2009	3.30	100,000	3,300	103,300
		<u>725,000</u>	<u>60,526</u>	<u>785,526</u>

Capital Loan Notes

The District issued \$38,126 of capital loan notes during the year ended [June 30, 2001](#). These notes and the interest will be paid from the Special Revenue, Physical Plant and Equipment Levy Fund. Details of the capital loan notes are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2005	5.75	9,780	1,160	10,940
2006	5.75	<u>10,347</u>	<u>595</u>	<u>10,942</u>
		<u>20,127</u>	<u>1,755</u>	<u>21,882</u>

During the year ended June 30, [2004](#) the District made principal and interest payments totaling \$10,940 under the note agreements.

8. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual 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 contributions to IPERS for the years ended June 30, [2004](#), [2003](#), and [2002](#) were \$62,386, \$65,663, and \$67,944 respectively, equal to the required contributions for each year.

9. Risk Management

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

Each member's contributions to ISEBA fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. The District's annual contributions to ISEBA for the year ended June 30, [2004](#), were \$169,969.

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

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

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

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

10. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$73,674 for the year ended June 30, [2004](#) and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

11. Accounting Change and Restatement

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:

	Fund		
	General	Nonmajor	Total
	\$	\$	\$
Net assets, June 30, 2003, as previously reported	(157,468)	207,805	50,337
GASB Interpretation 6 adjustments	-	2,484	2,484
Net assets, July 1, 2003, as restated for Governmental funds	(157,468)	210,289	52,821
GASB 34 adjustments:			
Capital assets net of accumulated depreciation of \$1,320,658			1,465,775
Long-term liabilities:			
Bonds		870,000	
Notes Payable		29,378	
Early retirement		93,504	(992,882)
Accrued interest payable			(5,182)
Deferred revenue			98,750
Net assets, July 1, 2003, as restated			<u>619,282</u>

REQUIRED SUPPLEMENTARY INFORMATION

ESSEX COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Receipts:						
Local sources	1,498,935	65,747	1,564,682	1,452,548	1,452,548	112,134
Intermediate sources	-	-	-	10,000	10,000	(10,000)
State sources	1,060,391	1,433	1,061,824	1,118,602	1,118,602	(56,778)
Federal sources	100,254	41,916	142,170	166,000	166,000	(23,830)
Total receipts	<u>2,659,580</u>	<u>109,096</u>	<u>2,768,676</u>	<u>2,747,150</u>	<u>2,747,150</u>	<u>21,526</u>
Disbursements:						
Instruction	1,464,247	-	1,464,247	1,640,833	1,640,833	176,586
Support services	574,079	-	574,079	665,700	665,700	91,621
Non-instructional programs	23	106,322	106,345	91,000	91,000	(15,345)
Other expenditures	290,845	-	290,845	268,968	268,968	(21,877)
Total disbursements	<u>2,329,194</u>	<u>106,322</u>	<u>2,435,516</u>	<u>2,666,501</u>	<u>2,666,501</u>	<u>230,985</u>
Excess (deficiency) of receipts over (under) disbursements	330,386	2,774	333,160	80,649	80,649	252,511
Other financing sources (uses) net	<u>4,960</u>	<u>-</u>	<u>4,960</u>	<u>-</u>	<u>-</u>	<u>4,960</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements	335,346	2,774	338,120	80,649	80,649	257,471
Balance beginning of year	<u>285,171</u>	<u>4,697</u>	<u>289,868</u>	<u>156,948</u>	<u>156,948</u>	<u>132,920</u>
Balance end of year	<u><u>620,517</u></u>	<u><u>7,471</u></u>	<u><u>627,988</u></u>	<u><u>237,597</u></u>	<u><u>237,597</u></u>	<u><u>390,391</u></u>

ESSEX COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
	\$	\$	\$
Revenues	2,659,580	(31,727)	2,627,853
Expenditures	2,329,194	(112,482)	2,216,712
Net	330,386	80,755	411,141
Other financing sources (uses) net	4,960	-	4,960
Beginning fund balances	285,171	(232,350)	52,821
Ending fund balances	620,517	(151,595)	468,922

	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
\$	\$	\$	
Revenues	109,096	(179)	108,917
Expenditures	106,322	1,128	107,450
Net	2,774	(1,307)	1,467
Beginning fund balances	4,697	(5,452)	(755)
Ending fund balances	7,471	(6,759)	712

ESSEX COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2004

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

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

During the year ended June 30, [2004](#), disbursements in the [non-instructional programs and other expenditures](#) functions exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

ESSEX COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2004

Assets	Special Revenue Funds				Capital Projects Fund		Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	District Support Trust Funds	Local Option Sales Tax	Debt Service	
	\$	\$	\$	\$	\$	\$	\$
Cash and pooled investments	35,109	32,708	29,724	6,170	134,239	14,247	252,197
Receivables:							
Property tax:							
Delinquent	311	-	310	-	-	1,975	2,596
Succeeding year	30,000	-	18,699	-	-	114,688	163,387
Due from other governments	-	-	-	-	13,422	-	13,422
Total assets	65,420	32,708	48,733	6,170	147,661	130,910	431,602
Liabilities & Fund Balances							
Liabilities:							
Accounts payable	-	1,470	-	156	3,340	-	4,966
Deferred revenue:							
Succeeding year property tax	30,000	-	18,699	-	-	114,688	163,387
Total liabilities	30,000	1,470	18,699	156	3,340	114,688	168,353
Fund balances:							
Reserved for debt service	-	-	-	-	-	16,222	16,222
Unreserved fund balance	35,420	31,238	30,034	6,014	144,321	-	247,027
Total fund balances	35,420	31,238	30,034	6,014	144,321	16,222	263,249
Total liabilities and fund balances	65,420	32,708	48,733	6,170	147,661	130,910	431,602

ESSEX COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	Special Revenue Funds				Capital Projects Funds		Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	District Support Trust Funds	Local Option Sales Tax	Debt Service	
	\$	\$	\$	\$	\$	\$	\$
Revenues:							
Local sources:							
Local tax	19,956	-	19,911	-	136,210	126,943	303,020
Other	156	111,134	82	12,789	493	210	124,864
State sources	19	-	19	-	-	122	160
Federal sources	-	-	3,912	-	-	-	3,912
Total revenues	<u>20,131</u>	<u>111,134</u>	<u>23,924</u>	<u>12,789</u>	<u>136,703</u>	<u>127,275</u>	<u>431,956</u>
Expenditures:							
Current:							
Instruction:							
Regular instruction	22,476	-	-	-	-	-	22,476
Other instruction	-	107,898	-	13,147	-	-	121,045
Support services:							
Transportation services	18,304	-	-	-	-	-	18,304
Other expenditures:							
Facilities acquisition	-	-	872	-	37,833	-	38,705
Long-term debt:							
Principal	-	-	-	-	-	154,251	154,251
Interest and fiscal charges	-	-	-	-	-	24,215	24,215
Total expenditures	<u>40,780</u>	<u>107,898</u>	<u>872</u>	<u>13,147</u>	<u>37,833</u>	<u>178,466</u>	<u>378,996</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(20,649)</u>	<u>3,236</u>	<u>23,052</u>	<u>(358)</u>	<u>98,870</u>	<u>(51,191)</u>	<u>52,960</u>
Other financing sources (uses):							
Operating transfers in	-	-	-	-	-	56,940	56,940
Operating transfers out	-	-	(10,940)	-	(46,000)	-	(56,940)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(10,940)</u>	<u>-</u>	<u>(46,000)</u>	<u>56,940</u>	<u>-</u>
Net change in fund balances	<u>(20,649)</u>	<u>3,236</u>	<u>12,112</u>	<u>(358)</u>	<u>52,870</u>	<u>5,749</u>	<u>52,960</u>
Fund balances beginning of year, as restated	<u>56,069</u>	<u>28,002</u>	<u>17,922</u>	<u>6,372</u>	<u>91,451</u>	<u>10,473</u>	<u>210,289</u>
Fund balances end of year	<u><u>35,420</u></u>	<u><u>31,238</u></u>	<u><u>30,034</u></u>	<u><u>6,014</u></u>	<u><u>144,321</u></u>	<u><u>16,222</u></u>	<u><u>263,249</u></u>

See accompanying independent auditor's report.

ESSEX COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance	Revenues	Expenditures	Balance
	Beginning of			End of
	Year			Year
	\$	\$	\$	\$
Speech	1,898	1,076	1,647	1,327
Music	1,289	2,831	2,875	1,245
Vocal music	467	7,407	6,207	1,667
Athletics	3,608	39,432	41,607	1,433
Junior high uniforms	111	-	-	111
JH VB tourn.	1,815	1,988	709	3,094
JH BB tourn.	3,612	1,524	1,565	3,571
Softball field fund	300	-	-	300
Trophy case	500	-	-	500
Football fund	(67)	6,588	6,276	245
HS basketball	336	2,357	2,368	325
Athletics-girls	149	-	-	149
Softball girls	263	159	87	335
Class of 2003	6	58	64	-
Class of 2004	4,495	15,294	18,069	1,720
Class of 2005	311	11,739	8,700	3,350
Class of 2006	289	103	21	371
Class of 2007	183	95	34	244
Class of 2008	46	100	-	146
Class of 2009	-	129	38	91
Unused fund	-	573	573	-
Fine arts club	129	-	100	29
Pep club	228	1,162	450	940
Spanish club	35	-	-	35
School booster fund	464	56	156	364
E-Stars	416	1,326	1,278	464
Safety patrol	4	100	-	104
Annual	181	10,103	7,185	3,099
Elementary	1,084	40	123	1,001
Media center	1,186	-	139	1,047
Special projects	2,222	2,181	3,159	1,244
National honor society	227	-	99	128
Project class	1,732	1,270	856	2,146
Student council	483	3,443	3,513	413
Total	28,002	111,134	107,898	31,238

ESSEX COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Fund Types

For the Last Four Years

	Modified Accrual Basis			
	2004	2003	2002	2001
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,162,114	1,015,911	874,017	842,622
Tuition	153,736	122,781	110,479	119,541
Other	143,036	142,142	146,041	117,061
Intermediate sources	-	-	-	3,142
State sources	1,060,391	1,093,728	1,031,805	959,170
Federal sources	108,576	96,187	59,664	59,301
Total revenues	<u>2,627,853</u>	<u>2,470,749</u>	<u>2,222,006</u>	<u>2,100,837</u>
Expenditures:				
Instruction:				
Regular instruction	1,023,146	976,479	1,046,080	1,005,386
Special instruction	167,814	209,897	246,665	214,072
Other instruction	184,216	169,837	148,819	170,002
Support services:				
Student services	24,112	57,907	39,368	14,077
Instructional staff services	34,772	34,687	28,641	27,035
Administration services	253,979	293,880	268,977	245,687
Operation and maintenance of plant services	139,977	132,215	181,683	198,789
Transportation services	97,851	62,503	78,276	77,342
Central support services	-	-	19,199	19,963
Non-instructional programs	-	-	-	3,844
Other expenditures:				
Facilities acquisition	38,705	65,537	97,581	18,576
Long-term debt:				
Principal	154,251	158,748	125,000	120,000
Interest and other charges	24,215	55,431	54,142	59,461
AEA flowthrough	73,674	79,160	77,542	76,540
Total expenditures	<u>2,216,712</u>	<u>2,296,281</u>	<u>2,411,973</u>	<u>2,250,774</u>

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

To the Board of Education of the
Essex Community School District:

We have audited the financial statements of the Essex Community School District as of and for the year ended June 30, 2004, and have issued our report dated thereon August 17, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Essex Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved except for items 04-II-B and 04-II-K.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Essex Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items [04-I-A](#) and [04-I-B](#) are material weaknesses. Prior year reportable conditions have all been resolved except for item [04-I-A](#).

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the [Essex](#) 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.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of [Essex](#) Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

August 17, [2004](#)

ESSEX COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

04-I-A Segregation of Duties: The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although we noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

Recommendation: We realize that with a limited number of office employees segregation of duties is difficult; however, the District should review its control procedures and investigate methods to increase monitoring activities to obtain the maximum internal control possible under the circumstances.

District Response: The District is aware of the lack of complete segregation of duties and will make changes as the opportunity arises.

Conclusion: Response accepted.

04-I-B Supporting Documentation: We noted a payment for a travel expenditure and one payment in the activity fund for which we could not locate supporting documents or invoices.

Recommendation: The District should receive sufficient documentation for all expenditures prior to payment.

District Response: We will review our policies and make any necessary adjustments.

Conclusion: Response accepted.

ESSEX COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

04-II-A Official Depositories: Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

04-II-B Certified Budget: Disbursements for the year ended June 30, 2004, exceeded the amounts budgeted in the non-instructional programs and other expenditures functional areas.

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

District Response: We will amend our budget in the future.

Conclusion: Response accepted.

04-II-C Questionable Expenditures: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

04-II-D Travel Expenses: 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.

04-II-E Business Transactions: We noted no transactions between the District and District officials or employees.

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

04-II-G Board Minutes: We noted no transactions requiring board approval that had not been approved by the board.

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

04-II-I Deposits and Investments: We 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.

04-II-J Certified Annual Report (CAR): We reviewed a draft copy of the CAR and noted no significant deficiencies in the amounts reported.

04-II-K Financial Condition: The District has a deficit balance in the Enterprise, School Nutrition Fund of \$2,512.

Recommendation: The District should continue to monitor this fund and investigate alternatives to eliminate the deficit.

District Response: We are working on ways to eliminate the deficit.

ESSEX COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting (continued):

Conclusion: Response accepted.

04-II-L Local Option Sales Tax Expenditures: It appears the district may have made some expenditures for supplies or repairs to equipment in this fund.

Recommendation: The District should continue to monitor this fund to ensure the expenditures are of the type allowable to be paid with these funds.

District Response: We will monitor the expenditures in the future to ensure they are allowable.

Conclusion: Response accepted.