

**MALVERN
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

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MALVERN COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2003 Election)

Deanne Mulholland	President	2005
Susan Stogdill	Vice President	2003
Mitchel Miller		2003
Debra Lefevre		2005
LeAnn Peterson		2003

(After September, 2003 Election)

Deanne Mulholland	President	2005
LeAnn Peterson	Vice President	2004
Debra Lefevre		2005
Susan Stogdill		2006
Crystal Green		2006

SCHOOL OFFICIALS

Steven Lane	Superintendent
Denise Stevens	District Secretary/ Treasurer

Independent Auditor's Report

To The Board of Education of the
Malvern 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 Malvern Community School District, Malvern, 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 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 Malvern 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 discussed in Note 7 to the financial statements, during the year ended June 30, 2004, Malvern Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated September 30, 2004 on our consideration of Malvern 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 11 and 30 through 32 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 inquires 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 Malvern 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 supplementary 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.

BRUCE D. FRINK
Certified Public Accountant

September 30, 2004

MALVERN COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Malvern Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

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

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$2,890,246 in fiscal 2003 to \$2,987,139 in fiscal 2004, while General Fund expenditures increased from \$2,692,658 in fiscal year 2003 to \$2,917,971 in fiscal 2004. The District's General Fund balance decreased from \$538,991 in fiscal 2003 to \$608,159 in fiscal 2004, a 13% decrease.
- The increase in expenses is due to normal increases in salary and employee benefits, increased textbook expenditures and a buyout of an administrative contract.
- State revenues increased from fiscal 2003 to fiscal 2004. This is a result of an enrollment increase of 18.2 students from fiscal 2002 to fiscal 2003, however, fiscal 2004 showed a decrease of 11.8.
- Tuition income increased by 20% primarily in open enrollment. Net open enrolled students increased by 2.9 in fiscal 2004. The District has a plus 14.9 net in open enrolled students.
- The District's solvency ratio was 20% at the end of fiscal 2004. The solvency ratio is indicative of the District's ability to meet its financial obligations. This is an increase of over 1% from the prior year.
- The District is a recipient of the Reading First Program Grant (a Federal Grant) for the period June 1, 2003 through June 30, 2006. Approximately \$37,663 will be allotted to fund Reading First Programs each of the next three years.
- SILO or Local Option Sales Tax was voted into Mills County in October 2003. We received our first monthly check in the amount of \$5,087 in February 2004. These dollars can only be used for infrastructure projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the general purpose financial statements and required supplementary information.

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.

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

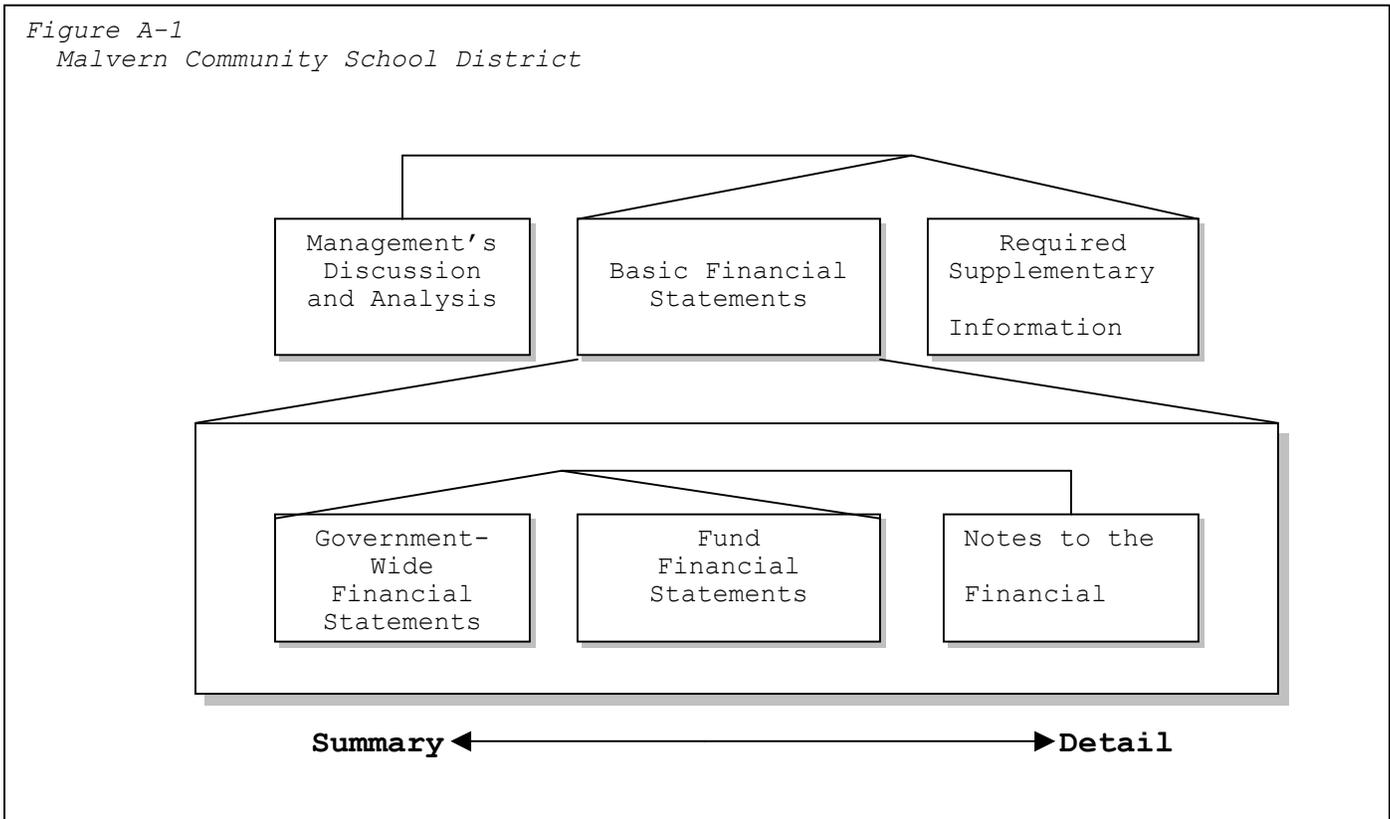


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents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

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

	Government-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	. Statement of net assets . Statement of activities	. Balance sheet . Statement of revenues, expenditures, and changes in fund balances	. Statement of net assets . Statement of revenues, expenses and changes in net assets . Statement of cash flows	. 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 financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

- **Governmental activities:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid, finance most of these activities.
- **Business-type activities:** The District charges fees to help cover the costs of certain services it provides. The District's school nutrition 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 funds statements provide a detailed short-term view that helps the reader 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, and Debt Service Fund. Most of the District's basic services are included here, such as regular education, special education, building and grounds maintenance, transportation, and administration. Most of these activities are funded with property taxes and state aid finance.

- 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.

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

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Funds - The District holds money for outside groups in a custodial capacity.

The District is responsible for ensuring 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.

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
 (expressed in thousands)

	Governmental		Business-type		Total		Percentage Change
	Activities		Activities		School District		
	June 30,		June 30,		June 30,		
	2004	2003	2004	2003	2004	2003	2003-2004
	\$	\$	\$	\$	\$	\$	
Current assets	2,288	2,131	5	22	2,293	2,153	6.50%
Capital assets	668	730	-	5	668	735	-9.12%
Total assets	<u>2,956</u>	<u>2,861</u>	<u>5</u>	<u>27</u>	<u>2,961</u>	<u>2,888</u>	<u>2.53%</u>
Current liabilities	1,381	1,375	-	-	1,381	1,375	0.44%
Non-current liabilities	-	-	-	-	-	-	0.00%
Total liabilities	<u>1,381</u>	<u>1,375</u>	<u>-</u>	<u>-</u>	<u>1,381</u>	<u>1,375</u>	<u>0.44%</u>
Net Assets							
Invested in capital assets, net of related debt	668	730	-	5	668	735	-9.12%
Restricted	268	190	-	-	268	190	41.05%
Unrestricted	639	566	5	22	644	588	9.52%
Total net assets	<u>1,575</u>	<u>1,486</u>	<u>5</u>	<u>27</u>	<u>1,580</u>	<u>1,513</u>	<u>4.43%</u>

Fiscal year 2003-2004 marks the initial District implementation of the GASB-34 financial reporting model. As a result, complete prior year comparisons are not available but will be provided in all subsequent years.

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

Figure A-4
Change in Net Assets
(expressed in thousands)

	Governmental Activities \$	Business-type Activities \$	Total School District \$
Revenues:			
Program revenues:			
Charges for service and sales	239	63	302
Operating grants, contributions and restricted interest	547	76	623
General revenues:			
Property tax	1,156	-	1,156
Income surtax	67	-	67
Local option sales tax	27	-	27
Unrestricted state grants	1,292	-	1,292
Unrestricted investment earnings	10	-	10
Other	7	-	7
Total revenues	<u>3,345</u>	<u>139</u>	<u>3,484</u>
Program expenses:			
Governmental activities:			
Instruction	2,052	-	2,052
Support Services	881	-	881
Non-instructional programs	118	134	252
Other expenses	205	-	205
Total expenses	<u>3,256</u>	<u>134</u>	<u>3,390</u>
Change in net assets	<u>89</u>	<u>5</u>	<u>94</u>

Property tax and unrestricted state grants account for 70% of the total revenue. The District's expenses primarily related to instruction and support services, which account for 87% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$3,344,560 and expenses were \$3,192,764.

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
(expressed in thousands)

	Total Cost of Services	Net Cost of Services
	\$	\$
Instruction	2,052	1,386
Support Services	881	873
Non-instructional programs	118	118
Other expenses	<u>205</u>	<u>93</u>
Totals	<u><u>3,256</u></u>	<u><u>2,470</u></u>

- The cost financed by users of the District's programs was \$239,102.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$436,063.
- The net cost of governmental activities was financed with \$1,102,402 in property tax, \$1,291,571 in state foundation aid, and \$10,242 in interest income.

Proprietary-Type Funds

Revenues for the District's School Nutrition Fund were \$139,840 and expenses were \$134,321. The revenues include charges for services, contributions, and federal and state reimbursements.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The Malvern 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 the District completed the fiscal year, its governmental funds reported a combined fund balance of \$1,574,954, which is 6% greater than last year's ending fund balance of \$1,486,054.

GOVERNMENTAL FUND HIGHLIGHTS

Several factors contributed to the increase in the fund balance in the District's governmental funds. Some of these factors were unexpected; some were deliberately planned.

- A prior year enrollment increase brought additional state foundation aid to the District. This helped offset the mid-year funding cuts.
- Tuition from open enrollment increased by over \$60,000.
- The District's revenues from Federal sources increased due to the Rural Education Achievement Program.
- The school infrastructure sales began to be collected in January, 2004. This will aid the school in future infrastructure projects.

Proprietary Fund Highlights

School Nutrition Fund net assets increased over \$5,000 in Fiscal 2004. Reductions in payroll costs accounted for the majority of the increases.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures.

It is the District's practice, as is in most Iowa school district, to budget expenditures at or about the maximum authorized spending. As a result, the District's certified budget should always exceed the actual expenditures for the year.

Actual revenue exceeded budgeted amounts primarily due to increases in tuition income and federal grant activity.

CAPITAL ASSETS

The District has invested more than \$3 million by the end of fiscal year 2004 in a broad range of capital assets, including school buildings, athletic facilities, kitchen, computers and audio-visual equipment, maintenance equipment, school buses and other vehicles, library holdings, and textbooks. The District made improvements and updated equipment at all three facilities during the year. Total depreciation expenses for the year exceeded \$86,000.

LONG-TERM DEBT

The District has no long-term debt.

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District will need to monitor payroll expenses as they account for the vast majority of the budget.
- Alternative sources must be found due to funding inconsistencies on the parts of the federal and state governments.
- The District will continue to be required to comply with unfunded and under funded mandates from the federal and state governments such as the Federal No Child Left Behind Act and the state Student Achievement and Teacher Quality Initiative. This will require the District to find ways to provide services in the areas of assessment and professional development, which will divert funds from other student service areas.
- Enrollment increases and decreases will play a large part in determining the District's finances on an year to year basis. The legislature needs to ensure adequate allowable growth to properly fund education.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our 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 Darla Hetzel, District Business Manager, Malvern Community School District, 1505 East 15th St, Malvern, IA 51551.

Basic Financial Statements

MALVERN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$
Assets			
Cash and pooled investments	1,038,084	19,735	1,057,819
Receivables:			
Property tax:			
Current year	15,946	-	15,946
Succeeding year	1,108,411	-	1,108,411
Income surtax - succeeding year	65,000	-	65,000
Due from other governments	33,578	-	33,578
Accrued interest receivable	1,125	-	1,125
Other receivables	5	39	44
Inventories	5,893	10,561	16,454
Prepaid expenses	20,165	-	20,165
Capital assets, net of accumulated depreciation	667,567	4,596	672,163
Total assets	<u>2,955,774</u>	<u>34,931</u>	<u>2,990,705</u>
Liabilities			
Accounts payable	7,355	-	7,355
Accrued payroll and benefits	200,054	2,354	202,408
Deferred revenue:			
Succeeding year property tax	1,108,411	-	1,108,411
Succeeding year income surtax	65,000	-	65,000
Total liabilities	<u>1,380,820</u>	<u>2,354</u>	<u>1,383,174</u>
Net assets			
Invested in capital assets, net of related debt	667,567	4,596	672,163
Restricted for:			
Management levy	98,530	-	98,530
Physical plant and equipment levy	142,507	-	142,507
Capital projects	26,980	-	26,980
Unrestricted	639,370	27,981	667,351
Total net assets	<u>1,574,954</u>	<u>32,577</u>	<u>1,607,531</u>

See notes to financial statements.

MALVERN COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
	\$	\$	\$	\$	\$	\$
<u>Functions/Programs</u>						
Governmental activities:						
Instruction:						
Regular instruction	1,368,350	145,730	196,242	(1,026,378)	-	(1,026,378)
Special instruction	416,101	88,356	119,591	(208,154)	-	(208,154)
Other instruction	267,580	-	115,627	(151,953)	-	(151,953)
	<u>2,052,031</u>	<u>234,086</u>	<u>431,460</u>	<u>(1,386,485)</u>	<u>-</u>	<u>(1,386,485)</u>
Support services:						
Student services	25,108	-	1,859	(23,249)	-	(23,249)
Instructional staff services	34,013	-	-	(34,013)	-	(34,013)
Administration services	384,915	-	-	(384,915)	-	(384,915)
Operation and maintenance of plant services	262,777	-	1,835	(260,942)	-	(260,942)
Transportation services	174,566	5,016	-	(169,550)	-	(169,550)
	<u>881,379</u>	<u>5,016</u>	<u>3,694</u>	<u>(872,669)</u>	<u>-</u>	<u>(872,669)</u>
Non-instructional programs:						
Food service operations	117,642	-	-	(117,642)	-	(117,642)
Other expenditures:						
AEA flowthrough	111,479	-	111,479	-	-	-
Facilities acquisition and construction	2,526	-	-	(2,526)	-	(2,526)
Depreciation (unallocated)*	90,603	-	-	(90,603)	-	(90,603)
	<u>204,608</u>	<u>-</u>	<u>111,479</u>	<u>(93,129)</u>	<u>-</u>	<u>(93,129)</u>
Total governmental activities	3,255,660	239,102	546,633	(2,469,925)	-	(2,469,925)

MALVERN COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

	<u>Program Revenues</u>					
	<u>Expenses</u>	<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
	\$	\$	\$	\$	\$	\$
Business-Type activities:						
Non-instructional programs:						
Nutrition services	134,321	63,466	76,374	-	5,519	5,519
Total	<u>3,389,981</u>	<u>302,568</u>	<u>623,007</u>	(2,469,925)	5,519	(2,464,406)
General revenues:						
Property tax levied for:						
General purposes				998,914	-	998,914
Management levy				60,431	-	60,431
Capital outlay				97,445	-	97,445
Income surtax				66,462	-	66,462
Local option sales taxes				26,980	-	26,980
Unrestricted state grants				1,291,571	-	1,291,571
Unrestricted investment earnings				10,242	-	10,242
Other				6,780	-	6,780
Total general revenue				<u>2,558,825</u>	-	<u>2,558,825</u>
Change in net assets				88,900	5,519	94,419
Net assets beginning of year, as restated (note 7)				<u>1,486,054</u>	<u>27,058</u>	<u>1,513,112</u>
Net assets end of year				<u>1,574,954</u>	<u>32,577</u>	<u>1,607,531</u>

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

See notes to financial statements.

MALVERN COMMUNITY SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2004

	<u>General</u>	<u>Physical Plant and Equipment Levy</u>	<u>Capital Projects</u>	<u>Nonmajor Special Revenue</u>	<u>Total</u>
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments	745,702	141,997	21,121	129,264	1,038,084
Receivables:					
Property tax:					
Current year	13,940	1,236	-	770	15,946
Succeeding year	971,055	77,356	-	60,000	1,108,411
Income surtax - succeeding year	-	65,000	-	-	65,000
Due from other governments	27,719	-	5,859	-	33,578
Accrued interest receivable	1,125	-	-	-	1,125
Other receivables	5	-	-	-	5
Inventories	5,893	-	-	-	5,893
Prepaid expenses	20,165	-	-	-	20,165
Total assets	<u>1,785,604</u>	<u>285,589</u>	<u>26,980</u>	<u>190,034</u>	<u>2,288,207</u>
Liabilities and Fund Balance					
Liabilities:					
Accounts payable	6,336	726	-	293	7,355
Accrued payroll and benefits	200,054	-	-	-	200,054
Deferred revenue:					
Succeeding year property tax	971,055	77,356	-	60,000	1,108,411
Succeeding year income surtax	-	65,000	-	-	65,000
Total liabilities	<u>1,177,445</u>	<u>143,082</u>	<u>-</u>	<u>60,293</u>	<u>1,380,820</u>
Fund balances:					
Reserved for capital projects	-	-	26,980	-	26,980
Unreserved	608,159	142,507	-	129,741	880,407
Total fund balances	<u>608,159</u>	<u>142,507</u>	<u>26,980</u>	<u>129,741</u>	<u>907,387</u>
Total liabilities and fund balances	<u>1,785,604</u>	<u>285,589</u>	<u>26,980</u>	<u>190,034</u>	<u>2,288,207</u>

See notes to financial statements.

MALVERN 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)	\$ 907,387
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not assets in the governmental funds.	<u>667,567</u>
Net assets of governmental activities (Exhibit A)	<u><u>\$ 1,574,954</u></u>

MALVERN COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2004

	General	Physical Plant and Equipment Levy	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	998,914	163,907	26,980	60,431	1,250,232
Tuition	226,804	-	-	-	226,804
Other	33,883	1,135	-	104,872	139,890
State sources	1,593,327	59	-	37	1,593,423
Federal sources	134,211	-	-	-	134,211
Total revenues	<u>2,987,139</u>	<u>165,101</u>	<u>26,980</u>	<u>165,340</u>	<u>3,344,560</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	1,352,591	-	-	15,759	1,368,350
Special instruction	416,101	-	-	-	416,101
Other instruction	167,829	-	-	99,751	267,580
	<u>1,936,521</u>	<u>-</u>	<u>-</u>	<u>115,510</u>	<u>2,052,031</u>
Support services:					
Student services	21,344	-	-	3,764	25,108
Instructional staff services	31,680	-	-	2,333	34,013
Administration services	373,502	-	-	11,413	384,915
Operation and maintenance of plant services	224,115	62,176	-	6,486	292,777
Transportation services	101,688	25,875	-	7,710	135,273
	<u>752,329</u>	<u>88,051</u>	<u>-</u>	<u>31,706</u>	<u>872,086</u>
Non-instructional programs:					
Food service operations	117,642	-	-	-	117,642
Other expenditures:					
AEA flowthrough	111,479	-	-	-	111,479
Facilities acquisition and construction	-	39,526	-	-	39,526
	<u>111,479</u>	<u>39,526</u>	<u>-</u>	<u>-</u>	<u>151,005</u>
Total expenditures	<u>2,917,971</u>	<u>127,577</u>	<u>-</u>	<u>147,216</u>	<u>3,192,764</u>
Excess (deficiency) of revenues over (under) expenditures	69,168	37,524	26,980	18,124	151,796
Fund balances beginning of year, as restated (note 7)	538,991	104,983	-	111,617	755,591
Fund balances end of year	<u>608,159</u>	<u>142,507</u>	<u>26,980</u>	<u>129,741</u>	<u>907,387</u>

See notes to financial statements.

MALVERN 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) \$ 151,796

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of depreciation expense in the year are as follows:

Capital outlays	67,000
Depreciation expense	<u>(129,896)</u>

Change in net assets of governmental activities (Exhibit B) \$ 88,900

MALVERN 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 services	<u>63,466</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	49,800
Benefits	6,696
Services	3,704
Supplies	68,590
Property	4,779
Depreciation	<u>752</u>
Total operating expenses	<u>134,321</u>
Operating (loss)	<u>(70,855)</u>
Non-operating revenues:	
State sources	2,256
Federal sources	73,988
Interest income	<u>130</u>
	<u>76,374</u>
Changes in net assets	5,519
Net assets beginning of year	<u>27,058</u>
Net assets end of year	<u><u>32,577</u></u>

See notes to financial statements.

MALVERN 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	63,501
Cash payments to employees for services	(56,496)
Cash payments to suppliers for goods or services	<u>(61,143)</u>
Net cash (used in) operating activities	<u>(54,138)</u>
Cash flows from non-capital financing activities:	
State grants received	2,256
Federal grants received	<u>60,468</u>
Net cash provided by non-capital financing activities	<u>62,724</u>
Cash flows from investing activities:	
Interest on investments	<u>130</u>
Net increase in cash and cash equivalents	8,716
Cash and cash equivalents beginning of year	<u>11,019</u>
Cash and cash equivalents end of year	<u><u>19,735</u></u>
Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating (loss)	(70,855)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:	
Depreciation	752
Commodities used	13,520
(Increase in other receivables)	(39)
Decrease in inventory	130
Increase in accrued payroll and benefits	<u>2,354</u>
	<u><u>(54,138)</u></u>
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:	
Current assets:	
Cash	<u><u>19,735</u></u>
Non-cash investing, capital and financing activities:	

During the year ended June 30, 2004, the District received federal commodities valued at \$13,520.

See notes to financial statements.

MALVERN COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Funds

Year ended June 30, 2004

	Private Purpose Trusts	Agency Funds
	\$	\$
Assets		
Cash and pooled investments	2,444	21,890
Liabilities		
Other payables	<u>-</u>	<u>21,890</u>
Net Assets		
Reserved for special purposes	<u>2,444</u>	<u>-</u>

See notes to financial statements.

MALVERN COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

Year ended June 30, 2004

	Private Purpose Trusts
	Chantry Bequest
	\$
Additions:	
Local sources:	
Miscellaneous	60
Total additions	<u>60</u>
Deductions:	
Support services:	
Scholarships	-
Total deductions	<u>-</u>
Change in net assets	60
Net assets beginning of year	<u>2,384</u>
Net assets end of year	<u><u>2,444</u></u>

See notes to financial statements.

MALVERN COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The Malvern Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the City of Malvern, Iowa, and agricultural area in Mills County. 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, Malvern 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 Malvern 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 Mills County Assessor Conference Board.

B. Basis of Presentation

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

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

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are 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 non-major 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 Physical Plant and Equipment Levy is used to account for the purchase of equipment and the repairing, remodeling and construction of buildings and land improvements.

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

The District reports the following major proprietary fund:

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 Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used for scholarship payments.

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 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 financial 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 funds' 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 sale 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 statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

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 non-negotiable certificates of deposit which are stated at cost.

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

Property Tax Receivable - Property tax in Governmental Funds 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 the 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 and grants from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for 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.

Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	10,000
Other furniture and equipment	10,000

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

Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible 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.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the Government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2004.

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. Disbursements in the Non-instructional Programs function exceeded the amount budgeted.

(2) Cash and Pooled Investments

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

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

The District had no investments at June 30, 2004.

(3) Capital Assets

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

	Balance Beginning of Year, as restated (note 7)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,000	-	-	1,000
Capital assets being depreciated:				
Land improvements	83,571	30,000	-	113,571
Buildings	1,337,468	37,000	-	1,374,468
Furniture and equipment	773,823	-	-	773,823
Total capital assets being depreciated	<u>2,194,862</u>	<u>67,000</u>	<u>-</u>	<u>2,261,862</u>
Less accumulated depreciation for:				
Land improvements	76,180	5,679	-	81,859
Buildings	834,046	27,489	-	861,535
Furniture and equipment	555,173	96,728	-	651,901
Total accumulated depreciation	<u>1,465,399</u>	<u>129,896</u>	<u>-</u>	<u>1,595,295</u>
Total capital assets being depreciated, net	<u>729,463</u>	<u>(62,896)</u>	<u>-</u>	<u>666,567</u>
Governmental activities, capital assets, net	<u>\$ 730,463</u>	<u>(62,896)</u>	<u>-</u>	<u>667,567</u>
Business type activities:				
Furniture and equipment	15,512	0	-	15,512
Less accumulated depreciation	<u>10,269</u>	<u>647</u>	<u>-</u>	<u>10,916</u>
Business type activities capital assets, net	<u>\$ 5,243</u>	<u>(647)</u>	<u>-</u>	<u>4,596</u>
Depreciation expense was charged to the following functions:				
Governmental activities:				
Student transportation				39,293
Unallocated				<u>90,603</u>
				<u>\$ 129,896</u>
Business Type activities:				
Food service operations				<u>\$ 647</u>

(4) 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, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$96,770, \$92,854, and \$94,063 respectively, equal to the required contributions for each year.

(5) 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 \$111,479 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(6) Risk Management

Malvern 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. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Accounting Change

Governmental Accounting Standards Board (GASB) Interpretation Number 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2003. 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 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 were implemented during the fiscal year ending 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.

Governmental Accounting Standards Board (GASB) Statement Number 38, Certain Financial Statement Note Disclosure, requires certain disclosures be made in the notes to the financial statements concurrent with the implementation of Statement Number 34.

The government-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount 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.

	Fund			Total
	General	Physical Plant and Equipment Levy	Nonmajor Special Revenues	
Net assets, June 30, 2003, as previously reported	\$538,991	104,983	111,617	755,591
GASB Interpretation 6 adjustments	-	-	-	-
Net assets, July 1, 2003, as restated for governmental funds	<u>\$538,991</u>	<u>104,983</u>	<u>111,617</u>	755,591
GASB 34 adjustments:				
Capital assets, net of accumulated depreciation of \$1,947,171				<u>730,463</u>
Net assets, July 1, 2003, as restated				<u>\$1,486,054</u>

Required Supplementary Information

MALVERN 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	Proprietary	Total	Budgeted Amounts		Final to
	Fund Types	Fund Type		Original	Final	Actual
	Actual	Actual		Actual	Original	Final
	\$	\$	\$	\$	\$	\$
Receipts:						
Local sources	1,633,151	63,631	1,696,782	1,588,194	1,588,194	108,588
State sources	1,593,423	2,256	1,595,679	1,608,919	1,608,919	(13,240)
Federal sources	134,211	60,468	194,679	162,000	162,000	32,679
Total receipts	<u>3,360,785</u>	<u>126,355</u>	<u>3,487,140</u>	<u>3,359,113</u>	<u>3,359,113</u>	<u>128,027</u>
Disbursements:						
Instruction	2,177,931	-	2,177,931	2,431,000	2,431,000	253,069
Support services	872,086	-	872,086	1,336,150	1,336,150	464,064
Non-instructional programs	-	117,639	117,639	-	-	(117,639)
Other expenditures	151,005	-	151,005	194,489	194,489	43,484
Total disbursements	<u>3,201,022</u>	<u>117,639</u>	<u>3,318,661</u>	<u>3,961,639</u>	<u>3,961,639</u>	<u>642,978</u>
Excess (deficiency) of receipts over (under) disbursements	159,763	8,716	168,479	(602,526)	(602,526)	771,005
Other financing sources (uses)	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	159,763	8,716	168,479	(602,526)	(602,526)	771,005
Balance beginning of year	<u>878,321</u>	<u>11,019</u>	<u>889,340</u>	<u>789,099</u>	<u>789,099</u>	<u>100,241</u>
Balance end of year	<u><u>1,038,084</u></u>	<u><u>19,735</u></u>	<u><u>1,057,819</u></u>	<u><u>186,573</u></u>	<u><u>186,573</u></u>	<u><u>871,246</u></u>

See accompanying independent auditor's report.

MALVERN COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Type		
	Cash	Accrual	Modified
	Basis	Adjustments	Accrual
	Basis	Adjustments	Basis
Revenues	\$ 3,360,785	(16,225)	3,344,560
Expenditures	<u>3,201,022</u>	<u>(8,258)</u>	<u>3,192,764</u>
Net	159,763	(7,967)	151,796
Other financing sources (uses)	-	-	-
Beginning fund balances	<u>878,321</u>	<u>(122,730)</u>	<u>755,591</u>
Ending fund balances	<u>\$ 1,038,084</u>	<u>(130,697)</u>	<u>907,387</u>

	Proprietary Fund Type		
	Enterprise		
	Cash	Accrual	Accrual
	Basis	Adjustments	Basis
Revenues	\$ 126,355	13,485	139,840
Expenditures	<u>117,639</u>	<u>16,682</u>	<u>134,321</u>
Net	8,716	(3,197)	5,519
Beginning fund balances	<u>11,019</u>	<u>16,039</u>	<u>27,058</u>
Ending fund balances	<u>\$ 19,735</u>	<u>12,842</u>	<u>32,577</u>

See accompanying independent auditor's report.

MALVERN 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 functions 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.

Disbursements exceeded the amount budgeted in the Non-instructional programs.

Other Supplementary Information

MALVERN COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet

Nonmajor Special Revenue Funds

June 30, 2004

	Management	Student Activity	Total
	\$	\$	\$
Assets			
Cash and pooled investments	97,760	31,504	129,264
Property tax receivable:			
Current year	770	-	770
Succeeding year	<u>60,000</u>	<u>-</u>	<u>60,000</u>
Total assets	<u><u>158,530</u></u>	<u><u>31,504</u></u>	<u><u>190,034</u></u>
Liabilities and Fund Equity			
Liabilities:			
Accounts payable	-	293	293
Deferred revenue:			
Succeeding year property tax	<u>60,000</u>	<u>-</u>	<u>60,000</u>
	<u>60,000</u>	<u>293</u>	<u>60,293</u>
Fund equity:			
Unreserved, undesignated fund balance	<u>98,530</u>	<u>31,211</u>	<u>129,741</u>
	<u>98,530</u>	<u>31,211</u>	<u>129,741</u>
Total liabilities and fund equity	<u><u>158,530</u></u>	<u><u>31,504</u></u>	<u><u>190,034</u></u>

See accompanying independent auditor's report.

MALVERN COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances

Nonmajor Special Revenue Funds

Year ended June 30, 2004

	<u>Management</u>	<u>Student</u>	<u>Total</u>
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	60,431	-	60,431
Other	604	104,268	104,872
State sources	<u>37</u>	<u>-</u>	<u>37</u>
Total revenues	<u>61,072</u>	<u>104,268</u>	<u>165,340</u>
Expenditures:			
Instruction:			
Regular instruction	15,759	-	15,759
Co-curricular instruction	-	99,751	99,751
Support services:			
Student support services	3,764	-	3,764
Instructional support services	2,333		2,333
Administrative services	11,413		11,413
Plant operation and maintenance	6,486	-	6,486
Student transportation	<u>7,710</u>	<u>-</u>	<u>7,710</u>
Total expenditures	<u>47,465</u>	<u>99,751</u>	<u>147,216</u>
Excess of revenues over expenditures	13,607	4,517	18,124
Fund balances beginning of year, as restated (note 7)	<u>84,923</u>	<u>26,694</u>	<u>111,617</u>
Balance end of year	<u><u>98,530</u></u>	<u><u>31,211</u></u>	<u><u>129,741</u></u>

See accompanying independent auditor's report.

MALVERN COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue, Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Chantry Activity	1,588	3,082	3,702	968
Chantry Music	148	1,684	1,462	370
Instrumental Music	292	778	777	293
National Honor Society	(84)	358	251	23
Spanish Club	372	-	-	372
News Staff	-	48	48	-
Annual	1,001	2,502	3,503	-
Art	332	-	-	332
Cheerleading	433	2,642	2,789	286
JH Math/Science	621	-	68	553
FCCLA	275	11,904	12,299	(120)
Library Club	393	-	-	393
Weight Club	702	106	436	372
Concessions	10,353	17,394	17,356	10,391
Class of 2002	(106)	106	-	-
Class of 2003	616	-	200	416
Class of 2004	2,437	566	1,354	1,649
Class of 2005	1,765	5,082	5,805	1,042
Class of 2006	456	3,591	1,485	2,562
Class of 2007	247	156	-	403
Class of 2008	266	67	-	333
Class of 2009	-	335	-	335
Athletics	1,070	43,362	40,156	4,276
HOSA	28	-	-	28
VICA	710	-	710	-
Revolving	(42)	2,609	2,179	388
Shop	54	-	-	54
HS Student Council	1,023	841	578	1,286
Science Club	28	-	-	28
Chantry Library	172	5,912	3,196	2,888
Panther Den	855	808	813	850
Chantry Reading	689	335	584	440
Totals	26,694	104,268	99,751	31,211

See accompanying independent auditor's report.

MALVERN COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities

Agency Fund

Year ended June 30, 2004

Account	Balance Beginning of Year	Additions	Deductions	Balance End of Year
	\$	\$	\$	\$
Education Services	7,651	537	1,750	6,438
Picture Commissions	62	-	-	62
HS Employees	1,527	393	102	1,818
Outdoor Classroom	1,904	-	-	1,904
Cash for Schools	5,705	-	-	5,705
Costello Music Award	5,888	75	-	5,963
	<u>22,737</u>	<u>1,005</u>	<u>1,852</u>	<u>21,890</u>

See accompanying independent auditor's report.

MALVERN COMMUNITY SCHOOL DISTRICT

Comparison of Taxes and Intergovernmental Revenues

All Funds

For the Last Four Years

	Modified Accrual Basis			
	2004	2003	2002	2001
	\$			
Local sources:				
General	998,914	1,019,462	819,859	813,091
Special revenue/debt service	224,338	200,273	199,439	196,633
Capital projects	26,980	-	-	-
	<u>1,250,232</u>	<u>1,219,735</u>	<u>1,019,298</u>	<u>1,009,724</u>
State sources:				
General	1,593,327	1,492,304	1,534,250	1,463,928
Special revenue/debt service	96	86	4,706	187
School nutrition	2,256	2,392	2,301	4,970
	<u>1,595,679</u>	<u>1,494,782</u>	<u>1,541,257</u>	<u>1,469,085</u>
Federal sources:				
General	134,211	151,944	72,372	78,883
Special revenue	-	24,970	-	-
School nutrition	73,988	70,262	61,981	60,937
	<u>208,199</u>	<u>247,176</u>	<u>134,353</u>	<u>139,820</u>
Total	<u>3,054,110</u>	<u>2,961,693</u>	<u>2,694,908</u>	<u>2,618,629</u>

See accompanying independent auditor's report.

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

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

We have audited the financial statements of the Malvern Community School District, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 30, 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 Malvern Community School District's general purpose 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 such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

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 general purpose 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Malvern 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 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 Malvern Community School 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 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 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 Malvern Community School District and other parties to whom Malvern 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 Malvern 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.

BRUCE D. FRINK
Certified Public Accountant

September 30, 2004

MALVERN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

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

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

04-I-A SEGREGATION OF DUTIES

Comment - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

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

Response - We will review procedures and investigate available alternatives.

Conclusion - Response acknowledged.

Part II: Other Findings Related to Required Statutory Reporting:

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

04-II-B Certified Budget - Disbursements for the year ended June 30, 2004, exceeded the certified budget amount in the Non-instructional programs function. We believe that the error was due to inadvertently placing School Nutrition expenses on the wrong line.

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

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

04-II-C Questionable Disbursements - We noted no disbursements 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 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.

MALVERN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

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

- 04-II-E Business Transactions - No business transactions between the District and District officials or employees were noted.
- 04-II-F 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.
- 04-II-G Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- 04-II-H 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-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- 04-II-J Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

