

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

JUNE 30, 2004

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Newton Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2003 election)</b>		
Fred Chabot	President	2003
Cathi Fouts	Vice President	2005
Jerry Sawin	Board Member	2005
Marybeth Wagner	Board Member	2003
Bev Price	Board Member	2004
Greg Davis	Board Member	2004
Don Poynter	Board Member	2005
<b>Board of Education (After September 2003 election)</b>		
Fred Chabot	President	2006
Cathi Fouts	Vice President	2005
Bev Price	Board Member	2004
Greg Davis	Board Member	2004
Jerry Sawin	Board Member	2005
Don Poynter	Board Member	2005
Dennis Combs	Board Member	2006
<b>School Officials</b>		
Steve McDermott	Superintendent	2004
Jackie Black	District Secretary/Treasurer	2004
Tim Campbell	Attorney	Indefinite
Terry Rickers	Attorney	Indefinite
Alhers and Cooney P.C.	Attorney	Indefinite

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

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

Telephone (641) 792-1910

### INDEPENDENT AUDITOR'S REPORT

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

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

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

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

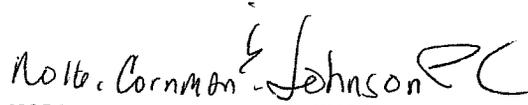
In accordance with Government Auditing Standards, we have also issued our reports dated August 20, 2004 on our consideration of the Newton Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 35 through 37 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Newton Community School District's basic financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2001 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for two years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

August 20, 2004

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

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

### **2004 FINANCIAL HIGHLIGHTS**

- General Fund revenues decreased from \$23,888,262 in fiscal year 2003 to \$23,550,428 in fiscal year 2004, while General Fund expenditures increased from \$22,535,971 in fiscal 2003 to \$23,441,750 in fiscal 2004.
- The State of Iowa imposed a 2.5% reduction in State Foundation aid during fiscal year 2004, which reduced the General Fund total revenues by approximately \$329,000. Since the reduction occurred mid year, the District had already obligated the resources to fund fiscal year 2004 salaries and programs. The District responded to this reduction by a combination of reducing supply expenditures and using a portion of the fund balance.
- The District's General Fund undesignated, unreserved fund balance increased slightly from \$2,643,502 in fiscal 2003 to \$2,721,514 in fiscal 2004, a 2.95 percent increase over the prior year.
- The District sold \$8,650,000 in sales tax revenue bonds in January 2004. The successful Local Option Sales and Services Tax election May 6, 2003 will provide monies to fund capital improvement projects at Woodrow Wilson and Aurora Heights Elementaries. The district began receiving sales tax revenue from the LOST tax in February 2004. Renovation construction at Woodrow Wilson began in March 2004 and Aurora Heights Elementary is expected to begin in January 2005. The LOST tax will also provide some monies for payment or retirement of outstanding bonds previously issued for school infrastructure purposes.
- Low interest rates over the past few years have resulted in a decrease of interest earnings in the General Fund alone from \$115,763 in fiscal 2001 to \$32,678 in fiscal 2002, to \$37,321 in fiscal 2003 and to \$23,002 in fiscal 2004.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Newton Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Newton Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Newton Community

School District acts solely as an agent or custodial for the benefit of those outside of County government.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

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

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

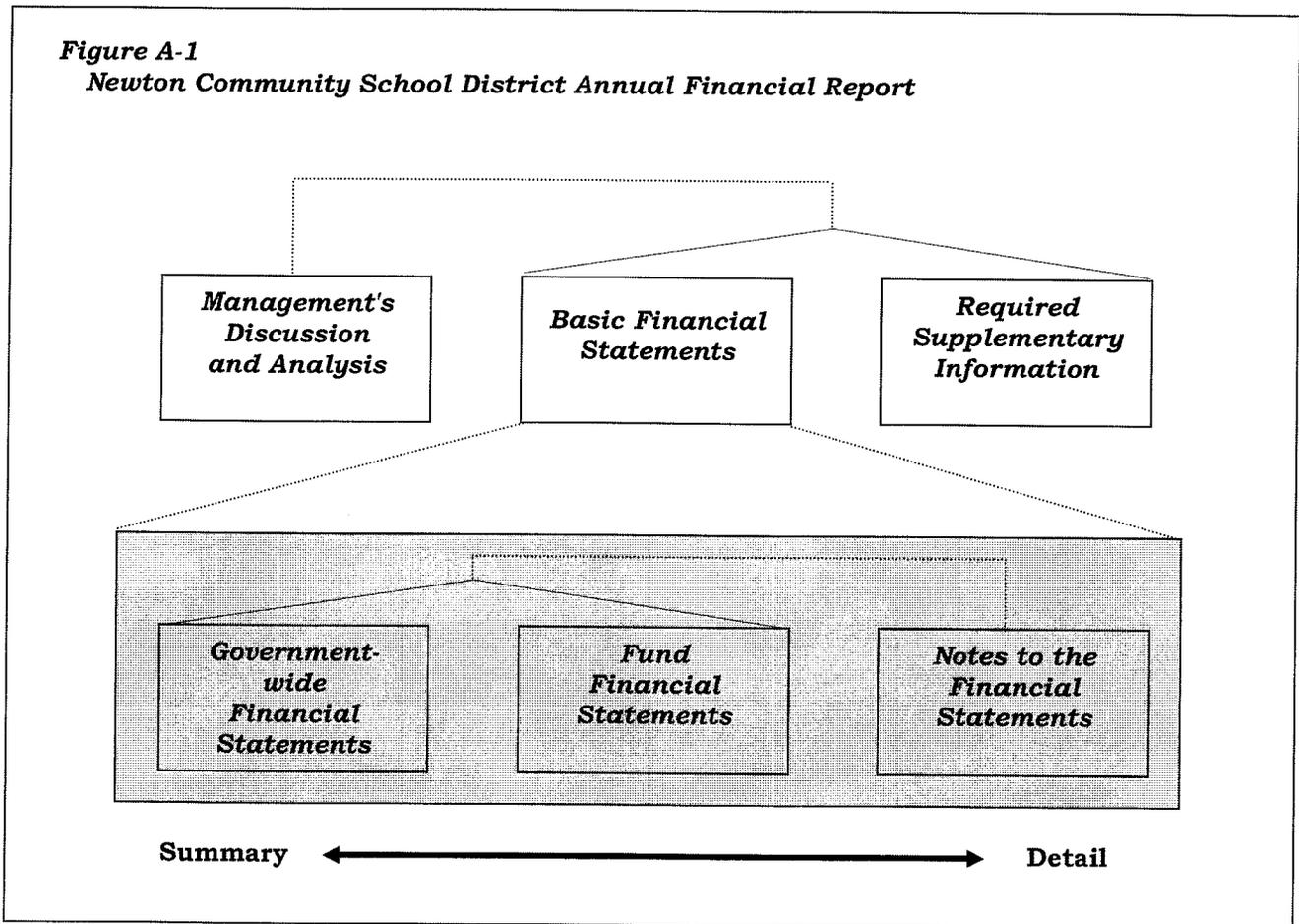


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-wide and Fund Financial Statements</b>			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
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
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

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

### **Government-wide Financial Statements**

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

The two government-wide financial statements report the District’s net assets and how they have changed. Net assets – the difference between the District’s assets and liabilities – are one way to measure the District’s financial health or position. Over time, increases or decreases in the District’s net assets are an indicator of whether financial position is improving or deteriorating. To assess the District’s overall health, additional non-financial factors, such as changes in the

District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

### **Fund Financial Statements**

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

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

The District has two kinds of funds:

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

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

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

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3  
Condensed Statement of Net Assets

	Governmental		Business-type		Total		Total Change June 30, 2003-04
	Activities		Activities		District		
	June 30, 2004	2003	2004	2003	2004	2003	
Current and other assets	\$ 25,266,998	17,614,665	69,655	73,260	25,336,653	17,687,925	43.24%
Capital assets	27,437,739	28,241,932	67,974	55,023	27,505,713	28,296,955	-2.80%
Total assets	52,704,737	45,856,597	137,629	128,283	52,842,366	45,984,880	14.91%
Long-term obligations	23,488,085	15,517,769	0	0	23,488,085	15,517,769	51.36%
Other liabilities	11,139,441	12,455,113	13,152	13,972	11,152,593	12,469,085	-10.56%
Total liabilities	34,627,526	27,972,882	13,152	13,972	34,640,678	27,986,854	23.77%
Net assets:							
Invested in capital assets, net of related debt	12,927,252	12,775,434	67,974	55,023	12,995,226	12,830,457	1.28%
Restricted	2,074,297	2,204,249	0	0	2,074,297	2,204,249	-5.90%
Unrestricted	3,075,662	2,904,032	56,503	59,288	3,132,165	2,963,320	5.70%
Total net assets	\$ 18,077,211	17,883,715	124,477	114,311	18,201,688	17,998,026	1.13%

The District's combined net assets increased by 1.13%, or \$303,662, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$129,952, or 5.90% over the prior year. The decrease was primarily a result of the District decrease in the Special Revenue, Management Fund balance.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$168,845, or 5.70%. This increase in unrestricted net assets was primarily a result of the District General Fund balance improving during the year.

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

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total District		Total Change
	2004	2003	2004	2003	2004	2003	2003-04
Revenues:							
Program revenues:							
Charges for services	\$ 1,420,725	1,606,742	801,706	762,159	2,222,431	2,368,901	-6.18%
Operating grants and contributions and restricted interest	2,426,903	2,498,014	430,094	374,931	2,856,997	2,872,945	-0.56%
General revenues:							
Local tax	10,590,327	10,999,003	0	0	10,590,327	10,999,003	-3.72%
Local option sales and services tax	772,541	0	0	0	772,541	0	100.00%
Unrestricted state grants	12,303,279	12,568,448	0	0	12,303,279	12,568,448	-2.11%
Other	109,122	119,436	567	(1,566)	109,689	117,870	-6.94%
Total revenues	<u>27,622,897</u>	<u>27,791,643</u>	<u>1,232,367</u>	<u>1,135,524</u>	<u>28,855,264</u>	<u>28,927,167</u>	<u>-0.25%</u>
Program expenses:							
Governmental activities:							
Instructional	16,863,048	16,035,886	0	0	16,863,048	16,035,886	5.16%
Support services	7,445,771	7,106,679	0	0	7,445,771	7,106,679	4.77%
Non-instructional programs	19,239	48,851	1,222,201	1,140,129	1,241,440	1,188,980	4.41%
Other expenses	3,101,343	3,107,131	0	0	3,101,343	3,107,131	-0.19%
Total expenses	<u>27,429,401</u>	<u>26,298,547</u>	<u>1,222,201</u>	<u>1,140,129</u>	<u>28,651,602</u>	<u>27,438,676</u>	<u>4.42%</u>
Changes in net assets	193,496	1,493,096	10,166	(4,605)	203,662	1,488,491	-86.32%
Beginning Net Assets	<u>17,883,715</u>	<u>16,390,619</u>	<u>114,311</u>	<u>118,916</u>	<u>17,998,026</u>	<u>16,509,535</u>	<u>9.02%</u>
Ending Net Assets	<u>\$ 18,077,211</u>	<u>17,883,715</u>	<u>124,477</u>	<u>114,311</u>	<u>18,201,688</u>	<u>17,998,026</u>	<u>1.13%</u>

The FY 04 total revenues net decrease of .25% is reflective of the first year receipt of the local option sales and services tax revenue totaling \$772,541. Also the mid-year state aid reduction of approximately \$329,000 contributes to the 2.11% decrease in unrestricted state grants.

The largest program expenditure area change was in the instructional function area, which was primarily due to increases in staff salaries and benefits.

### Governmental Activities

Revenues for governmental activities were \$27,622,897 and expenses were \$27,429,401. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 16,863,048	14,006,855
Support services	7,445,771	7,400,534
Non-instructional programs	19,239	19,239
Other expenses	3,101,343	2,155,145
Totals	<u>\$ 27,429,401</u>	<u>23,581,773</u>

- The cost financed by users of the District's programs was \$1,420,725.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,426,903.
- The net cost of governmental activities was financed with \$10,590,327 in local property tax, \$772,541 in local option sales and services tax, \$12,303,279 in state foundation aid and \$109,122 in interest income.

### **Business-Type Activities**

Revenues of the District's business-type activities were \$1,232,367 and expenses were \$1,222,201. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

### **INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$13,861,844, above last year's ending fund balances of \$4,790,171. However, the primary reason for the increase in combined fund balances in fiscal 2004 is due to increased revenues in receiving \$772,541 in local option sales and services tax revenue and the issuance of sales tax revenue bonds to be used for construction of \$8,650,000.

### **Governmental Fund Highlights**

- The District's slight growth in its General Fund financial position from \$2,643,502 in fiscal 2003 to \$2,752,830 in fiscal 2004 is the product of many factors. Revenues decreased due to the mid-year state aid reduction. The District's increase in General Fund expenditures was primarily due to salary settlement increases and normal increased operating costs.
- The Physical Plant and Equipment Levy Fund balance increased from \$1,377,222 in fiscal 2003 to \$1,551,498 in fiscal 2004 due to less capital improvements expenditures. The District follows a five-year capital improvement plan that is reviewed annually.
- The Capital Projects Fund balance increased from \$5,195 to \$7,487,822 due to the sale of \$8.65 million in sales tax revenue bonds to be used for capital improvements to be completed in the next few years.

- The Management Fund balance decreased from \$418,415 to \$374,097. The Management Fund expenditures include early retirement benefits, property and liability insurance coverages, worker's compensation insurance and unemployment benefits. The District levies for retirement benefits the budget year following the expense.
- The Student Activity Fund balance decreased slightly from \$214,196 to \$213,740 due to the variance of student activities from year to year.
- The Debt Service Fund balance increased from \$131,641 to \$1,482,662. Included in the fund balance at year end is a required reserve of \$875,000 as part of the issuance of the sales tax revenue bonds.

### **Proprietary Fund Highlights**

The Proprietary Fund net assets increased from \$114,311 at June 30, 2003 to \$124,477 at June 30, 2004, representing an increase of 8.89%. The increase in revenues offset the cost to provide student lunches resulting in the increase of net assets.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, Newton Community School District amended its annual budget one time to reflect additional expenditures associated with the non-instructional programs and other expenditures functional areas.

The District's revenues were \$579,789 more than budgeted revenues, a variance of 2.00%. The most significant variance resulted from the District receiving more in local and federal sources than originally anticipated.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

At June 30, 2004, the District had invested \$27.5 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 2.80% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$1,399,237.

The original cost of the District's capital assets was \$51.8 million. Governmental funds account for \$51.3 million with the remainder of \$0.5 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$1,080,133 at June 30, 2004, compared to \$1,480,433 reported at June 30, 2003. This significant decrease resulted from depreciation expense for the fiscal year and the disposal of capital assets.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total
	Activities		Activities		District		
	June 30,		June 30,		June 30,		
	2004	2003	2004	2003	2004	2003	
Land	\$ 1,091,066	1,091,066	0	0	1,091,066	1,091,066	0.00%
Buildings	24,185,057	24,503,526	0	0	24,185,057	24,503,526	-1.30%
Land improvements	1,081,483	1,166,907	0	0	1,081,483	1,166,907	-7.32%
Machinery and equipment	1,080,133	1,480,433	67,974	55,023	1,148,107	1,535,456	-25.23%
Total	\$ 27,437,739	28,241,932	67,974	55,023	27,505,713	28,296,955	-2.80%

**Long-Term Debt**

At June 30, 2004, the District had \$23,488,085 in general obligation and other long-term debt outstanding. This represents an increase of 51.36% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding general obligation bonds of \$14,670,000 at June 30, 2004.

The District also had outstanding revenue bonds of \$8,650,000 at June 30, 2004.

Figure A-7  
Outstanding Long-Term Obligations

	Total		Total	
	School District			Change
	June 30,			
	2004	2003		2003-04
General obligation bonds	\$ 14,670,000	15,410,000	-4.80%	
Revenue bonds	8,650,000	0	100.00%	
Early retirement	96,354	20,703	365.41%	
Compensated absences	71,731	87,066	-17.61%	
Totals	\$ 23,488,085	15,517,769	51.36%	

**ECONOMIC 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 affect its financial health in the future:

- The District's enrollment declined in fiscal 2004 by 61 students, or a 1.78% decrease from 3,458.2, the previous year's budgeted enrollment. Under Iowa's school funding formula, District fund is highly dependent upon a District's enrollment. Future enrollment stability is a critical element in maintaining a sound financial foundation.
- While the state's economy is showing limited signs of economic recovery. A weaker economy adversely impacts the amount of new general fund money available to the District. The state legislature set a 2% allowable growth increase for FY 04, and was subsequently reduced by a 2.5% state aid reduction during the year. The state legislature set a 4% allowable growth for the 2004-05 school year.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jackie Black, Director of Business Affairs, Newton Community School District, 807 S 6<sup>th</sup> Ave W, Newton, Iowa, 50208.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents:	\$ 14,075,449	18,822	14,094,271
Receivables:			
Property tax:			
Delinquent	139,183	0	139,183
Succeeding year	9,921,020	0	9,921,020
Income surtax	425,879	0	425,879
Accounts	0	516	516
Due from other governments	666,306	0	666,306
Inventories	39,161	50,317	89,478
Capital assets, net of accumulated depreciation(Note 4)	27,437,739	67,974	27,505,713
<b>TOTAL ASSETS</b>	<b>52,704,737</b>	<b>137,629</b>	<b>52,842,366</b>
<b>LIABILITIES</b>			
Accounts payable	29,111	0	29,111
Salaries and benefits payable	1,029,144	0	1,029,144
Accrued interest payable	160,166	0	160,166
Deferred revenue:			
Succeeding year property tax	9,921,020	0	9,921,020
Other	0	13,152	13,152
Long-term liabilities(Note 5):			
Portion due within one year:			
Bonds payable	770,000	0	770,000
Revenue bonds payable	770,000	0	770,000
Early retirement payable	47,934	0	47,934
Compensated absences payable	71,731	0	71,731
Portion due after one year:			
Bonds payable	13,900,000	0	13,900,000
Revenue bonds payable	7,880,000	0	7,880,000
Early retirement payable	48,420	0	48,420
<b>TOTAL LIABILITIES</b>	<b>34,627,526</b>	<b>13,152</b>	<b>34,640,678</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	12,927,252	67,974	12,995,226
Restricted for:			
Talented and gifted	31,316	0	31,316
Management levy	277,743	0	277,743
Physical plant and equipment levy	1,551,498	0	1,551,498
Other special revenue purposes	213,740	0	213,740
Unrestricted	3,075,662	56,503	3,132,165
<b>TOTAL NET ASSETS</b>	<b>\$ 18,077,211</b>	<b>124,477</b>	<b>18,201,688</b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 10,902,680	179,374	1,334,293
Special instruction	3,997,253	232,859	130,109
Other instruction	1,963,115	979,558	0
	<u>16,863,048</u>	<u>1,391,791</u>	<u>1,464,402</u>
Support services:			
Student services	1,544,198	0	0
Instructional staff services	429,877	0	0
Administration services	2,207,952	0	0
Operation and maintenance of plant services	2,241,214	0	0
Transportation services	1,022,530	28,934	16,303
	<u>7,445,771</u>	<u>28,934</u>	<u>16,303</u>
Non-instructional programs:			
Operation of non-instructional programs	6,345	0	0
Community service and education operations	12,894	0	0
	<u>19,239</u>	<u>0</u>	<u>0</u>
Other expenditures:			
Facilities acquisitions	639,838	0	0
Long-term debt interest	783,630	0	0
AEA flowthrough	946,198	0	946,198
Depreciation (unallocated) *	731,677	0	0
	<u>3,101,343</u>	<u>0</u>	<u>946,198</u>
Total governmental activities	27,429,401	1,420,725	2,426,903
Business-Type activities:			
Non-instructional programs:			
Nutrition services	1,222,201	801,706	430,094
Total business-type activities	<u>1,222,201</u>	<u>801,706</u>	<u>430,094</u>
Total	<u>\$ 28,651,602</u>	<u>2,222,431</u>	<u>2,856,997</u>

**General Revenues:**

Property tax levied for:  
  General purposes  
  Capital outlay  
  Debt service  
Local option sales and services tax  
Unrestricted state grants  
Unrestricted investment earnings

Total general revenues

Changes in net assets

Net assets beginning of year

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(9,389,013)	0	(9,389,013)
(3,634,285)	0	(3,634,285)
(983,557)	0	(983,557)
(14,006,855)	0	(14,006,855)
(1,544,198)	0	(1,544,198)
(429,877)	0	(429,877)
(2,207,952)	0	(2,207,952)
(2,241,214)	0	(2,241,214)
(977,293)	0	(977,293)
(7,400,534)	0	(7,400,534)
(6,345)	0	(6,345)
(12,894)	0	(12,894)
(19,239)	0	(19,239)
(639,838)	0	(639,838)
(783,630)	0	(783,630)
0	0	0
(731,677)	0	(731,677)
(2,155,145)	0	(2,155,145)
(23,581,773)	0	(23,581,773)
0	9,599	9,599
0	9,599	9,599
(23,581,773)	9,599	(23,572,174)
\$ 8,543,295	0	8,543,295
646,879	0	646,879
1,400,153	0	1,400,153
772,541	0	772,541
12,303,279	0	12,303,279
109,122	567	109,689
23,775,269	567	23,775,836
193,496	10,166	203,662
17,883,715	114,311	17,998,026
\$ 18,077,211	124,477	18,201,688

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

	General	Manage- ment	Physical Plant and Equipment Levy	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>ASSETS</b>						
Cash and cash equivalents	\$ 3,160,977	476,721	1,548,604	7,212,789	1,676,358	14,075,449
Receivables:						
Property tax						
Delinquent	103,001	6,839	9,273	0	20,070	139,183
Succeeding year	7,376,388	550,000	618,222	0	1,376,410	9,921,020
Income surtax	425,879	0	0	0	0	425,879
Due from other governments	392,078	0	0	274,228	0	666,306
Inventories	39,161	0	0	0	0	39,161
<b>TOTAL ASSETS</b>	<b>\$ 11,497,484</b>	<b>1,033,560</b>	<b>2,176,099</b>	<b>7,487,017</b>	<b>3,072,838</b>	<b>25,266,998</b>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 29,085	0	0	0	26	29,111
Salaries and benefits payable	913,302	109,463	6,379	0	0	1,029,144
Deferred revenue:						
Succeeding year property tax	7,376,388	550,000	618,222	0	1,376,410	9,921,020
Income surtax	425,879	0	0	0	0	425,879
<b>Total liabilities</b>	<b>8,744,654</b>	<b>659,463</b>	<b>624,601</b>	<b>0</b>	<b>1,376,436</b>	<b>11,405,154</b>
Fund balances:						
Reserved for:						
Debt service	0	0	0	0	1,482,662	1,482,662
Talented and gifted	31,316	0	0	0	0	31,316
Unreserved:						
Undesignated:						
General	2,721,514	0	0	0	0	2,721,514
Management levy	0	374,097	0	0	0	374,097
Physical plant and equipment levy	0	0	1,551,498	0	0	1,551,498
Capital projects	0	0	0	7,487,017	0	7,487,017
Other special revenue purposes	0	0	0	0	213,740	213,740
<b>Total fund balances</b>	<b>2,752,830</b>	<b>374,097</b>	<b>1,551,498</b>	<b>7,487,017</b>	<b>1,696,402</b>	<b>13,861,844</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 11,497,484</b>	<b>1,033,560</b>	<b>2,176,099</b>	<b>7,487,017</b>	<b>3,072,838</b>	<b>25,266,998</b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

<b>Total fund balances of governmental funds (page 17)</b>	\$	13,861,844
 <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 report as assets in in the governmental funds.		27,437,739
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		425,879
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(160,166)
Long-term liabilities, including bonds payable, revenue bonds payable, early retirement payable, and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(23,488,085)</u>
<b>Net assets of governmental activites (page 14)</b>	<b>\$</b>	<b><u>18,077,211</u></b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Manage- ment	Physical Plant and Equipment Levy	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>						
Local sources:						
Local tax	\$ 8,037,009	506,286	646,879	772,541	1,400,153	11,362,868
Tuition	412,233	0	0	0	0	412,233
Other	373,074	43,936	13,191	44,743	642,670	1,117,614
State sources	14,089,239	428	519	0	1,123	14,091,309
Federal sources	638,873	0	0	0	0	638,873
Total revenues	<u>23,550,428</u>	<u>550,650</u>	<u>660,589</u>	<u>817,284</u>	<u>2,043,946</u>	<u>27,622,897</u>
<b>EXPENDITURES:</b>						
Current:						
Instruction:						
Regular instruction	10,305,389	308,212	0	0	0	10,613,601
Special instruction	3,992,418	0	0	0	0	3,992,418
Other instruction	1,324,683	0	0	0	632,654	1,957,337
	<u>15,622,490</u>	<u>308,212</u>	<u>0</u>	<u>0</u>	<u>632,654</u>	<u>16,563,356</u>
Support services:						
Student services	1,534,773	4,510	0	0	0	1,539,283
Instructional staff services	394,873	2,149	0	0	0	397,022
Administration services	2,132,995	84,118	0	0	0	2,217,113
Operation and maintenance of plant services	2,050,953	139,654	37,766	0	0	2,228,373
Transportation services	746,574	49,980	107,152	0	0	903,706
	<u>6,860,168</u>	<u>280,411</u>	<u>144,918</u>	<u>0</u>	<u>0</u>	<u>7,285,497</u>
Non-instructional programs:						
Food service operations	0	6,345	0	0	0	6,345
Community service and education operations	12,894	0	0	0	0	12,894
	<u>12,894</u>	<u>6,345</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>19,239</u>
Other expenditures:						
Facilities acquisitions	0	0	341,396	626,227	0	967,623
Long-term debt:						
Principal	0	0	0	0	740,000	740,000
Interest and fiscal charges	0	0	0	0	679,962	679,962
AEA flowthrough	946,198	0	0	0	0	946,198
	<u>946,198</u>	<u>0</u>	<u>341,396</u>	<u>626,227</u>	<u>1,419,962</u>	<u>3,333,783</u>
Total expenditures	<u>23,441,750</u>	<u>594,968</u>	<u>486,314</u>	<u>626,227</u>	<u>2,052,616</u>	<u>27,201,875</u>
Excess(deficiency) of revenues over(under) expenditures	108,678	(44,318)	174,275	191,057	(8,670)	421,022
Other financing sources:						
Transfer in	0	0	0	0	1,359,235	1,359,235
Transfer out	0	0	0	(1,359,235)	0	(1,359,235)
Sale of bonds	0	0	0	8,650,000	0	8,650,000
Sale of property	0	0	1	0	0	1
Sale of equipment	650	0	0	0	0	650
Total other financing sources	<u>650</u>	<u>0</u>	<u>1</u>	<u>7,290,765</u>	<u>1,359,235</u>	<u>8,650,651</u>
Net change in fund balances	109,328	(44,318)	174,276	7,481,822	1,350,565	9,071,673
Fund balance beginning of year	<u>2,643,502</u>	<u>418,415</u>	<u>1,377,222</u>	<u>5,195</u>	<u>345,837</u>	<u>4,790,171</u>
Fund balance end of year	<u>\$ 2,752,830</u>	<u>374,097</u>	<u>1,551,498</u>	<u>7,487,017</u>	<u>1,696,402</u>	<u>13,861,844</u>

SEE NOTES TO FINANCIAL STATEMENTS.

NEWTON 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

<b>Net change in fund balances - total governmental funds (page 19)</b>		\$ 9,071,673
 <b>Amounts reported for governmental activities in the statement of activities are different because:</b>		
 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. Depreciation expense exceeded capital outlay expenditures in the current year, as follows:		
Expenditures for capital assets	\$ 631,370	
Depreciation expense	(1,389,130)	
Book value of deleted capital assets	<u>(46,433)</u>	(804,193)
 Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:		
Issued	\$ (8,650,000)	
Repaid	<u>740,000</u>	(7,910,000)
 Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		
		(103,668)
 Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Early Retirement	\$ (75,651)	
Compensated Absences	<u>15,335</u>	(60,316)
 <b>Changes in net assets of governmental activities (page 16)</b>		 <u>\$ 193,496</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

		School Nutrition
ASSETS		
Cash and cash equivalents:	\$	18,822
Receivables:		
Accounts		516
Inventories		50,317
Capital assets, net of accumulated depreciation (Note 4)		67,974
TOTAL ASSETS		137,629
LIABILITIES		
Deferred revenue:		
Other		13,152
TOTAL LIABILITIES		13,152
NET ASSETS		
Investment in capital assets, net of related debt		67,974
Unrestricted		56,503
TOTAL NET ASSETS	\$	124,477

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 801,706
TOTAL OPERATING REVENUES	801,706
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	430,893
Benefits	96,393
Services	5,600
Supplies	679,208
Depreciation	10,107
TOTAL OPERATING EXPENSES	1,222,201
OPERATING LOSS	(420,495)
NON-OPERATING REVENUES:	
State sources	14,058
Federal sources	416,036
Interest income	567
TOTAL NON-OPERATING REVENUES	430,661
Change in net assets	10,166
Net assets beginning of year	114,311
Net assets end of year	\$ 124,477

SEE NOTES TO FINANCIAL STATEMENTS.

NEWTON 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	\$ 797,923
Cash received from miscellaneous operating activities	2,447
Cash payments to employees for services	(527,286)
Cash payments to suppliers for goods or services	(609,817)
Net cash used in operating activities	(336,733)
Cash flows from non-capital financing activities:	
State grants received	14,058
Federal grants received	345,613
Net cash provided by non-capital financing activities	359,671
Cash flows from capital financing activities:	
Acquisition of capital assets	(23,058)
Net cash used in capital financing activities	(23,058)
Cash flows from investing activities:	
Interest on investments	567
Net cash provided by investing activities	567
Net increase in cash and cash equivalents	447
Cash and cash equivalents at beginning of year	18,375
Cash and cash equivalents at end of year	\$ 18,822
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (420,495)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	70,423
Depreciation	10,107
Decrease in inventories	4,568
Increase in accounts receivable	(516)
Decrease in deferred revenue	(820)
Net cash used in operating activities	\$ (336,733)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 18,822

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2004, the District received Federal commodities valued at \$70,423.

SEE NOTES TO FINANCIAL STATEMENTS.

NEWTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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

The Newton Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Newton and Kellogg, Iowa, and the predominate agricultural territory in Jasper 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, Newton 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 Newton 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 Jasper County Assessors' Conference Board.

B. Basis of Presentation

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

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The Management Fund is utilized to account for property insurance and early retirement incentives.

The Physical Plant and Equipment Levy Fund is utilized to account for major equipment purchases and capital improvements.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District reports the following proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

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

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

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

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment:	5-12 years

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

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

receivables and other receivables not collected within sixty days after year end.

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

Compensated Absences - District employees accumulate 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. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$12,982,308 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Number 3 requires investments to be categorized to give an indication of the level

of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment trust is not subject to risk categorization.

**(3) Transfers**

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	<u>\$ 1,359,235</u>

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

**(4) Capital Assets**

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

	Balance Beginning of of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,091,066	0	0	1,091,066
Total capital assets not being depreciated	<u>1,091,066</u>	<u>0</u>	<u>0</u>	<u>1,091,066</u>
Capital assets being depreciated:				
Buildings	33,282,014	370,637	73,355	33,579,296
Land improvements	2,730,957	2,627	0	2,733,584
Machinery and equipment	13,792,918	258,106	208,841	13,842,183
Total capital assets being depreciated	<u>49,805,889</u>	<u>631,370</u>	<u>282,196</u>	<u>50,155,063</u>
Less accumulated depreciation for:				
Buildings	8,778,488	643,626	27,875	9,394,239
Land improvements	1,564,050	88,051	0	1,652,101
Machinery and equipment	12,312,485	657,453	207,888	12,762,050
Total accumulated depreciation	<u>22,655,023</u>	<u>1,389,130</u>	<u>235,763</u>	<u>23,808,390</u>
Total capital assets being depreciated, net	<u>27,150,866</u>	<u>(757,760)</u>	<u>46,433</u>	<u>26,346,673</u>
Governmental activities capital assets, net	<u>\$ 28,241,932</u>	<u>(757,760)</u>	<u>46,433</u>	<u>27,437,739</u>
Business-type activities:				
Machinery and equipment	\$ 468,592	44,527	4,368	508,751
Less accumulated depreciation	413,569	31,576	4,368	440,777
Business-type activities capital assets, net	<u>\$ 55,023</u>	<u>12,951</u>	<u>0</u>	<u>67,974</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 422,288
Special		14,426
Other		31,233
Support services:		
Student		4,915
Instructional staff		34,692
Administration		11,413
Operation and maintenance of plant		20,325
Transportation		118,161
		<u>657,453</u>
Unallocated depreciation		<u>731,677</u>
		<u><u>\$ 1,389,130</u></u>
Business-type activities:		
Food services		\$ 10,107
Total business-type activities depreciation expense		<u><u>\$ 10,107</u></u>

**(5) Long-Term Liabilities**

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 15,410,000	0	740,000	14,670,000	770,000
Revenue bonds	0	8,650,000	0	8,650,000	770,000
Early retirement	20,703	84,000	8,349	96,354	47,934
Compensated absences	87,066	0	15,335	71,731	71,731
Total	<u>\$ 15,517,769</u>	<u>8,734,000</u>	<u>763,684</u>	<u>23,488,085</u>	<u>1,659,665</u>

Bonds Payable

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

Year Ending June 30,	Bond Issue of August 1, 1998			Bond Issue of January 1, 1999			Total	
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest
2005	4.50%	\$ 340,000	291,990	4.15%	\$ 430,000	354,120	\$ 770,000	646,110
2006	4.50	355,000	276,690	4.15	450,000	336,275	805,000	612,965
2007	4.50	370,000	260,715	4.15	470,000	317,600	840,000	578,315
2008	4.50	390,000	244,065	4.15	490,000	298,095	880,000	542,160
2009	4.50	405,000	226,515	4.15	515,000	277,760	920,000	504,275
2010	4.50	425,000	208,290	4.15	540,000	256,387	965,000	464,677
2011	4.50	445,000	189,165	4.20	565,000	233,978	1,010,000	423,143
2012	4.50	465,000	169,140	4.25	590,000	210,247	1,055,000	379,387
2013	4.50	485,000	148,215	4.25	615,000	185,173	1,100,000	333,388
2014	4.50	510,000	126,390	4.40	645,000	159,035	1,155,000	285,425
2015	4.50	530,000	103,440	4.40	675,000	130,655	1,205,000	234,095
2016	4.50	555,000	79,590	4.50	705,000	100,955	1,260,000	180,545
2017	4.50	585,000	54,615	4.60	735,000	69,230	1,320,000	123,845
2018	4.60	615,000	28,290	4.60	770,000	35,420	1,385,000	63,710
Total		\$ 6,475,000	2,407,110		\$ 8,195,000	2,964,930	\$ 14,670,000	5,372,040

#### Revenue Bonds Payable

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

Year Ending June 30,	Bond Issue of February 1, 2004			
	Interest Rates	Principal	Interest	Total
2005	2.95%	\$ 770,000	233,910	1,003,910
2006	2.95	760,000	232,460	992,460
2007	2.95	780,000	210,040	990,040
2008	2.95	805,000	187,030	992,030
2009	2.95	835,000	163,282	998,282
2010	2.95	865,000	138,650	1,003,650
2011	2.95	900,000	113,133	1,013,133
2012	2.95	935,000	86,583	1,021,583
2013	2.95	980,000	59,000	1,039,000
2014	2.95	1,020,000	30,090	1,050,090
Total		\$ 8,650,000	1,454,178	10,104,178

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) \$865,000 of the proceeds from the issuance of the revenue bonds shall be deposited to the Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking

Account. The balance of the proceeds shall be deposited to the Project Account.

- b) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

#### Early Retirement

The District offers a voluntary early retirement plan to its certified employees and administration. Eligible employees must be at least age fifty-five and employees must have completed ten years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each employee's base salary, depending on the individual's classification, calculated by using the current year salary schedule, less any other additional pay. In addition, a portion of unused sick leave is included in the early retirement stipend. Early retirement benefits expensed during the year ended June 30, 2004 totaled \$8,349. The cost of early retirement payments expected to liquidated currently are recorded as a liability of the government-wide financial statements representing the District's commitment to fund non-current early retirement of \$96,354.

#### **(6) Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$899,320, \$863,262, and \$862,781 respectively, equal to the required contributions for each year.

#### **(7) Risk Management**

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

following categories: medical, dental, vision and prescription drugs.

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

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$1,861,335.

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

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

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

Newton 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.

**(8) 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 \$946,198 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.

REQUIRED SUPPLEMENTAL INFORMATION

NEWTON COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL (GAAP BASIS) - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual
<b>Revenues:</b>		
Local sources	\$ 12,892,715	802,273
State sources	14,091,309	14,058
Federal sources	638,873	416,036
Total revenues	<u>27,622,897</u>	<u>1,232,367</u>
<b>Expenditures:</b>		
Instruction	16,563,356	0
Support services	7,285,497	0
Non-instructional programs	19,239	1,222,201
Other expenditures	3,333,783	0
Total expenditures	<u>27,201,875</u>	<u>1,222,201</u>
Excess(deficiency) of revenues over(under) expenditures	421,022	10,166
Other financing sources, net	<u>8,650,651</u>	0
Excess(deficiency) of revenues and other financing sources over(under) expenditures	9,071,673	10,166
Balance beginning of year	<u>4,790,171</u>	114,311
Balance end of year	<u>\$ 13,861,844</u>	<u>124,477</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
13,694,988	12,710,425	12,710,425	984,563
14,105,367	14,710,050	14,710,050	(604,683)
1,054,909	855,000	855,000	199,909
<u>28,855,264</u>	<u>28,275,475</u>	<u>28,275,475</u>	<u>579,789</u>
16,563,356	16,997,000	16,997,000	433,644
7,285,497	7,867,000	7,867,000	581,503
1,241,440	1,261,000	1,300,000	58,560
3,333,783	3,832,457	4,500,000	1,166,217
<u>28,424,076</u>	<u>29,957,457</u>	<u>30,664,000</u>	<u>2,239,924</u>
431,188	(1,681,982)	(2,388,525)	2,819,713
<u>8,650,651</u>	<u>10,000</u>	<u>10,000</u>	<u>8,640,651</u>
9,081,839	(1,671,982)	(2,378,525)	11,460,364
4,904,482	3,430,711	3,430,711	1,473,771
<u>13,986,321</u>	<u>1,758,729</u>	<u>1,052,186</u>	<u>12,934,135</u>

NEWTON 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 GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$706,543.

OTHER SUPPLEMENTAL INFORMATION

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

	Special Revenue Fund	Debt Service	Total Other Nonmajor Governmental Funds
ASSETS			
Cash and pooled investments	\$ 213,766	1,462,592	1,676,358
Receivables:			
Property tax			
Current year delinquent	0	20,070	20,070
Succeeding year	0	1,376,410	1,376,410
TOTAL ASSETS	<u>\$ 213,766</u>	<u>2,859,072</u>	<u>3,072,838</u>
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable	\$ 26	0	26
Deferred revenue:			
Succeeding year property tax	0	1,376,410	1,376,410
	<u>26</u>	<u>1,376,410</u>	<u>1,376,436</u>
Fund equity:			
Fund balances:			
Reserved for Debt Service	0	1,482,662	1,482,662
Unreserved, undesignated	213,740	0	213,740
	<u>213,740</u>	<u>1,482,662</u>	<u>1,696,402</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 213,766</u>	<u>2,859,072</u>	<u>3,072,838</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue Fund	Debt Service	Total Other Nonmajor Governmental Funds
REVENUES:			
Local sources:			
Local tax	\$ 0	1,400,153	1,400,153
Other	632,198	10,472	642,670
State sources	0	1,123	1,123
TOTAL REVENUES	<u>632,198</u>	<u>1,411,748</u>	<u>2,043,946</u>
EXPENDITURES:			
Current:			
Instruction:			
Other instruction	632,654	0	632,654
Long-term debt:			
Principal	0	740,000	740,000
Interest and fiscal charges	0	679,962	679,962
TOTAL EXPENDITURES	<u>632,654</u>	<u>1,419,962</u>	<u>2,052,616</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(456)	(8,214)	(8,670)
OTHER FINANCING SOURCES:			
Transfer in	0	1,359,235	1,359,235
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(456)	1,351,021	1,350,565
FUND BALANCE BEGINNING OF YEAR	214,196	131,641	345,837
FUND BALANCE END OF YEAR	<u>\$ 213,740</u>	<u>1,482,662</u>	<u>1,696,402</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance Change	Balance End of Year
Interest	\$ 21,513	0	0	(21,513)	0
Aurora Hieghts Elementary	7,533	3,278	3,362	1,605	9,054
Berg Elementary	3,757	2,887	1,627	757	5,774
Emerson Hough Elementary	684	3,718	2,969	28	1,461
Woodrow Wilson Elementary	1,197	1,845	244	232	3,030
Berg Middle School:					
Band	362	919	706	0	575
Orchestra	476	469	539	0	406
Athletics	7,640	1,000	614	0	8,026
Yearbook	1,507	6,518	7,375	0	650
Other Clubs	25,013	7,462	5,246	12,805	40,034
Basic and Beyond	0	302	0	0	302
Newton High School:					
Band	2,011	120,223	122,707	0	(473)
Orchestra	2,136	2,090	716	0	3,510
Athletics	48,906	317,606	313,164	0	53,348
FFA	38,187	13,934	16,370	808	36,559
Newtonia Yearbook	921	36,745	30,044	0	7,622
Other Clubs	52,353	113,202	126,971	5,278	43,862
 Total	 \$ 214,196	 632,198	 632,654	 0	 213,740

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
<b>Revenues:</b>				
Local sources:				
Local tax	\$ 11,362,868	10,573,124	9,949,262	9,761,531
Tuition	412,233	473,281	476,288	427,838
Other	1,117,614	1,248,922	1,475,826	1,919,633
Intermediate sources	0	0	16,720	21,152
State sources	14,091,309	14,505,030	14,009,881	14,162,121
Federal sources	638,873	561,432	437,158	321,707
<b>Total</b>	<b>\$ 27,622,897</b>	<b>27,361,789</b>	<b>26,365,135</b>	<b>26,613,982</b>
<b>Expenditures:</b>				
Instruction:				
Regular instruction	\$ 10,613,601	10,204,504	10,647,354	10,070,405
Special instruction	3,992,418	3,619,406	3,760,872	3,662,514
Other instruction	1,957,337	1,850,872	1,801,779	1,688,290
Support services:				
Student services	1,539,283	1,446,400	1,400,219	1,273,567
Instructional staff services	397,022	382,879	485,717	530,084
Administration services	2,217,113	2,085,889	2,290,006	2,252,196
Operation and maintenance of plant services	2,228,373	2,096,450	1,986,790	2,022,574
Transportation services	903,706	890,888	862,342	892,134
Central support services	0	0	395	0
Non-instructional programs	19,239	48,525	43,792	44,024
Other expenditures:				
Facilities acquisitions	967,623	653,507	3,263,901	6,860,524
Long-term debt:				
Principal	740,150	710,000	305,000	314,000
Interest and other charges	679,812	708,945	722,670	736,039
AEA flow-through	946,198	1,014,197	1,001,918	1,017,335
<b>Total</b>	<b>\$ 27,201,875</b>	<b>25,712,462</b>	<b>28,572,755</b>	<b>31,363,686</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION(NON-CASH)	10.550	FY 04	\$ 70,423
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 04	51,420
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 04	294,193
			<u>345,613</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	4725-G	239,072
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	4725-GC	5,411
			<u>244,483</u>
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)	84.298	FY 04	17,071
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATES GRANTS	84.186	FY 04	12,894
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 04	101,844
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI A)	84.369	FY 04	20,328
TITLE III - ENGLISH LANGUAGE ACQUISITION STATE GRANTS	84.365	FY 04	1,670
IOWA PUBLIC TELEVISION:			
STAR SCHOOLS	84.203	FY 04	23,698
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 04	29,384
SPECIAL EDUCATION - GRANTS TO STATES(PART B)	84.027	FY 04	130,109
TOTAL			<u>\$ 997,517</u>

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
117 West 3rd Street North, Newton, Iowa 50208-3040  
Telephone (641) 792-1910

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

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

We have audited the financial statements of Newton Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated August 20, 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 Newton Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings and Questioned Costs.

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Newton 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. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Newton Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

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. We noted no material weaknesses during the course of our audit.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Newton Community School District and other parties to whom Newton 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 Newton Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Nolte Cornman & Johnson PC  
NOLTE, CORNMAN & JOHNSON, P.C.

August 20, 2004

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

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

Telephone (641) 792-1910

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

To the Board of Education of  
Newton Community School District

#### Compliance

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

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

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

#### Internal Control Over Compliance

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

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Newton Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance 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. We noted no material weaknesses during the course of our audit.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Newton Community School District and other parties to whom Newton Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*Nolte, Cornman & Johnson PC*  
NOLTE, CORNMAN & JOHNSON, P.C.

August 20, 2004

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

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) No material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No material weaknesses in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - Clustered Programs
    - CFDA Number 10.553 - School Breakfast Program
    - CFDA Number 10.555 - National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Newton Community School District qualified as a low-risk auditee.

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

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

No matters were reported.

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

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

No matters were reported.

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

Part IV: Other Findings Related to Statutory Reporting

IV-A-04 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

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

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

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

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

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

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

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

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

Conclusion - Response accepted.

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

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

IV-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.