

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

JUNE 30, 2004

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Fairfield Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Doug Flournoy	President	2005
Terry Cochran	Vice President	2004
Christy Watts	Board Member	2003
Craig Foss	Board Member	2003
Gail Miller	Board Member	2005
Margaret Dwyer	Board Member	2004
Merlin Miller	Board Member	2004
Board of Education (After September 2003 Election)		
Terry Cochran	President	2004
Doug Flournoy	Vice President	2005
Gerry Garles	Board Member	2006
Sandy Worley	Board Member	2006
Gail Miller	Board Member	2005
Margaret Dwyer	Board Member	2004
Merlin Miller	Board Member	2004
School Officials		
Steve Triplett	Superintendent	2004
Janne Hunsaker	District Secretary/Treasurer and Business Manager	2004
Gary Cameron	Attorney	2004

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

In accordance with Government Auditing Standards, we have also issued our reports dated September 23, 2004 on our consideration of the Fairfield 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 read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 36 through 39 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and

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presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Fairfield Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

September 23, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fairfield 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.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$14,101,982 in fiscal 2003 to \$14,010,007 in fiscal 2004, while General Fund expenditures decreased from \$14,188,991 in fiscal 2003 to \$13,935,109 in fiscal 2004. This resulted in an increase in the District's General Fund balance from a deficit of \$165,227 in fiscal 2003 to a deficit of \$90,329 in fiscal 2004, a 45% increase from the prior year. The District's solvency ratio improved from (1.17%) to (.64%).
- The decrease in General Fund revenues was attributable to a decrease in property tax and state and federal grant revenue in fiscal 2004. The decrease in expenditures was due primarily to a decrease in the equipment, supplies and restricted grant expenditures.
- 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 to decrease from \$16,920 in fiscal year 2003 to \$13,018 in fiscal year 2004.

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 *District-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 District-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- The statements for *fiduciary funds* provide information about the financial 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

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

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

Figure A-1
Fairfield Community School District Annual Financial Report

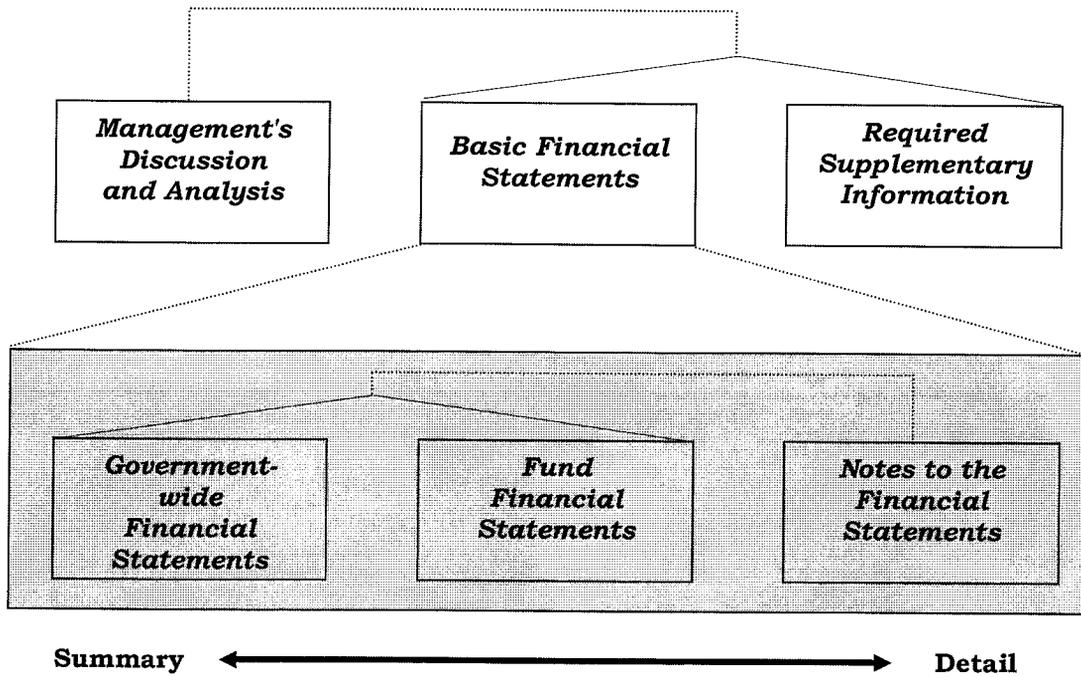


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	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 and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<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 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 position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency funds.

- Agency Fund – These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring that the assets reported in the fiduciary 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.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004 compared to June 30, 2003.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-04
Current and other assets	\$ 9,081,721	8,771,365	57,258	51,323	9,138,979	8,822,688	3.46%
Capital assets	6,436,767	6,699,789	41,603	47,534	6,478,370	6,747,323	-2.94%
Total assets	15,518,488	15,471,154	98,861	98,857	15,617,349	15,570,011	0.52%
Long-term obligations	1,323,997	1,515,153	0	0	1,323,997	1,515,153	-2.09%
Other liabilities	7,768,837	8,046,106	516	6,806	7,769,353	8,052,912	-3.10%
Total liabilities	9,092,834	9,561,259	516	6,806	9,093,350	9,568,065	-5.19%
Net assets:							
Invested in capital assets, net of related debt	5,970,844	6,154,822	41,603	47,534	6,012,447	6,202,356	-2.08%
Restricted	176,797	182,946	0	0	176,797	182,946	-0.07%
Unrestricted	278,013	(427,873)	56,742	44,517	334,755	(383,356)	7.86%
Total net assets	\$ 6,425,654	5,909,895	98,345	92,051	6,523,999	6,001,946	5.71%

The District's combined net assets increased by 5.71%, or \$522,053, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$6,149 or 0.07% over the prior year. The decrease was primarily a result of increased expenditures in the restricted state grants.

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 – increased \$718,111 or 7.86%. This increase in unrestricted net assets was a result of the District decreased expenditures in the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2004 compared to June 30, 2003.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003	2003-04
Revenues:							
Program revenues:							
Charges for services	\$ 861,043	983,192	280,447	295,195	1,141,490	1,278,387	-10.71%
Operating grants and contributions and restricted interest	1,822,702	1,602,302	260,739	246,334	2,083,441	1,848,636	12.70%
General revenues:							
Property tax	6,187,584	6,480,102	0	0	6,187,584	6,480,102	-4.51%
Unrestricted state grants	6,819,715	6,624,289	0	0	6,819,715	6,624,289	2.95%
Other	23,383	22,985	317	8,832	23,700	31,817	-25.51%
Total revenues	15,714,427	15,712,870	541,503	550,361	16,255,930	16,263,231	-0.04%
Program expenses:							
Governmental activities:							
Instructional	9,560,097	10,067,582	0	0	9,560,097	10,067,582	-5.04%
Support services	4,683,371	5,332,179	0	0	4,683,371	5,332,179	-12.17%
Non-instructional programs	84,429	113,513	535,209	555,611	619,638	669,124	-7.40%
Other expenses	870,771	885,564	0	0	870,771	885,564	-1.67%
Total expenses	15,198,668	16,398,838	535,209	555,611	15,733,877	16,954,449	-7.20%
Changes in net assets	\$ 515,759	(685,968)	6,294	(5,250)	522,053	(691,218)	-175.53%

Property tax and unrestricted state grants account for 83% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 94% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$15,714,427 and expenses were \$15,198,668. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 9,560,097	7,457,214
Support services	4,683,371	4,681,928
Non-instructional programs	84,429	84,429
Other expenses	870,771	291,352
Totals	\$ 15,198,668	12,514,923

-
- The cost financed by users of the District's programs was \$861,043.
 - Federal and state governments subsidized certain programs with grants and contributions totaling \$1,822,702.
 - The net cost of governmental activities was financed with \$6,187,584 in property tax, \$6,819,715 in state foundation aid and \$23,383 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$541,503 and expenses were \$535,209. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Fairfield Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$976,044, well above last year's ending fund balances of a \$323,859. However, the primary reason for the increase in combined fund balances in fiscal 2004 is due to controlled spending in the PPEL fund enabling repayment of anticipatory warrants owed to the bank.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. Reduction in tax levy during the year in tax and grants resulted in a decrease in revenues. The decrease in General Fund expenditures was greater than the decrease in General Fund revenues ensuring the financial position of the District increase.
- The General Fund balance improved from a deficit \$165,227 to a deficit \$90,329, due in part to the reduction in the equipment and supplies expenditures.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from a deficit \$409,693 in fiscal 2003 to a deficit \$180,010 in fiscal 2004. While revenues remained approximately the same, the District substantially decreased spending from the PPEL Fund and repaid anticipatory warrants due to the bank.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$92,051 at June 30, 2003 to \$98,345 at June 30, 2004, representing an increase of 7%.

BUDGETARY HIGHLIGHTS

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

The District's revenues were \$22,370 less than budgeted revenues, a variance of .01%. The most significant variance resulted from the District receiving more in federal sources 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.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2004, the District had invested \$6.4 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 4.15% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$485,172.

The original cost of the District's capital assets was \$13.9 million. Governmental funds account for \$13.7 million with the remainder of \$0.2 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$5,489,444 at June 30, 2004, compared to \$5,523,008 reported at June 30, 2003. This significant increase resulted from depreciation expense.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-04
Land	\$ 117,882	117,882	0	0	117,882	117,882	0.00%
Buildings	5,489,444	5,719,170	0	0	5,489,444	5,719,170	-4.18%
Improvements other than buildings	168,966	155,999	0	0	168,966	155,999	7.67%
Machinery and equipment	660,475	706,738	41,603	47,534	702,078	754,272	-7.43%
Total	\$ 6,436,767	6,699,789	41,603	47,534	6,478,370	6,747,323	-4.15%

Long-Term Debt

At June 30, 2004, the District had \$1,323,997 in other long-term debt outstanding. This represents a decrease of 12.6% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding Tractor Loan indebtedness at June 30, 2004 of \$23,910.

The District had total outstanding National School Fitness Loan indebtedness at June 30, 2004 of \$136,630.

The District also had total outstanding Early Retirement payable from the General and Special Revenue - Management Funds of \$1,163,457 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
Tractor Loan	\$ 23,910	0	100.0%
National School Fitness Loan	136,630	207,533	-34.2%
Early Retirement	1,163,457	1,307,620	-11.0%
Totals	<u>\$ 1,323,997</u>	<u>1,515,153</u>	<u>-12.6%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Although the District has experienced declining enrollment for a few years, the District is hopeful for steady enrollment or small decline.
- The District is seeking At-Risk funding.
- The SILO tax failed in the fall of 2004-05. We currently have hired a consultant to work with a committee to review the infrastructure needs and funding options.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- All bargaining unit contracts are one-year contracts and open for renegotiations next year. Total 2003-04 salaries and benefits paid from the General Fund represented 79.6% of the total 2003-04 General Fund expenditures.
- The National School Fitness Foundation has declared bankruptcy and is no longer reimbursing districts for their participation in the "Health and Wellness Physical Education Program". This program was designed to equip schools with complete faculty training and support, education curriculum, and exercise machines. Settlement is unknown at this time.

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 Janne Hunsaker, District Secretary/Treasurer and Business Manager, Fairfield Community School District, 605-607 E Broadway, Fairfield, Iowa, 52556-2996.

BASIC FINANCIAL STATEMENTS

FAIRFIELD COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 2,433,260	49,177	2,482,437
Receivables:			
Property tax:			
Delinquent	103,355	0	103,355
Succeeding year	6,057,458	0	6,057,458
Income surtax	336,840	0	336,840
Accounts	1,367	0	1,367
Accrued interest	1,866	0	1,866
Due from other governments	147,575	0	147,575
Inventories	0	8,081	8,081
Capital assets, net of accumulated depreciation(note 4)	6,436,767	41,603	6,478,370
TOTAL ASSETS	15,518,488	98,861	15,617,349
LIABILITIES			
Accounts payable	156,448	516	156,964
Salaries and benefits payable	1,379,629	0	1,379,629
Anticipatory warrants(note 5)	175,302	0	175,302
Deferred revenue:			
Succeeding year property tax	6,057,458	0	6,057,458
Long-term liabilities(note 6):			
Portion due within one year:			
Tractor Loan payable	5,603	0	5,603
National School Fitness Loan payable	73,440	0	73,440
Early retirement payable	378,823	0	378,823
Portion due after one year:			
Tractor Loan payable	18,307	0	18,307
National School Fitness Loan payable	63,190	0	63,190
Early retirement payable	784,634	0	784,634
TOTAL LIABILITIES	9,092,834	516	9,093,350
NET ASSETS			
Investment in capital assets, net of related debt	5,970,844	41,603	6,012,447
Restricted for:			
Talented and gifted	15,082	0	15,082
Other special revenue purposes	161,715	0	161,715
Unrestricted	278,013	56,742	334,755
TOTAL NET ASSETS	\$ 6,425,654	98,345	6,523,999

SEE NOTES TO FINANCIAL STATEMENTS.

FAIRFIELD COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 6,421,157	290,753	1,132,967
Special instruction	2,226,821	74,475	90,319
Other instruction	912,119	494,372	19,997
	<u>9,560,097</u>	<u>859,600</u>	<u>1,243,283</u>
Support services:			
Student services	431,484	0	0
Instructional staff services	655,480	0	0
Administration services	1,453,499	0	0
Operation and maintenance of plant services	1,397,363	0	0
Transportation services	742,266	1,443	0
Central support services	3,279	0	0
	<u>4,683,371</u>	<u>1,443</u>	<u>0</u>
Non-instructional programs:			
Food service operations	84,429	0	0
Other expenditures:			
Facilities acquisitions	16,484	0	0
Long-term debt interest	7,291	0	0
AEA flowthrough	579,419	0	579,419
Depreciation(unallocated)*	267,577	0	0
	<u>870,771</u>	<u>0</u>	<u>579,419</u>
Total governmental activities	15,198,668	861,043	1,822,702
Business-Type activities:			
Non-instructional programs:			
Nutrition services	535,209	280,447	260,739
Total	<u>\$ 15,733,877</u>	<u>1,141,490</u>	<u>2,083,441</u>

General Revenues:

Property tax levied for:
 General purposes
 Capital outlay
Unrestricted state grants
Unrestricted investment earnings

Total general revenues

Changes in net assets

Net assets beginning of year, as restated(Note 10)

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(4,997,437)	0	(4,997,437)
(2,062,027)	0	(2,062,027)
(397,750)	0	(397,750)
(7,457,214)	0	(7,457,214)
(431,484)	0	(431,484)
(655,480)	0	(655,480)
(1,453,499)	0	(1,453,499)
(1,397,363)	0	(1,397,363)
(740,823)	0	(740,823)
(3,279)	0	(3,279)
(4,681,928)	0	(4,681,928)
(84,429)	0	(84,429)
(16,484)	0	(16,484)
(7,291)	0	(7,291)
0	0	0
(267,577)	0	(267,577)
(291,352)	0	(291,352)
(12,514,923)	0	(12,514,923)
0	5,977	5,977
(12,514,923)	5,977	(12,508,946)
\$ 5,727,711	0	5,727,711
459,873	0	459,873
6,819,715	0	6,819,715
23,383	317	23,700
13,030,682	317	13,030,999
515,759	6,294	522,053
5,909,895	92,051	6,001,946
\$ 6,425,654	98,345	6,523,999

FAIRFIELD COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Special Revenue - Management Fund	Special Revenue - PPEL Fund	Other Governmental Funds	Total
ASSETS					
Cash and pooled investments	\$ 1,206,474	1,065,426	(355)	161,715	2,433,260
Receivables:					
Property tax					
Delinquent	78,479	17,376	7,500	0	103,355
Succeeding year	5,318,351	307,625	431,482	0	6,057,458
Income surtax	336,840	0	0	0	336,840
Accounts	1,367	0	0	0	1,367
Accrued interest	0	1,866	0	0	1,866
Due from other governments	147,575	0	0	0	147,575
TOTAL ASSETS	\$ 7,089,086	1,392,293	438,627	161,715	9,081,721
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 144,595	0	11,853	0	156,448
Salaries and benefits payable	1,379,629	0	0	0	1,379,629
Anticipatory warrants (note 5)	0	0	175,302	0	175,302
Deferred revenue:					
Succeeding year property tax	5,318,351	307,625	431,482	0	6,057,458
Income surtax	336,840	0	0	0	336,840
Total liabilities	7,179,415	307,625	618,637	0	8,105,677
Fund balances:					
Reserved for:					
Talented and gifted	15,082	0	0	0	15,082
Unreserved:					
Undesignated	(105,411)	1,084,668	(180,010)	161,715	960,962
Total fund balances	(90,329)	1,084,668	(180,010)	161,715	976,044
TOTAL LIABILITIES AND FUND BALANCES	\$ 7,089,086	1,392,293	438,627	161,715	9,081,721

SEE NOTES TO FINANCIAL STATEMENTS.

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

Total fund balances of governmental funds (page 17)	\$	976,044
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		6,436,767
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		336,840
Long-term liabilities, including tractor loan payable, national school fitness loan payable, and early retirement payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(1,323,997)</u>
Net assets of governmental activites (page 14)	\$	<u><u>6,425,654</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Special Revenue - Management Fund	Special Revenue - PEEL Fund	Other Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax:					
Tuition	\$ 4,801,698	990,573	459,873	0	6,252,144
Other	365,228	0	0	0	365,228
State sources	192,395	6,934	270	339,596	539,195
Federal sources	7,882,938	703	311	0	7,883,952
Total revenues	738,468	0	0	0	738,468
	<u>13,980,727</u>	<u>998,210</u>	<u>460,454</u>	<u>339,596</u>	<u>15,778,987</u>
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	5,887,090	289,541	35,923	0	6,212,554
Special instruction	2,216,619	0	0	0	2,216,619
Other instruction	602,784	0	0	339,285	942,069
	<u>8,706,493</u>	<u>289,541</u>	<u>35,923</u>	<u>339,285</u>	<u>9,371,242</u>
Support services:					
Student services	432,781	60,463	0	0	493,244
Instructional staff services	646,827	4,041	3,872	0	654,740
Administration services	1,402,981	121,035	38,798	0	1,562,814
Operation and maintenance of plant services	1,375,438	105,935	2,383	0	1,483,756
Transportation services	622,026	53,446	95,189	0	770,661
Central support services	3,279	0	0	0	3,279
	<u>4,483,332</u>	<u>344,920</u>	<u>140,242</u>	<u>0</u>	<u>4,968,494</u>
Non-instructional programs:					
Food service operations	82,301	16,456	0	0	98,757
Other expenditures:					
Facilities acquisitions	0	0	54,606	0	54,606
Long-term debt:					
Principal	0	0	0	76,273	76,273
Interest and fiscal charges	0	0	0	7,291	7,291
AEA flowthrough	579,419	0	0	0	579,419
	<u>579,419</u>	<u>0</u>	<u>54,606</u>	<u>83,564</u>	<u>717,589</u>
Total expenditures	<u>13,851,545</u>	<u>650,917</u>	<u>230,771</u>	<u>422,849</u>	<u>15,156,082</u>
Excess(deficiency) of revenues over(under) expenditures	129,182	347,293	229,683	(83,253)	622,905
Other financing sources(uses):					
Transfers in	0	0	0	83,564	83,564
Transfers out	(83,564)	0	0	0	(83,564)
Proceeds on Tractor Loan	29,280	0	0	0	29,280
Total other financing sources(uses)	<u>(54,284)</u>	<u>0</u>	<u>0</u>	<u>83,564</u>	<u>29,280</u>
Net change in fund balances	74,898	347,293	229,683	311	652,185
Fund balance beginning of year	(165,227)	737,375	(409,693)	161,404	323,859
Fund balance end of year	<u>\$ (90,329)</u>	<u>1,084,668</u>	<u>(180,010)</u>	<u>161,715</u>	<u>976,044</u>

SEE NOTES TO FINANCIAL STATEMENTS.

FAIRFIELD COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds (page 19)	\$	652,185
 <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 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	\$ 216,219	
Depreciation expense	<u>(479,241)</u>	(263,022)
 Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.		 76,273
 Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		 (64,560)
 Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Early retirement	<u>\$ 144,163</u>	144,163
 Proceeds of long-term debt provide current financial resources to governmental funds but increase long-term liabilities in the Statement of Net Assets.		 <u>(29,280)</u>
 Changes in net assets of governmental activities (page 16)	 \$	 <u>515,759</u>

SEE NOTES TO FINANCIAL STATEMENTS.

FAIRFIELD COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 JUNE 30, 2004

	<u>School</u> <u>Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 49,177
Inventories	8,081
Capital assets, net of accumulated depreciation(note 4)	<u>41,603</u>
TOTAL ASSETS	<u>98,861</u>
LIABILITIES	
Accounts payable	<u>516</u>
TOTAL LIABILITIES	<u>516</u>
NET ASSETS	
Investment in capital assets, net of related debt	41,603
Unrestricted	<u>56,742</u>
TOTAL NET ASSETS	<u>\$ 98,345</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 280,447
TOTAL OPERATING REVENUES	280,447
OPERATING EXPENSES:	
Non-instructional programs:	
Salaries	224,534
Services	2,121
Supplies	302,423
Depreciation	5,931
Other	200
TOTAL OPERATING EXPENSES	535,209
OPERATING LOSS	(254,762)
NON-OPERATING REVENUES:	
State sources	8,158
Federal sources	252,581
Interest income	317
TOTAL NON-OPERATING REVENUES	261,056
Change in net assets	6,294
Net assets beginning of year	92,051
Net assets end of year	\$ 98,345

SEE NOTES TO FINANCIAL STATEMENTS.

FAIRFIELD COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 277,589
Cash received from miscellaneous operating activities	2,858
Cash payments to employees for services	(224,534)
Cash payments to suppliers for goods or services	(248,109)
Net cash used in operating activities	(192,196)
Cash flows from non-capital financing activities:	
State grants received	8,158
Federal grants received	207,835
Net cash provided by non-capital financing activities	215,993
Cash flows from investing activities:	
Interest on investment	317
Net cash provided by investing activities	317
Net increase in cash and cash equivalents	24,114
Cash and cash equivalents at beginning of year	25,063
Cash and cash equivalents at end of year	\$ 49,177
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (254,762)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	44,746
Depreciation	5,931
Decrease in inventories	18,179
Decrease in accounts payable	(6,290)
Net cash used in operating activities	\$ (192,196)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and investments	\$ 49,177
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	

During the year ended June 30, 2004, the District received Federal commodities valued at \$44,746.

SEE NOTES TO FINANCIAL STATEMENTS.

FAIRFIELD COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	<u>Agency</u>
ASSETS	
Cash and pooled investments	<u>\$ 27,662</u>
LIABILITIES	
Due to other groups	<u>27,662</u>
NET ASSETS	<u><u>\$ 0</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

FAIRFIELD COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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

The Fairfield Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Fairfield, Iowa, and the predominate agricultural territory in Van Buren, Washington, Henry, Wapello, and Jefferson 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, Fairfield Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Fairfield Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Van Buren, Washington, Henry, Wapello, and Jefferson Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues,

are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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

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

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

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

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

The Special Revenue - Management Fund is utilized to account for the payment of property insurance and early retirement benefits.

The Special Revenue - Physical Plant and Equipment Levy (PPEL) Fund is used to account for resources used in building improvements and equipment purchases.

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account

for the food service operations of the District.

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 Agency Fund is used to account for assets help by the District as an agent for individuals, private organizations. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of result of operations.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these

pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

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

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

Capital Assets - Capital assets, which include property, 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.

Asset Class	Amount
Land	\$ 1,200
Buildings	1,200
Improvements other than buildings	1,200
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,200

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-15 years

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

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough

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

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

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(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 and the Treasurer of the State of Iowa; 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 no investments at June 30, 2004.

(3) Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	General	<u>\$ 83,564</u>

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

(4) Capital Assets

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

	<u>Balance</u>			<u>Balance</u>
	<u>Beginning of</u>			<u>End</u>
	<u>Year, as restated</u>	<u>Increases</u>	<u>Decreases</u>	<u>of Year</u>
	<u>(Note 10)</u>			
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 117,882	0	0	117,882
Total capital assets not being depreciated	<u>117,882</u>	<u>0</u>	<u>0</u>	<u>117,882</u>
Capital assets being depreciated:				
Buildings	10,447,121	11,748	0	10,458,869
Improvements other than buildings	301,364	26,374	0	327,738
Furniture and equipment	2,718,471	178,097	120,186	2,776,382
Total capital assets being depreciated	<u>13,466,956</u>	<u>216,219</u>	<u>120,186</u>	<u>13,562,989</u>
Less accumulated depreciation for:				
Buildings	4,727,951	241,474	0	4,969,425
Improvements other than buildings	145,365	13,407	0	158,772
Furniture and equipment	2,011,733	224,360	120,186	2,115,907
Total accumulated depreciation	<u>6,885,049</u>	<u>479,241</u>	<u>120,186</u>	<u>7,244,104</u>
Total capital assets being depreciated, net	<u>6,581,907</u>	<u>(263,022)</u>	<u>0</u>	<u>6,318,885</u>
Governmental activities capital assets, net	<u>\$ 6,699,789</u>	<u>(263,022)</u>	<u>0</u>	<u>6,436,767</u>
	<u>Balance</u>			<u>Balance</u>
	<u>Beginning of</u>			<u>End</u>
	<u>Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>of Year</u>
Business-type activities:				
Furniture and equipment	\$ 208,032	0	0	208,032
Less accumulated depreciation	160,498	5,931	0	166,429
Business-type activities capital assets, net	<u>\$ 47,534</u>	<u>(5,931)</u>	<u>0</u>	<u>41,603</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 79,075
Other		8,256
Support services:		
Instructional staff		740
Administration		5,344
Operation and maintenance		13,761
Transportation		104,488
		<u>211,664</u>
Unallocated depreciation		<u>267,577</u>
		<u>\$ 479,241</u>
Business-type activities:		
Food services		<u>\$ 5,931</u>

(5) Anticipatory Warrants

Anticipatory warrant activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of of Year
Special Revenue - Physical Plant and Equipment Levy	\$ 399,962	166,009	390,669	<u>175,302</u>

(6) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Tractor Loan	\$ 0	29,280	5,370	23,910	5,603
National School Fitness Loan	207,533	0	70,903	136,630	73,440
Early Retirement	1,307,620	347,152	491,315	1,163,457	378,823
Total	<u>\$ 1,515,153</u>	<u>376,432</u>	<u>567,588</u>	<u>1,323,997</u>	<u>457,866</u>

Tractor Loan

Details of the District's June 30, 2004 Tractor Loan indebtedness is as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 5,603	908	6,511
2006	5,845	666	6,511
2007	6,099	412	6,511
2008	6,363	148	6,511
Total	\$ 23,910	2,134	26,044

National School Fitness Loan

Details of the District's June 30, 2004 National School Fitness Loan indebtedness is as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 73,440	3,613	77,053
2006	63,190	1,021	64,211
Total	\$ 136,630	4,634	141,264

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed ten years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The district will pay the retiree a monthly payment beginning the first month of retirement and continuing through the month when the retiree attains Social Security Retirement Age, or to a maximum of 84 months, whichever comes first. The early retirement incentive for each eligible employee is equal to .020 times the annual salary received by the retiree during the fiscal year immediately preceding retirement. "Annual salary" refers to compensation which the retiree received under Schedule A of the Master Contract, between the Fairfield Community School District and the Fairfield Community Education Association, the annual salary for administrators, and the annual salary for non-certified staff. It excludes all supplemental pay, extra-duty pay and extended contract pay. Early retirement benefits paid during the year ended June 30, 2004, totaled \$491,315.

(7) Pension and Retirement Benefits

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

may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 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 \$516,503, \$518,051 and \$529,269 respectively, equal to the required contributions for each year.

(8) Risk Management

Fairfield Community School District is a member in the Iowa School Employees Benefits Association, and 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: dental, life and long-term disability.

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

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$42,500.

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.

Fairfield 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.

(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 \$579,419 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.

(10) Restate Capital Assets/Net Assets Beginning Balances

This restatement is due to error in computer formula calculations of depreciation and eliminating duplicate assets. The restatement of the capital assets and net assets are as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year, restated
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 117,882	0	0	117,882
Total capital assets not being depreciated	117,882	0	0	117,882
Capital assets being depreciated:				
Buildings	10,459,384	0	12,263	10,447,121
Improvements other than buildings	301,364	0	0	301,364
Machinery and equipment	4,605,837	0	1,887,366	2,718,471
Total capital assets being depreciated	15,366,585	0	1,899,629	13,466,956
Less accumulated depreciation for:				
Buildings	4,936,376	0	208,425	4,727,951
Improvements other than buildings	208,996	0	63,631	145,365
Machinery and equipment	2,003,567	8,166	0	2,011,733
Total accumulated depreciation	7,148,939	8,166	272,056	6,885,049
Total capital assets being depreciated, net	8,217,646	(8,166)	1,627,573	6,581,907
Governmental activities capital assets, net	\$ 8,335,528	(8,166)	1,627,573	6,699,789

The effect of the adjustment to restate the capital assets results in a change to the previously reported governmental activities, net assets as follows:

Net assets, June 30, 2003, as previously reported	\$ 7,545,634
Capital asset adjustments, net	<u>(1,635,739)</u>
Net assets, July 1, 2003, as restated	<u>\$ 5,909,895</u>

(11) Deficit Fund Balance

The Special Revenue - Physical Plant and Equipment Levy (PPEL) fund had a deficit undesignated fund balance of \$180,010 at June 30, 2004. The General fund also had a deficit undesignated fund balance of \$105,411 at June 30, 2004.

REQUIRED SUPPLEMENTAL INFORMATION

FAIRFIELD COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF RECEIPTS, DISBURSEMENTS AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 7,197,309	280,764
State sources	7,884,147	8,158
Federal sources	618,363	252,581
Total receipts	<u>15,699,819</u>	<u>541,503</u>
Disbursements:		
Instruction	9,404,688	0
Support services	5,060,131	0
Non-instructional programs	99,126	517,389
Other expenditures	717,589	0
Total disbursements	<u>15,281,534</u>	<u>517,389</u>
Excess(deficiency) of receipts over(under) disbursements	418,285	24,114
Other financing sources, net	<u>29,280</u>	0
Excess(deficiency) of receipts and other financing sources over(under) disbursements	447,565	24,114
Balance beginning of year	<u>1,810,393</u>	25,063
Balance end of year	<u>\$ 2,257,958</u>	<u>49,177</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
7,478,073	7,514,355	7,514,355	(36,282)
7,892,305	8,029,593	8,029,593	(137,288)
870,944	719,744	719,744	151,200
<u>16,241,322</u>	<u>16,263,692</u>	<u>16,263,692</u>	<u>(22,370)</u>
9,404,688	9,298,402	9,889,320	484,632
5,060,131	4,845,269	5,226,046	165,915
616,515	592,691	618,944	2,429
717,589	997,092	1,045,897	328,308
<u>15,798,923</u>	<u>15,733,454</u>	<u>16,780,207</u>	<u>981,284</u>
442,399	530,238	(516,515)	958,914
29,280	76,692	76,692	(47,412)
471,679	606,930	(439,823)	911,502
1,835,456	1,846,595	1,846,595	(11,139)
<u>2,307,135</u>	<u>2,453,525</u>	<u>1,406,772</u>	<u>900,363</u>

FAIRFIELD COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types		
	Cash Basis	Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 15,699,819	79,168	15,778,987
Expenses	15,281,534	(125,452)	15,156,082
Net	418,285	204,620	622,905
Other financing sources, net	29,280	0	29,280
Beginning fund balances	1,810,393	(1,486,534)	323,859
Ending fund balances	\$ 2,257,958	(1,281,914)	976,044

	Proprietary Fund Type		
	Cash Basis	Enterprise Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 541,503	0	541,503
Expenses	517,389	17,820	535,209
Net	24,114	(17,820)	6,294
Other financing sources, net	0	0	0
Beginning retained earnings	25,063	66,988	92,051
Ending retained earnings	\$ 49,177	49,168	98,345

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$1,046,753.

OTHER SUPPLEMENTAL INFORMATION

FAIRFIELD COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2004

	Special Revenue Funds		
	Student Activity	Expendable Trust	Total
ASSETS			
Cash and pooled investments	\$ 159,731	1,984	161,715
TOTAL ASSETS	\$ 159,731	1,984	161,715
FUND EQUITY			
Fund equity:			
Fund balances:			
Unreserved, undesignated	\$ 159,731	1,984	161,715
TOTAL FUND EQUITY	\$ 159,731	1,984	161,715

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue Funds				Total
	Student Activity	Expendable Trust	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
REVENUES:					
Local sources:					
Other	\$ 339,596	0	339,596	0	339,596
TOTAL REVENUES	339,596	0	339,596	0	339,596
EXPENDITURES:					
Current:					
Instruction:					
Other instruction	338,985	300	339,285	0	339,285
Other expenditures:					
Long-term debt:					
Principal	0	0	0	76,273	76,273
Interest	0	0	0	7,291	7,291
Total other expenditures	0	0	0	83,564	83,564
TOTAL EXPENDITURES	338,985	300	339,285	83,564	422,849
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	611	(300)	311	(83,564)	(83,253)
Other financing sources:					
Operating transfers in	0	0	0	83,564	83,564
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	611	(300)	311	0	311
Fund balance beginning of year	159,120	2,284	161,404	0	161,404
Fund balance end of year	\$ 159,731	1,984	161,715	0	161,715

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FAIRFIELD COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2004

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
HS Drama	\$ 4,617	9,547	12,100	2,064
MS Drama	2,266	1,167	497	2,936
HS Vocal Music	4,802	11,630	7,299	9,133
MS Vocal Music	3,864	281	1,962	2,183
HS Band 1000	6,839	20,728	15,880	11,687
MS Band	2,844	3,334	3,309	2,869
HS Band Inst Rent	517	5	0	522
HS Musical	3,697	7,908	9,150	2,455
HS Athletics	9,847	81,903	87,973	3,777
MS Athletics	10	5,752	5,407	355
Libertyville	1,175	4,581	4,977	779
Lincoln	3,757	1,604	3,852	1,509
Pence	8,046	7,750	8,675	7,121
Washington	6,298	10,678	9,720	7,256
MS Library	23	4,209	4,209	23
MS Student Council	415	239	1	653
MS Pop/Juice	2,776	9,839	8,049	4,566
MS Activity Ticket	2,275	2,370	1,000	3,645
MS Ice Cream	154	5,122	3,605	1,671
MS Cheerleader Org.	1,614	714	430	1,898
MS Yearbook	2,313	3,252	3,722	1,843
MS Interest	2,709	377	0	3,086
HS CD/Interest	3,524	3,431	4,562	2,393
MS Environment	238	0	0	238
HS FBLA Club	974	0	0	974
HS FCA Club	9,039	0	202	8,837
HS Ice Cream	266	401	0	667
HS Concessions	50	18,834	16,916	1,968
HS Cheerleaders	1,271	2,523	2,833	961
HS Los Gringos	3,379	1,054	842	3,591
HS FFA	6,056	41,765	42,754	5,067
HS FHA	2,851	1	0	2,852
HS Dance-Drill	2,987	5,136	7,459	664
HS Quill	5,671	13,216	16,198	2,689
HS Science Club	1,221	0	0	1,221
HS Student Council	4,344	13,829	10,286	7,887
HS Resource	829	2,081	593	2,317
HS Torch Club	1,384	116	411	1,089
HS Troy Banner Org.	4,927	0	2,850	2,077
HS SADD Club	1,159	0	0	1,159
HS Young Farmers Org.	2,040	0	0	2,040
HS Vica Club	0	470	470	0
HS Student Assembly	6,995	0	1,000	5,995
HS Student Act/Ath	215	12,000	9,292	2,923
HS Class 2006 Org.	5,223	25	41	5,207

FAIRFIELD COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2004

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
HS Class 2007 Org.	6	7,688	4,281	3,413
Wall of Honor	591	1,975	0	2,566
HS Pep Club	420	0	0	420
HS Career Club	682	0	0	682
HS French Club	12,367	1,717	1,061	13,023
HS Stud. Welfare	910	466	174	1,202
HS Sp/Forensics	3,164	605	1,984	1,785
HS Thespians Club	0	19	19	0
HS Act. Ticket	0	16,110	16,110	0
HS Class 2004 Org.	1,637	825	2,001	461
HS Class 2005 Org.	2,990	1,547	4,058	479
Home School Assist.	0	772	771	1
HS Art Club	852	0	0	852
Total	\$ 159,120	339,596	338,985	159,731

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FAIRFIELD COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 AGENCY FUND
 YEAR ENDED JUNE 30, 2004

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
<u>ADMINISTRATOR</u>				
ASSETS				
Cash and pooled investments	\$ 324	70	104	290
LIABILITIES				
Due to other groups	\$ 324	70	104	290
<u>ALUMNI</u>				
ASSETS				
Cash and pooled investments	\$ 606	30	0	636
LIABILITIES				
Due to other groups	\$ 606	30	0	636
<u>HIGH SCHOOL FACULTY</u>				
ASSETS				
Cash and pooled investments	\$ 0	1,030	986	44
LIABILITIES				
Due to other groups	\$ 0	1,030	986	44
<u>ATHLETIC TOURNAMENT</u>				
ASSETS				
Cash and pooled investments	\$ 0	25,815	25,815	0
LIABILITIES				
Due to other groups	\$ 0	25,815	25,815	0
<u>STUDENT INSURANCE</u>				
ASSETS				
Cash and pooled investments	\$ 62	1,967	2,029	0
LIABILITIES				
Due to other groups	\$ 62	1,967	2,029	0

FAIRFIELD COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 AGENCY FUND
 YEAR ENDED JUNE 30, 2004

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
<u>RETIREE</u>				
ASSETS				
Cash and pooled investments	\$ 3,968	98,191	98,419	3,740
LIABILITIES				
Due to other groups	\$ 3,968	98,191	98,419	3,740
<u>FLEX</u>				
ASSETS				
Cash and pooled investments	\$ 17,917	79,287	74,252	22,952
LIABILITIES				
Due to other groups	\$ 17,917	79,287	74,252	22,952
<u>TOTALS - ALL AGENCY FUNDS</u>				
ASSETS				
Cash and pooled investments	\$ 22,877	206,390	201,605	27,662
LIABILITIES				
Due to other groups	\$ 22,877	206,390	201,605	27,662

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 6,252,144	6,074,356	6,032,665	5,397,882
Tuition	365,228	373,888	426,370	598,698
Other	539,195	640,917	431,176	714,392
Intermediate sources	0	0	0	500
State sources	7,883,952	7,777,229	7,309,172	8,155,668
Federal sources	738,468	453,708	661,979	280,643
Total	\$ 15,778,987	15,320,098	14,861,362	15,147,783
Expenditures:				
Instruction:				
Regular instruction	\$ 6,212,554	6,278,271	6,376,567	6,094,535
Special instruction	2,216,619	2,135,047	2,034,610	1,868,058
Other instruction	942,069	1,065,196	937,191	1,045,719
Support services:				
Student services	493,244	497,905	494,489	410,295
Instructional staff services	654,740	591,107	567,562	759,191
Administration services	1,562,814	1,529,050	1,387,234	1,394,418
Operation and maintenance of plant services	1,483,756	1,437,818	1,494,397	1,023,767
Transportation services	770,661	721,612	771,352	927,035
Central support services	3,279	2,832	3,015	63,981
Non-instructional programs	98,757	84,677	81,974	9,696
Other expenditures:				
Facilities acquisitions	54,606	898	145,450	643,356
Long-term debt:				
Principal	76,273	36,802	22,872	562,631
Interest and other charges	7,291	3,513	4,602	687,609
AEA flow-through	579,419	613,713	584,597	621,353
Total	\$ 15,156,082	14,998,441	14,905,912	16,111,644

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FAIRFIELD COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION (non-cash)	10.550	FY 04	\$ <u>44,756</u>
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 04	29,891
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 04	<u>177,945</u>
			<u>207,836</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	2169-SI-03	20,000
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	2169-G	256,079
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	2169-G-03	2,906
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	2169-GC	<u>37,202</u>
			<u>316,187</u>
INNOVATIVE EDUCATION PROGRAM STRATEGIES(TITLE V PROGRAM)	84.151	FY 04	<u>3,131</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 04	<u>14,024</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 04	<u>114,921</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 03	175
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 04	<u>11,232</u>
			<u>11,407</u>
IOWA PUBLIC TELEVISION:			
STAR SCHOOLS	84.203	FY 04	<u>25,000</u>

FAIRFIELD COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2004

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048A	FY 03	5,256
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048A	FY 04	31,968
			<u>37,224</u>
SPECIAL EDUCATION - GRANTS TO STATES (SUCCESS 4)	84.027	FY 04	3,175
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 04	90,319
DATA DRIVEN LEADERSHIP	84.348	FY 04	3,600
ENHANCING EDUCATION THROUGH TECHNOLOGY (E2T2)	84.318	FY 04	200
TOTAL			<u>\$ 871,780</u>

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

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

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

We have audited the financial statements of Fairfield Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated September 23, 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 Fairfield Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings and Questioned Costs.

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

Internal Control Over Financial Reporting

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our

consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior year reportable conditions have all been resolved except for items II-A-04, II-B-04, and II-C-04.

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

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


NOLTE, CORNMAN & JOHNSON, P.C.

September 23, 2004

NOLTE, CORNMAN & JOHNSON P.C.

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Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance

To the Board of Education of
Fairfield Community School District

Compliance

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

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

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

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations,

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contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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


NOLTE, CORNMAN & JOHNSON, P.C.

September 23, 2004

FAIRFIELD COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No reportable conditions in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - CFDA Number 84.010 - Title I grants to Local Educational agencies
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Fairfield Community School District qualified as a low-risk auditee.

FAIRFIELD COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- II-A-04 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that in the Student Activity Fund the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

- II-B-04 Authorized Check Signatures - Checks written from the Student Activity Fund have two signatures; however, the Board President and Board Secretary are not signing these checks.

Recommendation - The Board President and Board Secretary are to sign all checks written by the District to be in compliance with Chapter 291.1 and 291.8 of the Code of Iowa. The Board President can designate an authorized signer other than himself; however, the Board Secretary may not delegate this duty.

Response - The District requires the expenditures be pre-approved by the Board and each check issued requires two signatures (high school secretary who processes the check and the high school principal). The District feels segregation of duties are being implemented. The District will look at available options.

Conclusion - Response accepted.

- II-C-04 Bank Reconciliations - We noted during our audit that the District does not reconcile the bank statements of the Activity fund to the general ledger on a timely basis.

Recommendation - The District should reconcile bank statement balances to financial statement bank balances on a monthly basis. Any reconciling items should be resolved and necessary adjustments made timely.

Response - The District will reconcile bank statement balances to financial statement bank balances on a monthly basis in the Activity fund. In addition, the reconciling items and necessary adjustments will be resolved timely.

Conclusion - Response accepted.

FAIRFIELD COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

No reportable conditions were reported.

FAIRFIELD COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part IV: Other Findings Related to Statutory Reporting

IV-A-04 Official Depositories - A resolution naming official depositories has been approved by the Board. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2004

Recommendation - The district should increase their depository limits.

Response - We will raise them in the future.

Conclusion - Response accepted.

IV-B-04 Certified Budget - District disbursements for the year ended June 30, 2004, did not exceed the amount budgeted.

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

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

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

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

IV-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

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

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

Conclusion - Response accepted.

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

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

IV-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely. The Certified Annual Report differs from the audit report in the long-term debt section and the Physical Plant and Equipment Levy(PPEL) fund. The audit

reflects the anticipatory warrants to the bank as a fund liability while the state reclassified this to long-term debt. Based on the characteristics of the borrowings in the PPEL fund, we feel that the liability is most appropriately included at the fund level for financial reporting purposes.

IV-K-04 Financial Condition - The District had a deficit undesignated fund balance of \$180,010 in the Special Revenue - Physical Plant Equipment Levy fund. The District also had a deficit undesignated fund balance of \$105,411 in the General fund.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficits. The District should consider a workout plan to bring the PPEL to a solvent position.

Response - We are monitoring the expenditures in the General and PPEL funds and are monitoring required repayment amounts to keep our borrowings within the remainder of Voted-PPEL which serves as our source for repayment.

Conclusion - Response accepted.