

IKM COMMUNITY SCHOOL DISTRICT

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

June 30, 2004

Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-11
Basic Financial Statements:	<u>Exhibit</u>	
Government-Wide Financial Statements:		
Statement of Net Assets	A	13-14
Statement of Activities	B	15-16
Governmental Fund Financial Statements:		
Balance Sheet	C	17
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	18
Statement of Revenues, Expenditures and Changes in Fund Balances	E	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	20
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	21
Statement of Revenues, Expenses, and Changes in Net Assets	H	22
Statement of Cash Flows	I	23
Notes to Financial Statements		24-34
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund		36
Budget to GAAP Reconciliation		37
Notes to Required Supplementary Information - Budgetary Reporting		38
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	40
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	41
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	42
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	4	43
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund	5	44
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		45-46
Schedule of Findings		47-49

Independent Auditor's Report

To the Board of Education of
IKM Community School District:

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

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

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

As described in Note 12 to the financial statements, during the year ended June 30, 2004, IKM Community School District adopted Governmental Accounting Standards Board Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement Number 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement Number 38, Certain Financial Statement Note Disclosures; Statement Number 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation Number 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated July 26, 2004, on our consideration of IKM Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 11 and 36 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise IKM Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003, (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

July 26, 2004

Management Discussion & Analysis

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

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

Financial Highlights

- During the year ended June 30, 2004, the State of Iowa imposed a 2.5% reduction in State Foundation aid, which reduced the General Fund revenues by \$39,929.
- Since the reduction occurred mid year, the District had already obligated the resources to fund fiscal 2004 salaries and programs.
- In spite of this reduction, the District's General Fund balance increased to \$342,931 in fiscal 2004 compared to \$102,422 in fiscal 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 *Government-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.

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

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

Government-wide Statements

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

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

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

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

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation

and administration. Property taxes and state aid finance most of these activities.

- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's food service program is included here.

Fund Financial Statements

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

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

The District has two kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental funds statements explains the relationship or differences between the two statements.
 - The District's governmental funds include the General Fund; Special Revenue Funds; and Capital Projects Fund.
- *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the Government-wide statements.

- The District's enterprise fund, one type of proprietary fund, is the same as its business-type activity but provides more detail and additional information, such as cash flows. The District currently has one enterprise fund, school nutrition.

Financial Analysis of the District as a Whole

Condensed Statement of Net Assets		
	Governmental Activities	Bus. Type Activities
Current and other assets	\$3,512,314	\$58,998
Capital assets	<u>541,352</u>	<u>4,258</u>
Total assets	\$4,053,666	\$63,256
Current liabilities	\$2,414,240	\$ 1,365
Long-term liabilities	<u>106,506</u>	<u>0</u>
Total liabilities	\$2,520,746	\$ 1,365
Net assets		
Invested in capital assets, net of related debt	\$ 541,352	\$ 4,258
Restricted	579,106	0
Unrestricted	<u>512,462</u>	<u>57,633</u>
Total net assets	\$1,532,920	\$61,891

The District's improved financial position is the product of many factors. The District has reduced staff in prior years, delayed purchases of curricular materials, and more closely watched spending habits.

Changes in net assets - The District's total revenues remained steady at \$4,395,867 for 2004.

Changes in Net Assets Total for the IKM CSD

	Governmental Activities	Bus. Type Activities
Revenues:		
Program revenues:		
Changes for service	\$ 313,935	\$ 88,851
Operating grants and contributions	491,627	84,782
Capital Grants and contributions	10,724	0
General Revenues:		
Property Tax	1,754,231	0
Income Surtax	165,844	0
Local Option Sales Tax	156,396	0
State foundation aid	1,464,957	0
Other	<u>38,153</u>	<u>413</u>
Total revenues	\$4,395,867	\$174,046
Expenses:		
Governmental activities:		
Instruction	\$2,539,494	0
Support services	1,086,896	0
Non-instructional programs	139	0
Other expenses	<u>245,782</u>	<u>0</u>
Total governmental activities	\$3,872,311	0
Business-type activities:		
Non-instructional programs	<u>0</u>	<u>149,061</u>
Total expenses	\$3,872,311	\$149,061
Increase in net assets	523,556	24,985
Net assets beginning of year	\$1,009,364	\$ 36,906
Net assets end of year	\$1,532,920	\$ 61,891

Governmental Activities

- Revenues for governmental activities were \$4,395,867 while expenses amounted to \$3,872,311. In a difficult budget year, the District did a remarkable job **trimming expenses to match available revenues.**
- The **local option sales tax revenue** of \$156,396 contributed greatly to the increase in net assets of the governmental activities. Most of the expenditures related to the local option sales tax were related to facility upgrades.

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

Net cost of Governmental Activities	
Instruction	\$1,883,347
Support services	1,075,669
Non-instructional programs	139
Other expenses	<u>96,870</u>
Total	\$3,056,025

- The cost of all governmental activities this year was \$3,872,311.
- The portion of the cost financed by users of the District’s programs was \$313,935.
- The federal and state government and private contributors subsidized certain programs with grants and contributions totaling \$502,351.
- The net cost portion of governmental activities was financed with \$1,754,231 in property tax, \$1,464,957 in state foundation aid, \$156,396 local option sales tax, and \$165,844 in income surtax.

Business-Type Activities

Revenues of the District’s business-type activities totaled \$174,046 while expenses totaled \$149,061. The District’s business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income. A reduction in food staff members has allowed the District to show and increase.

Financial Analysis of the District’s Funds

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

Governmental Fund Highlights

- The General Fund balance increased because of a reduction in staff members over the past couple of years.

- The Physical Plant and Equipment Levy (PEEL) Fund balance decreased \$1,553 due to purchase of a new school bus.
- The Local Option Sales Tax balance decreased \$12,568 because of the variety of building improvements made during the year.
- The Management Fund balance increased \$113,872 due to an increase in the levy requested.
- The student Activity Fund balance increased \$13,529 due to an increase in admission fees.

Business-Type Fund Highlights

- The School Nutrition Fund balance increased \$24,985 due to the reduction of expenditures.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private purpose trust and agency funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's certified budget is prepared on the cash basis. The District did not amend its budget during the year.

School districts have two levels of budgetary control. One form of budgetary control exists through the "certified budget", which includes all funds of the District as noted above. This budget is certified with the County Auditor and Department of Management each year. Iowa school districts may not certify a general fund budget in excess of its spending authority.

The other level of budgetary control is the "unspent (maximum) authorized budget" and pertains only to the General Fund of the District. The maximum authorized budget is the total "spending authority" in the General Fund of the District. The unspent balance is a budgetary concept and does not mean the "actual General Fund cash". It is imperative for users of District financial information to make this important distinction. The unspent balance is the amount of spending authority that is carried over into the next fiscal year. The unspent balance is a budgetary carryover and does not represent actual dollars (General Fund cash) or actual financial position (unreserved, undesignated General Fund balance) of the District.

The district budgeted an amount that would show the full expenditures of all funds including the unspent balance, but in reality the district does not want to spend the unspent balance.

Capital Asset and Debt Administration

Capital Assets

By the end of fiscal 2004, the District had invested \$541,352, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers and audio-visual equipment, transportation equipment, and administrative offices. This amount represents a net increase of 25 percent from last year. Depreciation expense for the year was approximately \$83,389. More detailed information about capital assets is available in Note 6 to the financial statements.

Long-Term Debt

At year-end, the district had \$106,506 in other long-term debt outstanding. This represents a decrease of \$26,728 from last year. The school district's debt is for early retirement and an EPA asbestos loan.

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:

- Elimination of the budget guarantee
- Changes in enrollment (the district decreased 15 students)
- Addition of a new pre-school special education program

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jeff Kruse, IKM Superintendent; PO Box 580; 755 Main Street; Manilla, IA 51454.

BASIC FINANCIAL STATEMENTS

IKM COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents:			
ISCAP	884,194	-	884,194
Other	844,900	52,834	897,734
Receivables:			
Property tax:			
Delinquent	28,519	-	28,519
Succeeding year	1,505,053	-	1,505,053
Accounts	-	451	451
Accrued interest:			
ISCAP	1,693	-	1,693
Interfund receivables	5,114	(5,114)	-
Due from other governments	242,841	-	242,841
Inventories	-	10,827	10,827
Capital assets, net of accumulated depreciation	541,352	4,258	545,610
Total assets	4,053,666	63,256	4,116,922
Liabilities			
Accounts payable	18,226	-	18,226
Salaries and benefits payable	-	-	-
Deferred revenue:			
Succeeding year property tax	1,505,053	-	1,505,053
Other	-	1,365	1,365
ISCAP warrants payable	879,000	-	879,000
ISCAP accrued interest payable	2,566	-	2,566
ISCAP premium	9,395	-	9,395
Long-term liabilities:			
Portion due within one year:			
Early retirement	20,801	-	20,801
EPA asbestos loan payable	5,881	-	5,881
Portion due after one year:			
Early retirement	65,122	-	65,122
EPA asbestos loan payable	14,702	-	14,702
Total liabilities	2,520,746	1,365	2,522,111

IKM COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
	\$	\$	\$
Net assets			
Invested in capital assets, net of related debt	541,352	4,258	545,610
Restricted for:			
Gifted and talented program	3,178	-	3,178
Management levy	60,534	-	60,534
Physical plant and equipment levy	78,375	-	78,375
Other special revenue purposes	43,127	-	43,127
Local option sales and services tax	293,892	-	293,892
Unrestricted	<u>512,462</u>	<u>57,633</u>	<u>570,095</u>
Total net assets	<u><u>1,532,920</u></u>	<u><u>61,891</u></u>	<u><u>1,594,811</u></u>

IKM COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year end June 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	1,557,740	204,587	248,548	-
Special instruction	647,788	8,232	86,398	-
Other instruction	333,966	98,046	10,336	-
	<u>2,539,494</u>	<u>310,865</u>	<u>345,282</u>	<u>-</u>
Support services:				
Student services	78,592	-	7,789	-
Instructional staff services	99,857	-	-	-
Administration services	479,618	-	-	-
Operation and maintenance of plant services	276,796	3,070	-	-
Transportation services	152,033	-	368	-
	<u>1,086,896</u>	<u>3,070</u>	<u>8,157</u>	<u>-</u>
Non-instructional programs	139	-	-	-
Other expenditures:				
Facilities acquisition	73,984	-	-	10,724
AEA flowthrough	138,188	-	138,188	-
Depreciation (unallocated)*	33,610	-	-	-
	<u>245,782</u>	<u>-</u>	<u>138,188</u>	<u>10,724</u>
Total governmental activities	3,872,311	313,935	491,627	10,724
Business type activities				
Non-instructional programs:				
Food service operations	149,061	88,851	84,782	-
Total	<u>4,021,372</u>	<u>402,786</u>	<u>576,409</u>	<u>10,724</u>

General Revenues:

Property taxes levied for:	
General purposes	
Capital outlay	
Income surtax	
Local option sales and services tax	
Unrestricted state grants	
Unrestricted investment earnings	
Other	
Total general revenues	

Change in net assets

Net assets beginning of year, as restated

Net assets end of year

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

IKM COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year end June 30, 2004

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
(1,104,605)	-	(1,104,605)
(553,158)	-	(553,158)
(225,584)	-	(225,584)
<u>(1,883,347)</u>	<u>-</u>	<u>(1,883,347)</u>
(70,803)	-	(70,803)
(99,857)	-	(99,857)
(479,618)	-	(479,618)
(273,726)	-	(273,726)
(151,665)	-	(151,665)
<u>(1,075,669)</u>	<u>-</u>	<u>(1,075,669)</u>
(139)	-	(139)
(63,260)	-	(63,260)
-	-	-
<u>(33,610)</u>	<u>-</u>	<u>(33,610)</u>
<u>(96,870)</u>	<u>-</u>	<u>(96,870)</u>
(3,056,025)	-	(3,056,025)
<u>-</u>	<u>24,572</u>	<u>24,572</u>
<u>(3,056,025)</u>	<u>24,572</u>	<u>(3,031,453)</u>
1,708,438	-	1,708,438
45,793	-	45,793
165,844	-	165,844
156,396	-	156,396
1,464,957	-	1,464,957
22,046	413	22,459
16,107	-	16,107
<u>3,579,581</u>	<u>413</u>	<u>3,579,994</u>
523,556	24,985	548,541
<u>1,009,364</u>	<u>36,906</u>	<u>1,046,270</u>
<u>1,532,920</u>	<u>61,891</u>	<u>1,594,811</u>

IKM COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2004

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Assets			
Cash and pooled investments:			
ISCAP	884,194	-	884,194
Other	308,059	536,841	844,900
Receivables:			
Property tax:			
Delinquent	24,530	3,989	28,519
Succeeding year	1,357,320	147,733	1,505,053
Accrued interest - ISCAP	1,693	-	1,693
Interfund receivable	11,146	-	11,146
Due from other governments	219,194	23,647	242,841
Total assets	<u>2,806,136</u>	<u>712,210</u>	<u>3,518,346</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	15,600	2,626	18,226
Interfund payable	6,032	-	6,032
ISCAP warrants payable	879,000	-	879,000
ISCAP accrued interest payable	2,566	-	2,566
ISCAP premium	9,395	-	9,395
Deferred revenue:			
Succeeding year property tax	1,357,320	147,733	1,505,053
Other	193,292	-	193,292
Total liabilities	<u>2,463,205</u>	<u>150,359</u>	<u>2,613,564</u>
Fund balances:			
Reserved for:			
Gifted and talented program	3,178	-	3,178
Unreserved	339,753	561,851	901,604
Total fund balances	<u>342,931</u>	<u>561,851</u>	<u>904,782</u>
Total liabilities and fund balances	<u>2,806,136</u>	<u>712,210</u>	<u>3,518,346</u>

IKM COMMUNITY SCHOOL DISTRICT

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

June 30, 2004

Total fund balances of governmental funds (Exhibit C)	904,782
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	541,352
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	193,292
Long-term liabilities, including bonds payable and early retirement benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(106,506)</u>
Net assets of governmental activities (Exhibit A)	<u><u>1,532,920</u></u>

IKM COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	1,674,763	366,571	2,041,334
Tuition	87,904	-	87,904
Other	158,839	105,045	263,884
State sources	1,780,607	166	1,780,773
Federal sources	175,811	10,724	186,535
Total revenues	<u>3,877,924</u>	<u>482,506</u>	<u>4,360,430</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	1,547,521	-	1,547,521
Special instruction	647,788	-	647,788
Other instruction	248,956	82,613	331,569
	<u>2,444,265</u>	<u>82,613</u>	<u>2,526,878</u>
Support services:			
Student services	78,592	-	78,592
Instructional staff services	99,857	-	99,857
Administration services	459,851	40,614	500,465
Operation and maintenance of plant services	235,248	39,691	274,939
Transportation services	175,833	10,829	186,662
	<u>1,049,381</u>	<u>91,134</u>	<u>1,140,515</u>
Non-instructional programs	-	139	139
Other expenditures:			
Facilities acquisition	-	195,340	195,340
Long-term debt:			
Principal	-	5,881	5,881
AEA flowthrough	138,188	-	138,188
	<u>138,188</u>	<u>201,221</u>	<u>339,409</u>
Total expenditures	<u>3,631,834</u>	<u>375,107</u>	<u>4,006,941</u>
Excess (deficiency) of revenues over (under) expenditures	<u>246,090</u>	<u>107,399</u>	<u>353,489</u>
Other financing sources (uses):			
Sales of materials and equipment	300	-	300
Operating transfers in	-	5,881	5,881
Operating transfers out	(5,881)	-	(5,881)
Total other financing sources (uses)	<u>(5,581)</u>	<u>5,881</u>	<u>300</u>
Net change in fund balances	240,509	113,280	353,789
Fund balances beginning of year, as restated	<u>102,422</u>	<u>448,571</u>	<u>550,993</u>

IKM COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
	\$	\$	\$
Fund balances end of year	<u>342,931</u>	<u>561,851</u>	<u>904,782</u>

IKM COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		353,789

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the year as follows:

Expenditures for capital assets	191,291	
Depreciation expense	<u>(83,389)</u>	107,902

Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.

35,137

Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

5,881

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

Early retirement		<u>20,847</u>
------------------	--	---------------

Changes in net assets of governmental activities (Exhibit B)523,556

IKM COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Fund

June 30, 2004

	School Nutrition
	<u>\$</u>
Assets	
Cash and cash equivalents	52,834
Accounts receivable	451
Interfund receivables	6,032
Inventories	10,827
Capital assets, net of accumulated depreciation	<u>4,258</u>
Total assets	<u>74,402</u>
Liabilities	
Interfund payables	11,146
Deferred revenue	<u>1,365</u>
Total liabilities	<u>12,511</u>
Net assets	
Invested in capital assets, net of related debt	4,258
Unrestricted	<u>57,633</u>
Total net assets	<u><u>61,891</u></u>

IKM COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>88,851</u>
Operating expenses:	
Non-instructional programs:	
Salaries	44,440
Benefits	20,576
Purchased services	36
Supplies	82,537
Depreciation	<u>1,472</u>
	<u>149,061</u>
Operating gain (loss)	<u>(60,210)</u>
Non-operating revenue:	
State sources	2,536
Federal sources	82,246
Interest income	<u>413</u>
Total non-operating revenue	<u>85,195</u>
Change in net assets	24,985
Net assets beginning of year	<u>36,906</u>
Net assets end of year	<u><u>61,891</u></u>

IKM COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2004

	School Nutrition
	<u>\$</u>
Cash flows form operating activities:	
Cash received from sale of lunches and breakfasts	88,740
Cash payments to employees for services	(78,486)
Cash payments to suppliers for goods or services	(62,170)
Net cash used by operating activities	<u>(51,916)</u>
Cash flows from non-capital financing activities:	
State grants received	2,536
Federal grants received	61,534
Net cash provided by non-capital financing activities	<u>64,070</u>
Cash flows from capital and related financing activities:	
Loans to other funds	<u>(6,032)</u>
Cash flows from investing activities:	
Interest on investments	<u>413</u>
Net increase (decrease) in cash and cash equivalents	6,535
Cash and cash equivalents at beginning of year	<u>46,299</u>
Cash and cash equivalents at end of year	<u><u>52,834</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(60,210)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	20,712
Depreciation	1,472
Decrease (increase) in inventories	(309)
Decrease (increase) in accounts receivable	1,056
(Decrease) increase in salaries and benefits payable	(13,470)
(Decrease) increase in deferred revenue	<u>(1,167)</u>
Net cash used in operating activities	<u><u>(51,916)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$20,712 of federal commodities.

IKM COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2004

1. Summary of Significant Accounting Policies

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

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

B. Basis of Presentation

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

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

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

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

B. Basis of Presentation (continued)

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

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

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

The District reports the following major governmental fund:

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

The District's proprietary fund is the Enterprise, School Nutrition Fund. This 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 held by the District as an agent for individuals, private organizations, and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

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

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

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

C. Measurement Focus and Basis of Accounting (continued)

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

Under 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, have a maturity date no longer than three months.

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year

becomes effective on the first day of that year. Although the succeeding year property

D. Assets, Liabilities and Fund Equity (continued)

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 becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003, through June 30, 2004, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity (continued)

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

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

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

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

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

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

E. Budgeting and Budgetary Control

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

2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

3. Interfund Receivables and Payables

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

Receivable Fund	Payable Fund	Amount \$
Enterprise:		
School Nutrition Fund	General Fund	6,032
General	Enterprise:	
	School Nutrition Fund	11,146

At year end the General Fund owed the School Nutrition Fund \$6,032 for receipts that were incorrectly deposited in the General Fund bank account and the School Nutrition Fund owed the General Fund \$11,146 for payroll expenses that had been paid from the General Fund bank account. These amounts will be repaid during the next year.

4. Interfund Transfers

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

Transfer to	Transfer from	Amount \$
Debt Service	General	5,881

This transfer moved revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

5. Iowa School Cash Anticipation Program (ISCAP)

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

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
			\$	\$	\$	\$
2003-04B	1/30/04	1/28/05	311,104	1,693	309,000	2,566
2004-05A	6/20/04	6/18/05	573,090	-	570,000	-
Total			<u>884,194</u>	<u>1,693</u>	<u>879,000</u>	<u>2,566</u>

5. Iowa School Cash Anticipation Program (ISCAP) (continued)

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2004, is as follows:

Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
\$	\$	\$	\$
-	339,000	339,000	-

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

Series	Interest Rates on Warrants	Interest Rates on Investments
	%	%
2003-04A	2.000	1.050
2003-04B	2.000	1.131
2004-05A	3.000	2.463

6. Capital Assets

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

	Balance Beginning of Year, as restated	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	10,000	-	-	10,000
Capital assets being depreciated:				
Buildings	1,547,373	85,352	-	1,632,725
Improvements other than buildings	224,086	29,224	7,310	246,000
Furniture and equipment	867,862	76,715	96,016	848,561
Total capital assets being deprec.	2,639,321	191,291	103,326	2,727,286
Less accumulated depreciation for:				
Buildings	1,180,029	30,334	-	1,210,363
Improvements other than buildings	205,197	5,489	7,310	203,376
Furniture and equipment	830,645	47,566	96,016	782,195
Total accumulated depreciation	2,215,871	83,389	103,326	2,195,934
Total capital assets being depreciated, net	423,450	107,902	-	531,352

Governmental activities capital assets, net	433,450	107,902	-	541,352
6. Capital Assets (continued)				

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	77,300	-	-	77,300
Less accumulated depreciation	71,570	1,472	-	73,042
Business type activities capital assets, net	5,730	(1,472)	-	4,258

Depreciation expense was charged to the following functions:

	Amount \$
Governmental activities:	
Instruction:	
Regular	10,219
Other	2,397
Support Services:	
Operation and maintenance of plant services	1,857
Transportation	35,306
	49,779
Unallocated depreciation	33,610
Total depreciation expense – governmental activities	83,389
Business type activities:	
Food services	1,472

7. Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
EPA asbestos loan payable	26,464	-	5,881	20,583	5,881
Early retirement	106,770	-	20,847	85,923	20,801
Total	133,234	-	26,728	106,506	26,682

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age **fifty-five** and must have completed **fifteen** years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives includes the payment of the retiree's health insurance

premiums for a maximum of three years after early retirement. Early retirement expenditures for the year ended June 30, 2004 totaled \$20,847

7. Long-Term Liabilities (continued)

EPA Asbestos Loan Payable

The District received a long-term loan of \$105,858 from the Environmental Protection Agency for removal of asbestos in 1991. The loan is payable in 36 semi-annual installments of \$2,940 and is without interest.

Year Ending June 30,	Total
	\$
2005	5,881
2006	5,881
2007	5,881
2008	2,940
	20,583

During the year ended June 30, 2004 the District made principal payments totaling \$5,881 under the loan agreement.

8. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$135,160, \$121,229, and \$131,527 respectively, equal to the required contributions for each year.

9. Risk Management

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

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

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. The District's annual contributions to ISEBA for the year ended June 30, 2004, were \$374,341.

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.

9. Risk Management (continued)

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.

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

10. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$138,188 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

11. Related Party Transactions

Jim Rasmussen, a board member is a part owner of Rasmussen Lumber Company and his spouse is the owner of Manilla Depot. During the year ended June 30, 2004 IKM Community School District purchased approximately \$42,043 of building materials and supplies from these two businesses.

12. Accounting Change and Restatement

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

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

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

12. Accounting Change and Restatement (continued)

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

	General Fund	Nonmajor Funds	Total
	\$	\$	\$
Net assets, June 30, 2003, as previously reported	102,422	445,058	547,480
GASB Interpretation 6 adjustments	-	3,513	3,513
Net assets, July 1, 2003, as restated for governmental funds	<u>102,422</u>	<u>448,571</u>	550,993
GASB 34 adjustments:			
Capital assets net of accumulated depreciation of 2,215,871			433,450
Long-term liabilities:			
EPA asbestos loan		26,464	
Early retirement		<u>106,770</u>	(133,234)
Deferred revenue			<u>158,155</u>
Net assets, July 1, 2003, as restated			<u>1,009,364</u>

REQUIRED SUPPLEMENTARY INFORMATION

IKM COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Receipts:						
Local sources	2,392,505	89,153	2,481,658	2,698,952	2,698,952	(217,294)
State sources	1,781,322	2,536	1,783,858	2,184,354	2,184,354	(400,496)
Federal sources	224,202	82,246	306,448	215,000	215,000	91,448
Total receipts	<u>4,398,029</u>	<u>173,935</u>	<u>4,571,964</u>	<u>5,098,306</u>	<u>5,098,306</u>	<u>(526,342)</u>
Disbursements:						
Instruction	2,811,369	-	2,811,369	3,100,844	3,100,844	289,475
Support services	1,161,302	-	1,161,302	1,635,694	1,635,694	474,392
Non-instructional programs	139	161,368	161,507	257,656	257,656	96,149
Other expenditures	340,167	-	340,167	511,884	511,884	171,717
Total disbursements	<u>4,312,977</u>	<u>161,368</u>	<u>4,474,345</u>	<u>5,506,078</u>	<u>5,506,078</u>	<u>1,031,733</u>
Excess (deficiency) of receipts over (under) disbursements	85,052	12,567	97,619	(407,772)	(407,772)	505,391
Other financing sources (uses) net	<u>6,332</u>	<u>(6,032)</u>	<u>300</u>	<u>-</u>	<u>-</u>	<u>300</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements	91,384	6,535	97,919	(407,772)	(407,772)	505,691
Balance beginning of year	<u>753,516</u>	<u>46,299</u>	<u>799,815</u>	<u>427,647</u>	<u>427,647</u>	<u>372,168</u>
Balance end of year	<u><u>844,900</u></u>	<u><u>52,834</u></u>	<u><u>897,734</u></u>	<u><u>19,875</u></u>	<u><u>19,875</u></u>	<u><u>877,859</u></u>

IKM COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
	\$	\$	\$
Revenues	4,398,029	(37,599)	4,360,430
Expenditures	4,312,977	(306,036)	4,006,941
Net	85,052	268,437	353,489
Other financing sources (uses) net	6,332	(6,032)	300
Beginning fund balances	753,516	(202,523)	550,993
Ending fund balances	<u>844,900</u>	<u>59,882</u>	<u>904,782</u>
	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
	\$	\$	\$
Revenues	173,935	111	174,046
Expenditures	161,368	(12,307)	149,061
Net	12,567	12,418	24,985
Other financing sources (uses) net	(6,032)	6,032	-
Beginning fund balances	46,299	(9,393)	36,906
Ending fund balances	<u>52,834</u>	<u>9,057</u>	<u>61,891</u>

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

OTHER SUPPLEMENTARY INFORMATION

IKM COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2004

Assets	Special Revenue Funds			Capital Projects Funds	
	Management	Student	Physical	Local	Total
	Levy	Activity	Plant and	Option	
\$	\$	Levy	Sales and	Tax	
	\$	\$	\$	\$	\$
Cash and pooled investments	143,213	43,127	77,630	272,871	536,841
Receivables:					
Property tax:					
Delinquent	3,244	-	745	-	3,989
Succeeding year	110,000	-	37,733	-	147,733
Due from other governments	-	-	-	23,647	23,647
Total assets	256,457	43,127	116,108	296,518	712,210
Liabilities & Fund Balances					
Liabilities:					
Accounts payable	-	-	-	2,626	2,626
Deferred revenue:					
Succeeding year property tax	110,000	-	37,733	-	147,733
Total liabilities	110,000	-	37,733	2,626	150,359
Fund balances:					
Unreserved fund balance	146,457	43,127	78,375	293,892	561,851
Total liabilities and fund balances	256,457	43,127	116,108	296,518	712,210

IKM COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	Special Revenue Funds			Capital Projects Funds		Total
	Management	Student	Physical	Local	Debt	
	Levy	Activity	Plant and	Option	Service	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	199,519	-	45,793	121,259	-	366,571
Other	5,491	96,142	574	2,838	-	105,045
State sources	135	-	31	-	-	166
Federal sources	-	-	10,724	-	-	10,724
Total revenues	<u>205,145</u>	<u>96,142</u>	<u>57,122</u>	<u>124,097</u>	<u>-</u>	<u>482,506</u>
Expenditures:						
Current:						
Instruction:						
Other instruction	-	82,613	-	-	-	82,613
Support services:						
Administration services	40,614	-	-	-	-	40,614
Operation and maintenance						
of plant services	39,691	-	-	-	-	39,691
Transportation services	10,829	-	-	-	-	10,829
Non-instructional programs	139	-	-	-	-	139
Other expenditures:						
Facilities acquisition	-	-	58,675	136,665	-	195,340
Long-term debt:						
Principal	-	-	-	-	5,881	5,881
Total expenditures	<u>91,273</u>	<u>82,613</u>	<u>58,675</u>	<u>136,665</u>	<u>5,881</u>	<u>375,107</u>
Excess (deficiency) of revenues over (under) expenditures	113,872	13,529	(1,553)	(12,568)	(5,881)	107,399
Other financing sources (uses):						
Operating transfers in	-	-	-	-	5,881	5,881
Net change in fund balance	113,872	13,529	(1,553)	(12,568)	-	113,280
Fund balances beginning of year, as restated	<u>32,585</u>	<u>29,598</u>	<u>79,928</u>	<u>306,460</u>	<u>-</u>	<u>448,571</u>
Fund balances end of year	<u>146,457</u>	<u>43,127</u>	<u>78,375</u>	<u>293,892</u>	<u>-</u>	<u>561,851</u>

See accompanying independent auditor's report.

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance	Revenues	Expenditures	Intra-Fund Transfers	Balance
	Beginning of Year				End of Year
	\$	\$	\$	\$	\$
Drama	1,966	4,560	3,067	-	3,459
Basketball	4,662	9,560	5,789	(4,187)	4,246
Football	-	8,578	7,667	-	911
Track	-	637	3,341	2,704	-
Co-ed golf	-	21	1,708	1,687	-
Volleyball	506	1,773	1,389	-	890
Softball	722	6,004	9,618	2,892	-
Activity tickets	3,094	5,967	1,435	-	7,626
Concessions	3,399	12,344	7,019	(2,388)	6,336
Uniform cleaning	524	-	-	-	524
Cheerleaders	131	1,361	1,961	469	-
Baseball	341	2,606	3,961	1,014	-
Class of 2005	1,839	71	1,126	1,030	1,814
Class of 2006	25	7,454	5,665	(1,809)	5
Class of 2007	5	-	-	20	25
Class of 2008	-	25	-	(25)	-
Annual	453	11,187	10,208	-	1,432
FFA	(3,500)	19,694	13,572	(2,191)	431
Interest	9,439	490	169	784	10,544
Student council-MS	99	1,537	1,531	-	105
Student council-HS	3,305	5,815	4,560	-	4,560
Student council-Elem.	118	671	570	-	219
June 30, 2003 accrual entries	2,470	(4,213)	(1,743)	-	-
Total	29,598	96,142	82,613	-	43,127

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund

Year ended June 30, 2004

		Beginning of Year	Additions	Deductions	End of Year
		\$	\$	\$	\$
	Assets				
Cash		-	9,005	9,005	-
	Liabilities				
Other liabilities		-	9,005	9,005	-

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2004	2003	2002	2001
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,041,334	2,016,026	1,673,408	1,554,211
Tuition	87,904	128,945	136,176	108,904
Other	263,884	273,974	257,008	175,915
State sources	1,780,773	1,765,687	1,808,541	1,916,894
Federal sources	186,535	170,920	110,585	106,764
Total revenues	<u>4,360,430</u>	<u>4,355,552</u>	<u>3,985,718</u>	<u>3,862,688</u>
Expenditures:				
Instruction:				
Regular instruction	1,547,521	1,545,215	1,552,150	1,748,609
Special instruction	647,788	619,149	547,712	540,907
Other instruction	331,569	308,822	279,940	306,386
Support services:				
Student services	78,592	75,791	77,519	73,879
Instructional staff services	99,857	145,897	252,707	230,035
Administration services	500,465	481,787	544,166	530,829
Operation and maintenances of plant services	274,939	245,795	283,516	328,951
Transportation services	186,662	206,415	174,955	207,082
Non-instructional programs	139	131	3,950	19,327
Other expenditures:				
Facilities acquisition	195,340	72,674	15,092	29,539
Long-term debt:				
Principal	5,881	5,881	5,881	5,881
AEA flowthrough	138,188	145,655	148,380	155,423
Total expenditures	<u>4,006,941</u>	<u>3,853,212</u>	<u>3,885,968</u>	<u>4,176,848</u>

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

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

We have audited the financial statements of the IKM Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated July 26, 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 IKM Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that are described in Part II of the accompanying Schedule of Findings.

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

Internal Control over Financial Reporting

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

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

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

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

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

[July 26, 2004](#)

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

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

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

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

Conclusion: Response accepted.

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

04-II-A Official Depositories: Official depositories have been approved by the District. The maximum deposit amounts approved were exceeded during the year ended June 30, 2004.

Recommendation: The District should increase the maximum dollar amount allowed by its depository resolution so that the maximum will not be exceeded during the times when cash flow of the District is the greatest.

District Response: We will increase the maximum deposit amount allowed by our depository resolution.

Conclusion: Response accepted

04-II-B Certified Budget: Disbursement for the year ended June 30, 2004, did not exceed the amounts budgeted.

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

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

04-II-E Business Transactions: Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u> \$
Jim Rasmussen, Board Member, part owner of Rasmussen Lumber Company, Spouse is owner of Manilla Depot	Gasoline, Building Repair & Materials	42,043

Approximately \$37,823 of the items were purchased per bid. The items that were not bid appear to represent a conflict of interest since the dollar amount was more than \$2,500 which is allowed by Iowa law.

Recommendation: The District should consult legal council regarding this matter.

District Response: We will consult with our attorney.

Conclusion: Response accepted.

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

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

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

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

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

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

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

04-II-K Public Hearing: The Code of Iowa requires that schools hold a public hearing for all capital improvements with a cost exceeding \$25,000. We noted that the Board approved a capital improvement without holding a public hearing.

Recommendation: The District should hold public hearings for all capital projects with cost in excess of \$25,000.

District Response: We will do this in the future.

Conclusion: Response accepted.