

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

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

June 30, 2004

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Independent Auditor's Report

To the Board of Education of
[Northeast Hamilton](#) Community School District:

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

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

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

As described in Note 8 to the financial statements, during the year ended June 30, 2004, [Northeast Hamilton](#) Community School District adopted Governmental Accounting Standards Board Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement Number 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement Number 38, Certain Financial Statement Note Disclosures; Statement Number 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation Number 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated [November 16, 2004](#), on our consideration of [Northeast Hamilton](#) Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 36 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise [Northeast Hamilton](#) Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003, (none of which are presented herein). We expressed an unqualified opinion for 2003. Our opinions for 2002 and 2001 were qualified because the general fixed assets account group was omitted. The supplemental information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

[November 16, 2004](#)

Northeast Hamilton Community School District

Management Discussion & Analysis

This section of the Northeast Hamilton Community School District's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2004. The analysis focuses on the District's financial performance as a whole. Please read it in conjunction with the District's financial statements, which immediately follow this section. Because the Northeast Hamilton Community School District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

Financial Highlights

- The NEH CSD Board of Directors approved a Property Tax decrease from \$10.11732 to \$9.79861 per \$1,000 taxable valuation creating a savings to tax payers in the amount of \$73,776.
- The State of Iowa imposed a 2.5% reduction in State Foundation Aid, Instructional Support Programs, Educational Excellence Allocations, Teacher Compensation Allocations, and Iowa Early Intervention Allocations in November, which reduced state FY04 revenues by \$30,000 in the General Fund.
- Since the reduction occurred mid year, the District had already obligated the resources to fund fiscal 2004 salaries and programs. The District responded to the reduction by a combination of reducing expenditures in technology; purchased services; equipment and supplies; and using a portion of fund balance.
- Because of the reduction in revenues and the increase in salaries, benefits, utilities and special education costs the District's General Fund balance decreased by \$91,975.
- Voters in Hamilton and Wright County passed a ten-year one-cent local option sales tax for school facilities which is expected to generate at least an additional \$100,000 per year.

Overview of the Financial Statements

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

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

- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the Government-wide statements.

- The *governmental funds statements* explain how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- *Proprietary funds statements* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
 - *Fiduciary funds statements* provide information about the relationships in which the District acts solely as a trustee or agent for the benefit of others.

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

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

Figure A-1

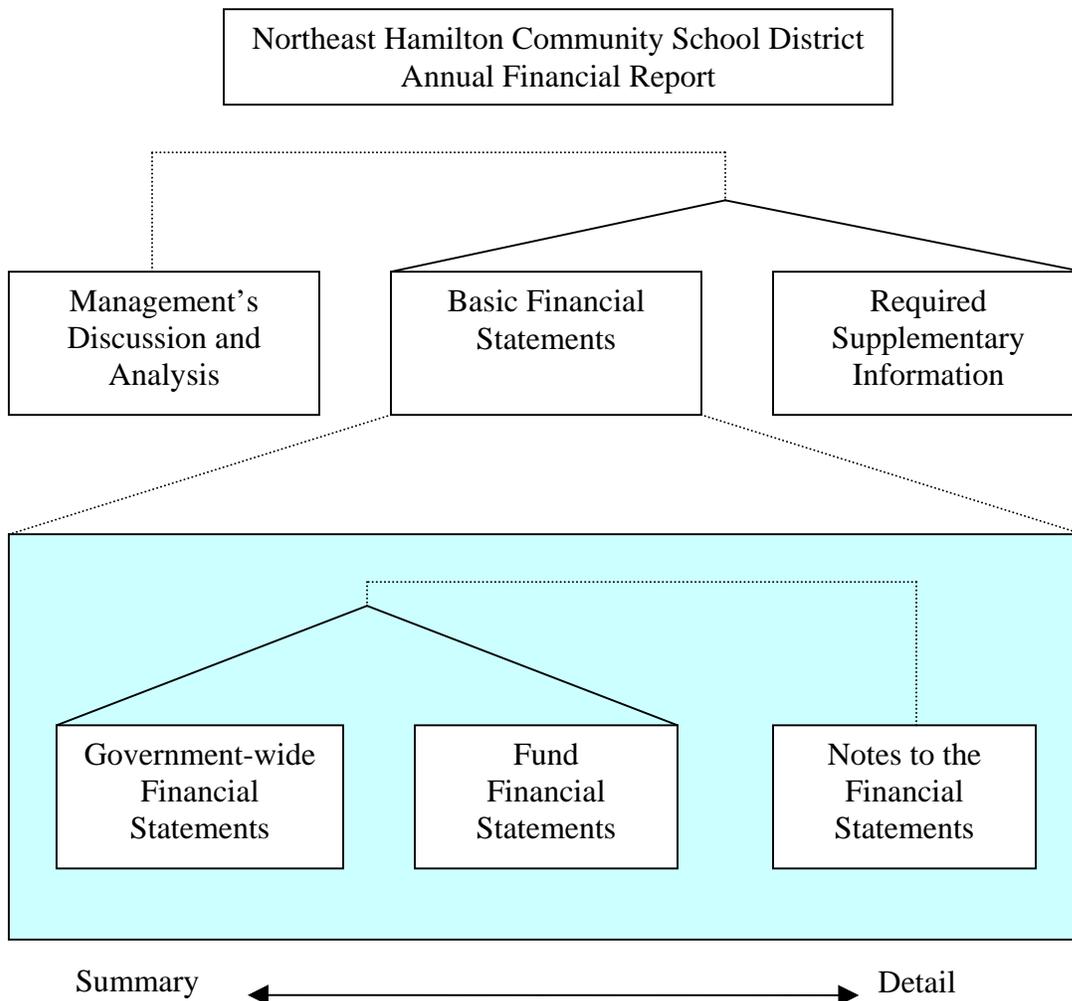


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents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

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

	Government-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private business: food services is included here	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balance 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flow 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset / liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow / outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Government-wide Statements

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

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

Financial Analysis of the District as a Whole

Net assets. The District's combined net assets were slightly larger on June 30, 2004, than they were the year before, increasing .5% or \$8,833 (*see Figure A-3*). The largest increase is noted in the restricted area where the use of funds are limited by legislation.

Figure A-3

Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change
	2003	2004	2003	2004	2003	2004	2003-2004
Current and other assets	\$ 2,294,265	\$ 2,159,834	\$ 12,641	\$ 15,351	\$ 2,306,906	\$ 2,175,185	-5.7%
Capital assets	802,831	806,300	5,490	4,754	808,321	811,054	0.3%
Total Assets	3,097,096	2,966,134	18,131	20,105	3,115,227	2,986,239	-4.1%
Long-term liabilities	-	-	-	-	-	-	-
Other liabilities	1,290,456	1,152,638	1,198	1,195	1,291,654	1,153,833	-10.7%
Total liabilities	1,290,456	1,152,638	1,198	1,195	1,291,654	1,153,833	-10.7%
Net Assets:							
Invested in capital assets, net of related debt	802,831	806,300	5,490	4,754	808,321	811,054	0.3%
Restricted	244,853	333,791	-	-	244,853	333,791	36.3%
Unrestricted	758,956	673,405	11,443	14,156	770,399	687,561	-10.8%
TOTAL NET ASSETS	\$ 1,806,640	\$ 1,813,496	\$ 16,933	\$ 18,910	\$ 1,823,573	\$ 1,832,406	0.5%

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

Governmental Activities -

Referring to *Figure A-4*, revenues for the District's governmental activities were \$2,625,486 for fiscal year 2004. Total governmental expenditures were \$2,617,894.

In a difficult budget year, the District did a remarkable job trimming expenses to match available revenues in a year when the Board of Directors had lowered the overall District tax rate from \$10.12152 per thousand dollars of taxable valuation to \$9.77972.

Figure A-4

Changes in Net Assets from Operating Results

	<u>Governmental Activities</u> <u>2004</u>	<u>Business-type Activities</u> <u>2004</u>	<u>Total School District</u> <u>2004</u>
Revenues			
Program Revenues	\$ 217,370	\$ 69,152	\$ 286,522
Charges for services			
Operating Grants & Contributions	286,739	46,609	333,348
Capital Grants & Contributions	1886	-	1886
General Revenues			
Property taxes & other taxes	1,398,449	-	1,398,449
Unrestricted State Grants	705,381	-	705,381
Unrestricted Investment Earnings	6,723	-	6,723
Other Revenue	8,938	34	8,972
	<u>\$ 2,625,486</u>	<u>\$ 115,795</u>	<u>\$ 2,741,281</u>
Total Revenues			
Expenses			
Instruction	1,593,414	-	1,593,414
Support Services	859,360	-	859,360
Non-Instructional Programs	756	114,554	115,310
Other Expenses	164,364	-	164,364
	<u>\$ 2,617,894</u>	<u>\$ 114,554</u>	<u>\$ 2,732,448</u>
Total Expenses			
Transfers	-736	736	0
	<u>\$ 6,856</u>	<u>\$ 1,977</u>	<u>\$ 8,833</u>
Change in Net Assets			

Figure A-5

Net Cost of Governmental Activities

	<u>Total Cost of Services</u> <u>2004</u>	<u>Net Cost of Services</u> <u>2004</u>
	\$ 1,593,414	\$ 1,180,174
Instruction		
Support Services	859,360	859,045
Non-instructional Programs	756	756
Other Expenses	164,364	71,924
	<u>\$ 2,617,894</u>	<u>\$ 2,111,899</u>
TOTAL		

Figure A-5 presents the cost of the District's major governmental activities: instruction, support services, non-instruction programs and other expenses. The table shows each activity's net cost

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

- The cost of all governmental activities this year was \$2,617,894.
- Some of the cost was financed by the users of the District's programs (\$217,370).
- The federal and state governments and private contributors subsidized certain programs with grants and contributions (\$286,739).
- Most of the District's costs (\$2,111,899), however, were financed by District and state taxpayers.
- This portion of governmental activities was financed with \$1,270,857 in property taxes, and \$705,381 in unrestricted state aid (based in large part on the statewide education aid formula), investment earnings and miscellaneous revenues.

Business-Type Activities -

The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements, and investment income. The District's business-type activities show a slight increase in net assets with revenues exceeding expenses \$1,241 (refer to *Figure A-4*). The \$736 transfer from Governmental Activities to Business-Type Activities was for a garbage disposal that was purchased using PPEL funds then added to the Nutrition Fund's capital assets making the Change in Net Assets \$1,977. The Board of Education did not increase school meal prices for fiscal year 2004, but made a decision to increase meal prices \$0.05 for fiscal year 2005.

Financial Analysis of the District's Funds

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported combined fund balances of \$877,597, slightly less of last year's ending fund balances of \$880,634.

Governmental Fund Highlights

The General Fund balance decreased from \$635,781 to \$543,806, due in part to the reduction in student enrollment, negotiated salary and benefit settlement, and events such as the Governor's 2.5% rollback; the elimination of Phase III funding; and the elimination of a sharing agreement of a staff member with a neighboring district. The Board chose to use carryover fund balance to maintain obligations and student programming.

The Nonmajor Governmental (Management and Activity) Funds balance increased \$41,747 to \$123,988. The increase was due in large part to increased revenues in the Management Fund for improving the financial condition of the fund to cover insurance rate increases and future early retirement payments.

The Physical Plant and Equipment Levy (PPEL) Fund balance increased \$47,191 to \$209,803. While revenues remained approximately the same (increase of \$3,756), the District substantially

reduced spending from the PPEL Fund during fiscal 2004 in lieu of remodeling projects scheduled to be completed during the summer break.

Business Type Fund Highlights

The School Nutrition Fund net assets increased from \$16,933 at June 30, 2003 to \$18,910 at June 30, 2004, representing an increase of 11.7%. Ala carte sales more than doubled, and there was a slight increase in free/reduced meals served that contributed to an increase in federal aid reimbursement. Also during FY04, the Nutrition Fund was able to pay back the remaining \$4,000 of a General Fund loan.

Budgetary Highlights

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

During FY04, total revenues were far below expectations held when the FY04 budget was assembled in February, 2003. Ultimately, budgeted amounts exceeded actual revenue by \$123,467. This was due to a variety of factors that could not have been anticipated when a budget estimate was assembled. For example, in November, 2003, the Governor announced a 2.5% across the board cut. Also, open enrollment income had been overestimated, and a shared teacher agreement with a neighboring district was terminated, not only increasing salary obligations but eliminating shared dollar revenues. The District also found out after the budget was established that Phase III revenues were going to be eliminated. On the expense side, the District began adjusting to all of these factors, and succeeded in keeping total disbursements below total receipts. When a preliminary budget is set, the District always requests the ability to expend its full budget if necessary, but has the goal of keeping disbursements in line with revenues as actual revenue accumulates. As a result, the District's certified budget should always exceed the actual expenditures during the year. It is apparent that even in such a difficult fiscal year in which to accurately predict revenues, the District was able to meet its goal and keep total disbursements (\$2,710,587) slightly below total receipts (\$2,723,915).

Capital Asset and Debt Administration

By the end of 2004, the District had invested \$811,054, net of accumulated depreciation, in a broad range of assets, including school buildings, athletic facilities, transportation equipment, and computer and audio-visual equipment (see *Figure A-6*). This amount represents a net increase of \$4,124 or .3% from last year. (More detailed information about capital assets can be found in Note 4 to the financial statements.) The District was able to stay within its means and not accumulate any debt in FY04. Capital assets were purchased as revenue became available and included a used van, a final payment on the installation of new boilers, a final payment on installation of a new gymnasium floor, purchase of new laptop computers for those teachers who

requested them, and improvements to outside recreational space such as new goal posts for the football field and new infield dirt and bleachers for the baseball field.

Figure A-6

Capital Assets (net of depreciation)

	Governmental Activities		Business--type Activities		Total School District		Total Percentage Change 2003-04
	2003	2004	2003	2004	2003	2004	
	Land	42,750	42,750	-	-	42,750	
Construction in progress	41,849	0	-	-	41,849	0	-
Buildings	534,723	582,525	-	-	534,723	582,525	8.9%
Equipment & Furniture	183,509	181,025	5490	4754	188,999	185,779	-1.7%
TOTAL	802,831	806,300	5490	4754	808,321	811,054	0.3%

Factors Bearing on the District's Future

The District is projected to remain in good financial health far into the future. Budgeting practices such as making sure disbursements do not exceed receipts, even during challenging years like FY04, combined with a solid foundation of cash balance and unspent balance, allow the District to provide the resources needed for excellent student achievement while still keeping the tax burden reasonable. In FY05, the District received additional new money for the first time in years, and FY06 looks even brighter for additional new money when an enrollment increase is combined with projected 4% allowable growth. Furthermore, in FY08, the District will begin receiving added property value as the Wall Lake Wind Farm comes online; over time, that increased property value is projected to generate over \$500,000 to the general fund, giving the Board a variety of options regarding taxation and tax rates. However, costs outside of the Board's control such as continual increases in health insurance and utility costs are worrisome, and employee contract settlements will also have an effect on the District's financial viability.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability of the money it receives. If you have questions about this report or need additional financial information, contact Roark Horn, Superintendent, Northeast Hamilton Community School District, 606 Illinois Street, Blairsburg, Iowa 50034.

BASIC FINANCIAL STATEMENTS

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governme ntal Activities <u> </u> \$	Business Type Activities <u> </u> \$	<u> </u> Total <u> </u> \$
Assets			
Cash and cash equivalents	881,131	12,285	893,416
Receivables:			
Property tax:			
Delinquent	11,051	-	11,051
Succeeding year	1,124,797	-	1,124,797
Accounts	535	209	744
Accrued interest	490	2	492
Due from other governments	141,830	-	141,830
Interfund receivables/payables	-	-	-
Inventories	-	2,855	2,855
Capital assets, net of accumulated depreciation	<u>806,300</u>	<u>4,754</u>	<u>811,054</u>
Total assets	<u>2,966,134</u>	<u>20,105</u>	<u>2,986,239</u>
Liabilities			
Accounts payable	23,941	-	23,941
Salaries and benefits payable	3,900	-	3,900
Deferred revenue:			
Succeeding year property tax	1,124,797	-	1,124,797
Other	<u>-</u>	<u>1,195</u>	<u>1,195</u>
Total liabilities	<u>1,152,638</u>	<u>1,195</u>	<u>1,153,833</u>
Net assets			
Invested in capital assets, net of related debt	806,300	4,754	811,054
Restricted for:			
Management levy	92,851	-	92,851
Physical plant and equipment levy	209,803	-	209,803
Other special revenue purposes	31,137	-	31,137
Unrestricted	<u>673,405</u>	<u>14,156</u>	<u>687,561</u>
Total net assets	<u><u>1,813,496</u></u>	<u><u>18,910</u></u>	<u><u>1,832,406</u></u>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	960,959	106,261	147,282	-
Special instruction	353,349	6,118	41,981	-
Other instruction	279,106	104,991	6,607	-
	<u>1,593,414</u>	<u>217,370</u>	<u>195,870</u>	<u>-</u>
Support services:				
Student services	75,941	-	-	-
Instructional staff services	79,631	-	-	-
Administration services	284,941	-	-	-
Operation and maintenance of plant services	258,153	-	-	-
Transportation services	160,694	-	315	-
	<u>859,360</u>	<u>-</u>	<u>315</u>	<u>-</u>
Non-instructional programs	<u>756</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	43,946	-	-	1,886
AEA flowthrough	90,554	-	90,554	-
Depreciation (unallocated)*	29,864	-	-	-
	<u>164,364</u>	<u>-</u>	<u>90,554</u>	<u>1,886</u>
Total governmental activities	<u>2,617,894</u>	<u>217,370</u>	<u>286,739</u>	<u>1,886</u>
Business type activities				
Non-instructional programs:				
Food service operations	114,554	69,152	46,609	-
Total	<u>2,732,448</u>	<u>286,522</u>	<u>333,348</u>	<u>1,886</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
Transfers				
Total general revenues and transfers				

Change in net assets

Net assets beginning of year, as restated

Net assets end of year

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

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
(707,416)	-	(707,416)
(305,250)	-	(305,250)
(167,508)	-	(167,508)
<u>(1,180,174)</u>	<u>-</u>	<u>(1,180,174)</u>
(75,941)	-	(75,941)
(79,631)	-	(79,631)
(284,941)	-	(284,941)
(258,153)	-	(258,153)
(160,379)	-	(160,379)
<u>(859,045)</u>	<u>-</u>	<u>(859,045)</u>
(756)	-	(756)
(42,060)	-	(42,060)
-	-	-
(29,864)	-	(29,864)
<u>(71,924)</u>	<u>-</u>	<u>(71,924)</u>
(2,111,899)	-	(2,111,899)
-	1,207	1,207
<u>(2,111,899)</u>	<u>1,207</u>	<u>(2,110,692)</u>
1,168,500	-	1,168,500
102,357	-	102,357
127,592	-	127,592
705,381	-	705,381
6,723	34	6,757
8,938	-	8,938
2,119,491	34	2,119,525
(736)	736	-
<u>2,118,755</u>	<u>770</u>	<u>2,119,525</u>
6,856	1,977	8,833
<u>1,806,640</u>	<u>16,933</u>	<u>1,823,573</u>
<u>1,813,496</u>	<u>18,910</u>	<u>1,832,406</u>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2004

	<u>General Fund</u>	<u>Physical Plant and Equipment Levy</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
	\$	\$	\$	\$
Assets				
Cash and pooled investments	540,677	211,512	128,942	881,131
Receivables:				
Property tax:				
Delinquent	9,433	890	728	11,051
Succeeding year	967,057	72,740	85,000	1,124,797
Accounts	535	-	-	535
Accrued interest	484	2	4	490
Due from other governments	100,904	40,926	-	141,830
	<u>1,619,090</u>	<u>326,070</u>	<u>214,674</u>	<u>2,159,834</u>
Total assets				
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	15,654	2,601	5,686	23,941
Salaries and benefits payable	3,900	-	-	3,900
Deferred revenue:				
Succeeding year property tax	967,057	72,740	85,000	1,124,797
Other	88,673	40,926	-	129,599
Total liabilities	1,075,284	116,267	90,686	1,282,237
Fund balances:				
Unreserved	543,806	209,803	123,988	877,597
	<u>1,619,090</u>	<u>326,070</u>	<u>214,674</u>	<u>2,159,834</u>
Total liabilities and fund balances				

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

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

June 30, 2004

Total fund balances of governmental funds (Exhibit C)	877,597
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	806,300
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	<u>129,599</u>
Net assets of governmental activities (Exhibit A)	<u><u>1,813,496</u></u>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	General Fund	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,167,662	140,621	83,742	1,392,025
Tuition	97,437	-	-	97,437
Other	19,557	1,599	105,500	126,656
State sources	906,076	1,938	42	908,056
Federal sources	85,950	-	-	85,950
Total revenues	<u>2,276,682</u>	<u>144,158</u>	<u>189,284</u>	<u>2,610,124</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	953,104	-	7,306	960,410
Special instruction	353,349	-	-	353,349
Other instruction	171,156	-	107,950	279,106
	<u>1,477,609</u>	<u>-</u>	<u>115,256</u>	<u>1,592,865</u>
Support services:				
Student services	75,941	-	-	75,941
Instructional staff services	78,119	-	1,512	79,631
Administration services	277,538	-	2,965	280,503
Operation and maintenance of plant services	244,779	1,518	20,236	266,533
Transportation services	133,055	14,950	6,812	154,817
	<u>809,432</u>	<u>16,468</u>	<u>31,525</u>	<u>857,425</u>
Non-instructional programs	-	736	756	1,492
Other expenditures:				
Facilities acquisition	-	79,763	-	79,763
AEA flowthrough	90,554	-	-	90,554
	<u>90,554</u>	<u>79,763</u>	<u>-</u>	<u>170,317</u>
Total expenditures	<u>2,377,595</u>	<u>96,967</u>	<u>147,537</u>	<u>2,622,099</u>
Excess (deficiency) of revenues over (under) expenditures	(100,913)	47,191	41,747	(11,975)
Other financing sources (uses):				
Compensation for loss of fixed assets	8,938	-	-	8,938
Net change in fund balances	(91,975)	47,191	41,747	(3,037)
Fund balances beginning of year, as restated	635,781	162,612	82,241	880,634
Fund balances end of year	<u>543,806</u>	<u>209,803</u>	<u>123,988</u>	<u>877,597</u>

See notes to financial statements.

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		(3,037)

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

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

Expenditures for capital assets	69,642	
Depreciation expense	<u>(66,173)</u>	3,469

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

		<u>6,424</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>6,856</u></u>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2004

	Nonmajor School Nutrition
	<u>\$</u>
Assets	
Cash and cash equivalents	12,285
Accounts receivable	209
Accrued interest	2
Inventories	2,855
Capital assets, net of accumulated depreciation	<u>4,754</u>
Total assets	20,105
Liabilities	
Deferred revenue	<u>1,195</u>
Net assets	
Invested in capital assets, net of related debt	4,754
Unrestricted	<u>14,156</u>
Total net assets	<u><u>18,910</u></u>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds

Year ended June 30, 2004

	Nonmajor School Nutrition <u> </u> \$
Operating revenue:	
Local sources:	
Charges for service	<u>69,152</u>
Operating expenses:	
Non-instructional programs:	
Salaries	34,347
Benefits	15,541
Purchased services	1,060
Supplies	62,134
Depreciation	<u>1,472</u>
	<u>114,554</u>
Operating gain (loss)	<u>(45,402)</u>
Non-operating revenue:	
State sources	1,563
Federal sources	45,046
Interest income	34
Total non-operating revenue	<u>46,643</u>
Gain (loss) before contributions	1,241
Capital contributions	<u>736</u>
Change in net assets	1,977
Net assets beginning of year	<u>16,933</u>
Net assets end of year	<u><u>18,910</u></u>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2004

	Nonmajor School Nutrition \$
Cash flows form operating activities:	
Cash received from sale of lunches and breakfasts	69,298
Cash payments to employees for services	(49,888)
Cash payments to suppliers for goods or services	(56,337)
Net cash used by operating activities	<u>(36,927)</u>
Cash flows from non-capital financing activities:	
Repayment of interfund loan	(4,000)
State grants received	1,563
Federal grants received	37,838
Net cash provided by non-capital financing activities	<u>35,401</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities:	
Interest on investments	<u>37</u>
Net increase (decrease) in cash and cash equivalents	(1,489)
Cash and cash equivalents at beginning of year	<u>13,774</u>
Cash and cash equivalents at end of year	<u><u>12,285</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(45,402)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	7,208
Depreciation	1,472
Decrease (increase) in inventories	(351)
Decrease (increase) in accounts receivable	149
(Decrease) increase in deferred revenue	<u>(3)</u>
Net cash used in operating activities	<u><u>(36,927)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30,2004, the District received \$7,208 of federal commodities.

During the year the School Nutrition Fund received \$736 of equipment purchased by other funds.

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2004

	Private Purpose Trust <u> </u> \$	Agency <u> </u> \$
Assets		
Cash and pooled investments	277	-
Liabilities	<u> </u>	<u> </u>
	-	-
Net Assets		
Reserved for student special needs	<u> </u> <u> </u> 277	<u> </u> <u> </u> -

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2004

	Private Purpose Trust
	<u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	300
Deductions:	
Support services:	
Supplies	<u>589</u>
Change in net assets	(289)
Net assets beginning of year	<u>566</u>
Net assets end of year	<u><u>277</u></u>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2004

1. Summary of Significant Accounting Policies

Northeast Hamilton Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Blairsburg, Kamrar and Williams, Iowa and the predominately agricultural territory in a portion of Hamilton and Wright Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Northeast Hamilton Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) The potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The Northeast Hamilton Community School District has no component units that meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The Physical Plant and Equipment Levy Fund is a special revenue fund that is used to account for the revenues from and expenditures of the physical plant and equipment property tax levy.

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

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

The Private-Purpose Trust Fund is used to account for assets held by the District under trust agreements, which require income earned to be used to benefit individuals with special personal needs.

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

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

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

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

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	25-50 years
Improvements other than buildings	20 years
Furniture and equipment	5-20 years

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

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

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

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets. The District has no long-term debt at June 30, 2004.

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

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

E. Budgeting and Budgetary Control

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

2. **Cash and Pooled Investments**

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

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

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$226,787 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

3. Interfund Transfers

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

Transfer to	Transfer from	Amount
		\$
Enterprise: School Nutrition Fund	Special Revenue: Physical Plant and Equipment Levy Fund	736

This transfer reflects equipment purchased by the Physical Plant and Equipment Levy Fund that is used for the school nutrition program.

4. Capital Assets

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

	Balance Beginning of Year, as Restated	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	41,849	12,441	54,290	-
Land	42,750	-	-	42,750
Total capital assets not being depr.	<u>84,599</u>	<u>12,441</u>	<u>54,290</u>	<u>42,750</u>
Capital assets being depreciated:				
Buildings	1,404,117	77,666	-	1,481,783
Improvements other than buildings	98,150	-	-	98,150
Furniture and equipment	598,070	33,825	-	631,895
Total capital assets being deprec.	<u>2,100,337</u>	<u>111,491</u>	<u>-</u>	<u>2,211,828</u>
Less accumulated depreciation for:				
Buildings	880,534	25,058	-	905,592
Improvements other than buildings	87,010	4,806	-	91,816
Furniture and equipment	414,561	36,309	-	450,870
Total accumulated depreciation	<u>1,382,105</u>	<u>66,173</u>	<u>-</u>	<u>1,448,278</u>
Total capital assets being depreciated, net	<u>718,232</u>	<u>45,318</u>	<u>-</u>	<u>763,550</u>
Governmental activities capital assets, net	<u>802,831</u>	<u>57,759</u>	<u>54,290</u>	<u>806,300</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	66,295	736	-	67,031
Less accumulated depreciation	<u>60,805</u>	<u>1,472</u>	-	<u>62,277</u>
Business type activities capital assets, net	<u>5,490</u>	<u>(736)</u>	-	<u>4,754</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	7,679
Support Services:	
Administration services	4,438
Operation and maintenance of plant services	3,365
Transportation	<u>20,829</u>
	20,827
Unallocated depreciation	<u>36,309</u>
Total depreciation expense – governmental activities	<u>66,173</u>
Business type activities:	
Food services	<u>1,472</u>

5. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$77,056, \$74,608, and \$74,760 respectively, equal to the required contributions for each year.

6. Risk Management

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

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

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. The District's annual contributions to ISEBA for the year ended June 30, 2004, were \$187,416.

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.

Northeast Hamilton 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.

7. 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 \$90,554 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.

8. Accounting Change and Restatement

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

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

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

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

	Fund			Total
	General	PPEL	Nonmajor	
Net assets, June 30, 2003, as previously reported	\$ 635,781	\$ 162,612	\$ 82,241	\$ 880,634
GASB Interpretation 6 adjustments	-	-	-	-
Net assets, July 1, 2003, as restated for Governmental funds	<u>635,781</u>	<u>162,612</u>	<u>82,241</u>	880,634
GASB 34 adjustments:				
Capital assets net of accumulated depreciation of \$1,382,105				802,831
Deferred revenue				<u>123,175</u>
Net assets, July 1, 2003, as restated				<u>1,806,640</u>

REQUIRED SUPPLEMENTARY INFORMATION

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Receipts:						
Local sources	1,629,010	69,335	1,698,345	1,763,669	1,763,669	(65,324)
State sources	904,259	1,563	905,822	985,713	985,713	(79,891)
Federal sources	74,702	45,046	119,748	98,000	98,000	21,748
Total receipts	<u>2,607,971</u>	<u>115,944</u>	<u>2,723,915</u>	<u>2,847,382</u>	<u>2,847,382</u>	<u>(123,467)</u>
Disbursements:						
Instruction	1,572,290	-	1,572,290	1,825,163	1,825,163	252,873
Support services	855,656	-	855,656	995,000	995,000	139,344
Non-instructional programs	1,492	113,433	114,925	283,166	283,166	168,241
Other expenditures	167,716	-	167,716	398,021	398,021	230,305
Total disbursements	<u>2,597,154</u>	<u>113,433</u>	<u>2,710,587</u>	<u>3,501,350</u>	<u>3,501,350</u>	<u>790,763</u>
Excess (deficiency) of receipts over (under) disbursements	10,817	2,511	13,328	(653,968)	(653,968)	667,296
Other financing sources (uses) net	<u>12,938</u>	<u>(4,000)</u>	<u>8,938</u>	<u>-</u>	<u>-</u>	<u>8,938</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements	23,755	(1,489)	22,266	(653,968)	(653,968)	676,234
Balance beginning of year	<u>857,376</u>	<u>13,774</u>	<u>871,150</u>	<u>653,968</u>	<u>653,968</u>	<u>217,182</u>
Balance end of year	<u><u>881,131</u></u>	<u><u>12,285</u></u>	<u><u>893,416</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>893,416</u></u>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
	\$	\$	\$
Revenues	2,607,971	2,153	2,610,124
Expenditures	2,597,154	24,945	2,622,099
Net	10,817	(22,792)	(11,975)
Other financing sources (uses) net	12,938	(4,000)	8,938
Beginning fund balances	857,376	23,258	880,634
Ending fund balances	881,131	(3,534)	877,597

	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
	\$	\$	\$
Revenues	115,944	(149)	115,795
Expenditures	113,433	1,121	114,554
Net	2,511	(1,270)	1,241
Other financing sources (uses) net	(4,000)	4,736	736
Beginning fund balances	13,774	3,159	16,933
Ending fund balances	12,285	6,625	18,910

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2004

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

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

OTHER SUPPLEMENTARY INFORMATION

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2004

Assets	<u>Special Revenue Funds</u>		
	Management	Student	Total
	Levy	Activity	
	\$	\$	\$
Cash and pooled investments	92,121	36,821	128,942
Receivables:			
Property tax:			
Delinquent	728	-	728
Succeeding year	85,000	-	85,000
Accrued interest	2	2	4
Total assets	<u>177,851</u>	<u>36,823</u>	<u>214,674</u>
Liabilities & Fund Balances			
Liabilities:			
Accounts payable	-	5,686	5,686
Deferred revenue:			
Succeeding year property tax	85,000	-	85,000
Total liabilities	<u>85,000</u>	<u>5,686</u>	<u>90,686</u>
Fund balances:			
Unreserved fund balance	<u>92,851</u>	<u>31,137</u>	<u>123,988</u>
Total liabilities and fund balances	<u>177,851</u>	<u>36,823</u>	<u>214,674</u>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	<u>Special Revenue Funds</u>		
	Management	Student	Total
	Levy	Activity	
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	83,742	-	83,742
Other	343	105,157	105,500
State sources	42	-	42
Total revenues	<u>84,127</u>	<u>105,157</u>	<u>189,284</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	7,306	-	7,306
Other instruction	-	107,950	107,950
Support services:			
Instructional staff services	1,512	-	1,512
Administration services	2,965	-	2,965
Operation and maintenance of plant services	20,236	-	20,236
Transportation services	6,812	-	6,812
Non-instructional programs	756	-	756
Total expenditures	<u>39,587</u>	<u>107,950</u>	<u>147,537</u>
Net change in fund balances	44,540	(2,793)	41,747
Fund balances beginning of year, as restated	<u>48,311</u>	<u>33,930</u>	<u>82,241</u>
Fund balances end of year	<u>92,851</u>	<u>31,137</u>	<u>123,988</u>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance	Revenues	Expenditures	Intra-Fund Transfers	Balance
	Beginning of Year				End of Year
	\$	\$	\$	\$	\$
Student council	328	7,078	6,861	-	545
Student commons	1,891	16,593	15,865	-	2,619
Students against drunk drivers	22	-	22	-	-
National Honor Society	86	40	55	-	71
Quiz bowl	50	-	-	-	50
Fall play	2,185	726	745	(140)	2,026
Swing choir	834	559	746	-	647
Band	2,704	3,092	2,309	-	3,487
Instrument rent & ins.	455	-	-	-	455
Yearbook	1,841	7,432	7,616	-	1,657
Desk top publishing	1,043	-	1,043	-	-
Lance club	50	-	50	-	-
Speech club	(140)	59	59	140	-
Future Farmers of America	875	9,073	8,821	-	1,127
Home economics club	2,118	983	960	-	2,141
Fall cheerleaders & pep club	788	1,863	2,024	-	627
Drill team	355	270	164	-	461
Spanish club	54	3,988	2,817	-	1,225
Industrial technology	482	-	482	-	-
Class of 2004	589	861	1,196	-	254
Class of 2005	1,403	1,129	2,527	-	5
Class of 2006	1,425	2,129	554	-	3,000
Class of 2007	-	2,044	1,452	-	592
After prom party	17	3,555	2,372	-	1,200
Athletics	5,738	26,742	31,408	-	1,072
Football donations	710	2,147	2,140	-	717
Boys basketball donations	870	6,599	4,074	-	3,395
Baseball donations	164	2,124	1,680	-	608
Softball donations	213	471	132	-	552
Golf donations	20	-	20	-	-
Girls basketball donations	509	6,096	3,511	-	3,094
Volleyball donation	414	277	277	-	414
Interest on investment	3,543	165	44	-	3,664
Kindergarten earth day	700	-	-	-	700
MS Washington DC trip	1,243	(1,243)	-	-	-
Fifth grade Iowa trip	468	-	52	-	416
Lounge	-	306	306	-	-
Junior high officers	10	-	10	-	-
June 30, 2003 accruals	(127)	(3)	(130)	-	-
June 30, 2004 accruals	-	2	5,686	-	(5,684)
Total	33,930	105,157	107,950	-	31,137

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund

Year ended June 30, 2004

	<u>PTO</u> \$
Balance beginning of year	-
Additions:	
Collections	100
Deductions:	
Miscellaneous	<u>100</u>
Balance end of year	<u><u>-</u></u>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2004	2003	2002	2001
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,392,025	1,432,834	1,353,886	1,340,065
Tuition	97,437	93,575	83,895	65,701
Other	126,656	135,933	129,732	173,564
State sources	908,056	930,755	958,022	984,260
Federal sources	85,950	88,258	53,532	78,203
Total revenues	<u>2,610,124</u>	<u>2,681,355</u>	<u>2,579,067</u>	<u>2,641,793</u>
Expenditures:				
Instruction:				
Regular instruction	960,410	912,751	877,665	916,860
Special instruction	353,349	329,105	321,335	338,260
Other instruction	279,106	238,741	281,683	282,203
Support services:				
Student services	75,941	86,799	79,659	72,319
Instructional staff services	79,631	121,447	67,714	108,695
Administration services	280,503	347,473	290,896	271,708
Operation and maintenance of plant services	266,533	283,553	230,711	243,279
Transportation services	154,817	134,744	173,524	169,885
Central support services	-	-	7,721	9,167
Non-instructional programs	1,492	-	-	-
Other expenditures:				
Facilities acquisition	79,763	146,281	76,303	60,110
Total expenditures	<u>2,622,099</u>	<u>2,695,186</u>	<u>2,501,489</u>	<u>2,570,471</u>

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

To the Board of Education of the
[Northeast Hamilton](#) Community School District:

We have audited the financial statements of the [Northeast Hamilton](#) Community School District as of and for the year ended June 30, [2004](#), and have issued our report thereon dated [November 16, 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 [Northeast Hamilton](#) Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. [However, we noted certain immaterial instances of noncompliance that are described in Part II of the accompanying Schedule of Findings.](#)

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

Internal Control over Financial Reporting

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

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

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

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

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

[November 16, 2004](#)

NORHTEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

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

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

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

Conclusion: Response accepted.

04-I-B Supporting Documentation: We tested twelve Student Activity Fund expenditures and noted one payment that did not have supporting documentation.

Recommendation: The District should have detailed invoices, receipts or contracts before making any payments.

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

Conclusion: Response accepted.

NORHTEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

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

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

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

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

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

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

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

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

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

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

0-II-K Policy on Payment of Bills Prior to Board Approval: We noted that the District's policy on payment of bills prior to board approval needs to be revised.

Recommendation: Chapter 179.29 of the Code of Iowa provides that "the Board shall audit all just claims against the corporation and no order shall be drawn upon the treasury until the claim therefore has been audited and allowed." Chapter 279.30 of the Code of Iowa allows payment of specific items, such as utilities, postage and printing, without prior Board approval. This Board may approve a resolution designating certain other disbursements that may be paid prior to a Board Meeting with the approval of the Board President. The Board's written policy should comply with Chapter 279.30 of the Code of Iowa. Then, except as expressly permitted, no checks should be prepared for claims that have not been properly audited and allowed.

District Response: We will revise our policy on payment of bills prior to board approval.

Conclusion: Response accepted.