

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

JUNE 30, 2004

Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-13
Basic Financial Statements:	<u>Exhibit</u>	
Government-Wide Financial Statements:		
Statement of Net Assets	A	14
Statement of Activities	B	15-16
Governmental Fund Financial Statements:		
Balance Sheet	C	17
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	18
Statement of Revenues, Expenditures and Changes in Fund Balances	E	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	20
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	21
Statement of Revenues, Expenses and Changes in Net Assets	H	22
Statement of Cash Flows	I	23
Notes to Financial Statements		24-34
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual (GAAP Basis) - All Governmental Funds and Proprietary Fund		35-36
Notes to Required Supplementary Information - Budgetary Reporting		37
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	38
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	39
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	40-41
Schedule of Changes in Special Revenue Fund, Expendable Trust Accounts	4	42
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	5	43
Schedule of Expenditures of Federal Awards	6	44
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		45-46
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance		47-48
Schedule of Findings and Questioned Costs		49-53

Norwalk Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Diane Shivvers	President	2003
Tom Phillips	Vice President	2003
George Meinecke	Board Member	2005
Katherine Schmidt	Board Member	2005
Debra R. Ostrem	Board Member	2004
Board of Education (After September 2003 Election)		
Tom Phillips	President	2006
Debra R. Ostrem	Vice President	2004
George Meinecke	Board Member	2005
Katherine Schmidt	Board Member	2005
Deborah Hobbs	Board Member	2006
School Officials		
Dr. Anne Laing	Superintendent	2004
Kate Baldwin	Business Manager	2004
Linda Norton	District Secretary	2004
Ronald Peeler	Attorney	2004

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Norwalk 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 Norwalk 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.

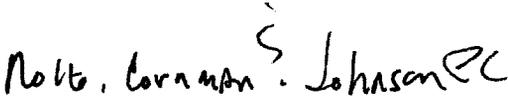
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Norwalk Community School District at June 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 December 14, 2004 on our consideration of the Norwalk 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.

The 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

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 Norwalk 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 year ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Another auditor 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, 2002 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

December 14, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Norwalk Community School District provides the 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

- Fiscal 2004 General Fund revenues exceeded expenses by \$1,032,109 despite a mid-year cut in state funding. The excess of revenues over expenses resulted in an increase in the fund balance from \$165,503 to \$1,197,612. Revenues were \$15.2 million vs. \$14.6 million in fiscal 2003, and expenditures were \$14.0 million vs. \$13.7 million in fiscal 2003.
- The increase in General Fund revenues was attributable to an increase in local, state and federal sources of revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures.
- The state granted a 2% increase in "allowable growth" for fiscal 2004. This was one of the lowest increases in the 30-year history of the school foundation aid formula, and compares to the 1% increase provided in fiscal year 2003.
- A decline in interest rates during the past three years, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone to decrease from \$24,470 in fiscal 2003 to \$23,068 in fiscal 2004.
- Norwalk Community School District's solvency ratio for fiscal 2002 was -5.2% (negative). By following Board adopted financial goals and procedures, the District's solvency ratio for fiscal 2004 was 7.8%. This new solvency ratio surpasses the District's targeted goal of 5%.

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

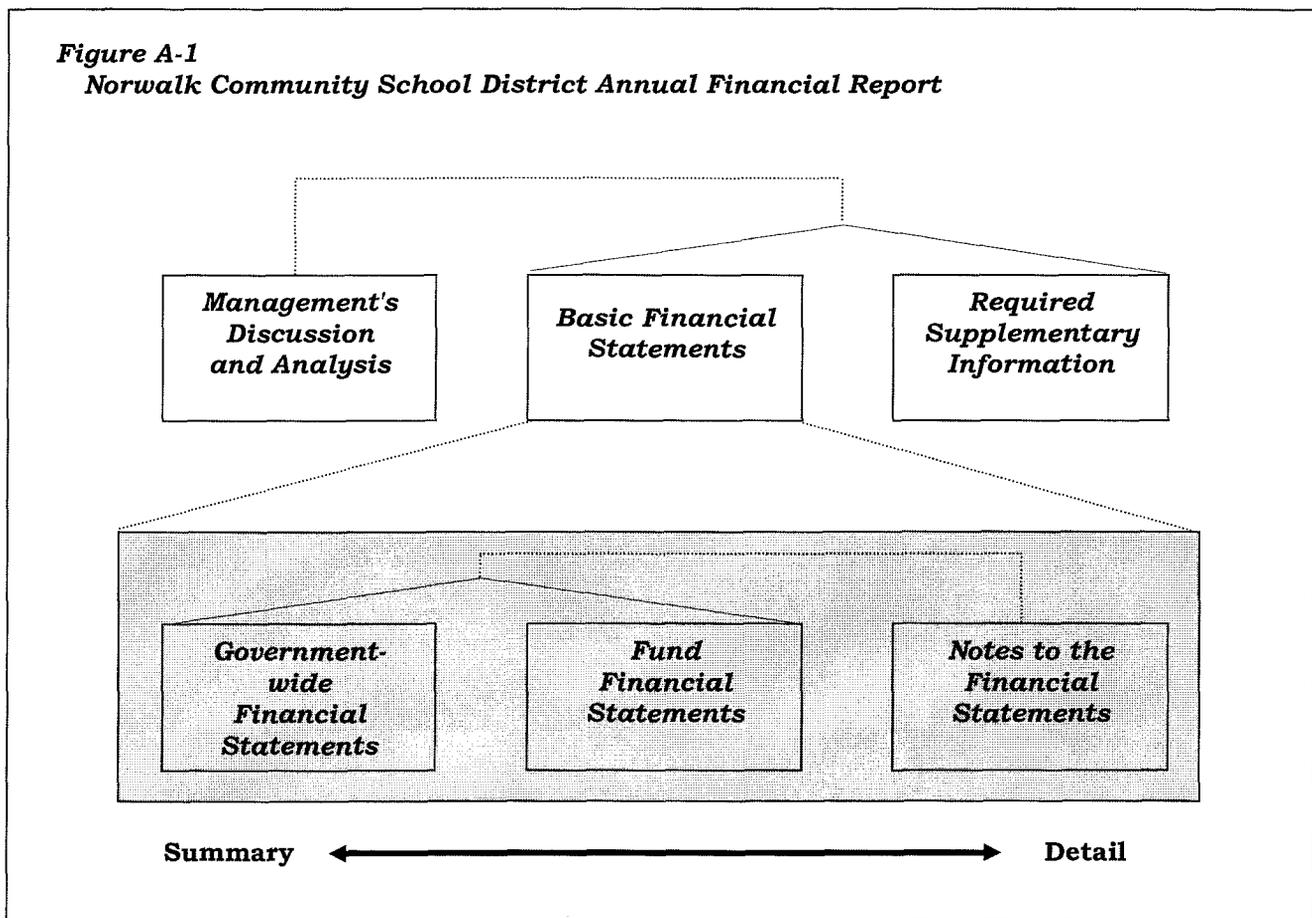


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2			
Major Features of the Government-wide and Fund Financial Statements			
	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"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
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
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-04
Current and other assets	\$ 10,857,141	11,953,693	243,778	184,385	11,100,919	12,138,078	-8.54%
Capital assets	10,220,344	9,499,397	144,412	129,277	10,364,756	9,628,674	7.64%
Total assets	21,077,485	21,453,090	388,190	313,662	21,465,675	21,766,752	-1.38%
Long-term obligations	8,315,000	8,775,000	0	0	8,315,000	8,775,000	-5.24%
Other liabilities	9,317,172	11,521,301	11,299	15,750	9,328,471	11,537,051	-19.14%
Total liabilities	17,632,172	20,296,301	11,299	15,750	17,643,471	20,312,051	-13.14%
Net assets:							
Invested in capital assets, net of related debt	1,892,027	724,397	144,412	129,277	2,036,439	853,674	138.55%
Restricted	389,395	347,092	0	0	389,395	347,092	12.19%
Unrestricted	1,163,891	85,300	232,479	168,635	1,396,370	253,935	449.89%
Total net assets	\$ 3,445,313	1,156,789	376,891	297,912	3,822,204	1,454,701	162.75%

The District's combined net assets increased by 162.75%, or \$1,142,435, 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 increased \$42,303, or 12.19% over the prior year. The increase was primarily a result of the Special Revenue, Management Fund balance of \$120,711 compared to a deficit at the end of the previous year.

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 \$1,142,435, or 449.89%. This increase in unrestricted net assets was a result of the District receiving more in local, state and federal sources in the General Fund.

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

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-04
Revenues:							
Program revenues:							
Charges for services	\$ 1,498,298	1,379,621	551,883	514,183	2,050,181	1,893,804	8.26%
Operating grants and contributions and restricted interest	1,452,856	1,488,166	169,651	157,441	1,622,507	1,645,607	-1.40%
Capital grants and contributions and restricted interest	1,013,733	142,026	0	0	1,013,733	142,026	613.77%
General revenues:							
Property tax	5,305,313	5,058,678	0	0	5,305,313	5,058,678	4.88%
Unrestricted state grants	8,819,125	8,353,048	0	0	8,819,125	8,353,048	5.58%
Other	25,216	57,264	233	(162)	25,449	57,102	-55.43%
Total revenues	18,114,541	16,478,803	721,767	671,462	18,836,308	17,150,265	9.83%
Program expenses:							
Governmental activities:							
Instructional	9,560,226	9,252,969	0	0	9,560,226	9,252,969	3.32%
Support services	4,514,451	4,375,463	0	0	4,514,451	4,375,463	3.18%
Non-instructional programs	511	12,857	642,788	577,623	643,299	590,480	8.95%
Other expenses	1,750,829	1,623,450	0	0	1,750,829	1,623,450	7.85%
Total expenses	15,826,017	15,264,739	642,788	577,623	16,468,805	15,842,362	3.95%
Changes in net assets	2,288,524	1,214,064	78,979	93,839	2,367,503	1,307,903	81.02%
Beginning Net Assets	1,156,789	(57,275)	297,912	204,073	1,454,701	146,798	890.95%
Ending Net Assets	\$ 3,445,313	1,156,789	376,891	297,912	3,822,204	1,454,701	162.75%

Property tax, local option sales and services tax and unrestricted state grants account for 78% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 89% of the total expenses.

In FY03, the District adopted a one-year Instructional Support Levy for the FY04 School Year. In FY04 the School District extended this new Levy for an additional five years beginning with the FY05 School Year. The District collected an additional \$522,537 in property taxes and an additional \$166,207 in State Aid, resulting in an increase in General Fund revenues of \$688,744. The District held these funds in reserve to insure adequate cash flow needs and improve the District's overall financial stability.

In September 2002, the District renewed the Physical Plant and Equipment Levy (PPEL) for a ten-year levy period beginning with the FY04 School Year. The District renewed the annual levy amount at the State Maximum limit of \$1.34 per \$1,000, doubling the annual property tax collections for this levy. In FY04 the District collected an additional \$170,000 in PPEL revenues. This additional revenue was utilized to offset negative fund balances.

These measures to increase District revenues have resulted in a significant increase in ending year fund balances. The creation of these additional revenues is part of an action

plan that was established to meet one of the District's financial goals. In FY03 school District's Board of Directors adopted the following financial goal with respect to fund balances: "The School District will maintain an Undesignated, Unreserved General Fund Balance equal to a minimum of 7% of total General Fund Expenditures for that school year(Fund Balance to increase as the budget grows; maximum of 12%.)" The adoption of this Board financial goal and the subsequent action plan to increase General Fund and PPEL revenues has lead to an increase in Ending Net Assets.

Governmental Activities

Revenue for governmental activities were \$18,114,541 and expenses were \$15,826,017.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 9,560,226	7,270,746
Support services	4,514,451	4,453,028
Non-instructional programs	511	511
Other expenses	1,750,829	136,845
Totals	\$ 15,826,017	11,861,130

- The cost financed by users of the District's programs was \$1,498,298.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,466,589.
- The net cost of governmental activities was financed with \$5,305,313 in local tax, \$8,819,125 in state foundation aid, \$25,074 in interest income and \$142 in a gain on sale of capital assets.

Business-Type Activities

Revenues of the District's business-type activity were \$721,767 and expenses were \$642,788. The District's business-type activity is the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and interest income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Norwalk 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 \$1,616,256, well above last year's ending fund balances of \$506,283. However, the primary reason for the increase was the activity in the General Fund.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. Growth during the year in tax, state and federal grants resulted in an increase in revenues. The increase in

revenues was partially offset by the District's increase in General Fund expenditures, resulting in a fund balance increase from \$165,503 to \$1,197,612.

- The Capital Projects Fund balance was utilized for a construction grant. These capital improvement expenditures were funded by a federal grant of \$1 million and matching amounts were received from the Special Revenue, Physical Plant and Equipment Levy Fund.
- The Special Revenue, Management Fund balance increased from a deficit \$6,312 to \$120,711. This was due to the increase in property taxes levied to cover property insurance and early retirement incentives. There was a decrease of expenditures compared to the prior year due to the District paying less in early retirement incentives in the current year.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$297,912 at June 30, 2003 to \$376,891 at June 30, 2004, representing an increase of 26.51%.

BUDGETARY HIGHLIGHTS

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

The District's revenues were \$377,492 more than budgeted revenues, a variance of 2.05%. The most significant variance resulted from the District receiving more in local and federal sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$10.4 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities and transportation equipment. (See Figure A-6) This amount represents a net increase of 7.64% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$432,589.

The original cost of the District's capital assets was \$17.8 million. Governmental funds account for \$17.5 million with the remainder of \$0.3 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the building category. The District's building totaled \$9,458,225 at June 30, 2004, compared to \$8,636,014 reported at June 30, 2003. This increase resulted from District receiving a \$1 million federal grant expensed for capital improvements during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-04
Land	\$ 27,300	27,300	0	0	27,300	27,300	0.00%
Buildings	9,458,225	8,636,014	0	0	9,458,225	8,636,014	9.52%
Land improvements	328,512	349,632	0	0	328,512	349,632	-6.04%
Machinery and equipment	406,307	486,451	144,412	129,277	550,719	615,728	-10.56%
Total	\$ 10,220,344	9,499,397	144,412	129,277	10,364,756	9,628,674	7.64%

Long-Term Debt

At June 30, 2004, the District had \$8,315,000 in general obligation debt outstanding. This represents an decrease of 5.24% 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 payable of \$8,315,000 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2004	2003	2003-04
General obligation bonds	\$ 8,315,000	8,685,000	100.0%
Notes payable	0	90,000	-100.0%
Totals	\$ 8,315,000	8,775,000	-5.24%

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 State of Iowa has approved a 4% allowable growth factor for all school districts in FY05 and FY06. This will provide significant new funding for the School District.
- In FY03 the District adopted a one-year Instructional Support Levy for the FY04 School Year. In FY04 the School District extended this new Levy for an additional five years beginning with the FY05 School Year. This new revenue source has provided the District with the necessary funds to build adequate fund balances to meet cash flow operating needs through the school year and has enabled the School District to create a General Fund balance reserve to provide financial stability if the District is faced with a future reduction in State Aid.
- In September 2002, the District renewed the Physical Plant and Equipment Levy for a 10-year levy period beginning with the FY04 School Year. The District renewed the annual levy amount at the State Maximum limit of \$1.34 per \$1,000, doubling the annual property tax collects for this levy.
- In January 2003 the school districts of Warren County successfully passed a ten-year county-wide Local Option Sales Tax Levy to increase school infrastructure funding. This new sales

tax levy will generate an additional \$525,000 per year for the Norwalk Community School District.

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 Kate Baldwin, Business Manager, Norwalk Community School District, 906 School Avenue, Norwalk, Iowa, 50211.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP(note 4)	\$ 3,548,934	0	3,548,934
Other	1,417,168	227,743	1,644,911
Receivables:			
Property tax:			
Delinquent	98,562	0	98,562
Succeeding year	5,492,592	0	5,492,592
Interfund	500	0	500
Accounts	32,879	5,833	38,712
Accrued interest:			
ISCAP(note 4)	11,103	0	11,103
Other	1,833	0	1,833
Due from other governments	253,570	0	253,570
Inventories	0	10,202	10,202
Capital assets, net of accumulated depreciation(note 5)	10,220,344	144,412	10,364,756
TOTAL ASSETS	21,077,485	388,190	21,465,675
LIABILITIES			
Interfund payable	500	0	500
Accounts payable	28,666	114	28,780
Salaries and benefits payable	81,347	1,502	82,849
Accrued interest payable	76,287	0	76,287
ISCAP warrants payable(note 4)	3,527,000	0	3,527,000
ISCAP accrued interest payable(note 4)	16,835	0	16,835
ISCAP unamortized premium	30,575	0	30,575
Deferred revenue:			
Succeeding year property tax	5,492,592	0	5,492,592
Other	63,370	9,683	73,053
Long-term liabilities(note 6):			
Portion due within one year:			
Bonds payable	375,000	0	375,000
Portion due after one year:			
Bonds payable	7,940,000	0	7,940,000
TOTAL LIABILITIES	17,632,172	11,299	17,643,471
NET ASSETS			
Investment in capital assets, net of related debt	1,892,027	144,412	2,036,439
Restricted for:			
Management levy	120,711	0	120,711
Other special revenue purposes	268,684	0	268,684
Unrestricted	1,163,891	232,479	1,396,370
TOTAL NET ASSETS	\$ 3,445,313	376,891	3,822,204

SEE NOTES TO FINANCIAL STATEMENTS.

NORWALK 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	\$ 5,485,990	283,110	762,679	0
Special instruction	2,788,710	368,632	71,096	0
Other instruction	1,285,526	803,963	0	0
	<u>9,560,226</u>	<u>1,455,705</u>	<u>833,775</u>	<u>0</u>
Support services:				
Student services	472,981	0	0	0
Instructional staff services	590,661	0	0	0
Administration services	1,612,309	0	0	0
Operation and maintenance of plant services	1,305,953	0	0	0
Transportation services	532,547	42,593	18,830	0
	<u>4,514,451</u>	<u>42,593</u>	<u>18,830</u>	<u>0</u>
Non-instructional programs:				
Food service operations	511	0	0	0
Other expenditures:				
Facilities acquisitions	423,262	0	0	1,013,733
Long-term debt interest	443,145	0	0	0
AEA flowthrough	600,251	0	600,251	0
Depreciation (unallocated)*	284,171	0	0	0
	<u>1,750,829</u>	<u>0</u>	<u>600,251</u>	<u>1,013,733</u>
Total governmental activities	15,826,017	1,498,298	1,452,856	1,013,733
Business-Type activities:				
Non-instructional programs:				
Nutrition services	642,788	551,883	169,651	0
Total	<u>\$ 16,468,805</u>	<u>2,050,181</u>	<u>1,622,507</u>	<u>1,013,733</u>

General Revenues:

Property tax levied for:
 General purposes
 Capital outlay
 Debt service
Unrestricted state grants
Unrestricted investment earnings
Gain on sale of capital assets

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
(4,440,201)	0	(4,440,201)
(2,348,982)	0	(2,348,982)
(481,563)	0	(481,563)
(7,270,746)	0	(7,270,746)
(472,981)	0	(472,981)
(590,661)	0	(590,661)
(1,612,309)	0	(1,612,309)
(1,305,953)	0	(1,305,953)
(471,124)	0	(471,124)
(4,453,028)	0	(4,453,028)
(511)	0	(511)
590,471	0	590,471
(443,145)	0	(443,145)
0	0	0
(284,171)	0	(284,171)
(136,845)	0	(136,845)
(11,861,130)	0	(11,861,130)
0	78,746	78,746
(11,861,130)	78,746	(11,782,384)
\$ 4,071,554	0	4,071,554
424,320	0	424,320
809,439	0	809,439
8,819,125	0	8,819,125
25,074	233	25,307
142	0	142
14,149,654	233	14,149,887
2,288,524	78,979	2,367,503
1,156,789	297,912	1,454,701
\$ 3,445,313	376,891	3,822,204

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

	Other Governmental		Total
	General	Funds	
ASSETS			
Cash and pooled investments:			
ISCAP(note 4)	\$ 3,548,934	0	3,548,934
Other	1,055,755	361,413	1,417,168
Receivables:			
Property tax			
Delinquent	70,454	28,108	98,562
Succeeding year	4,013,248	1,479,344	5,492,592
Interfund	500	0	500
Accounts	32,879	0	32,879
Accrued interest:			
ISCAP(note 4)	11,103	0	11,103
Other	1,689	144	1,833
Due from other governments	203,797	49,773	253,570
TOTAL ASSETS	\$ 8,938,359	1,918,782	10,857,141
LIABILITIES AND FUND BALANCES			
Liabilities:			
Interfund payable	\$ 0	500	500
Accounts payable	26,254	2,412	28,666
Salaries and benefits payable	81,347	0	81,347
ISCAP warrants payable(note 4)	3,527,000	0	3,527,000
ISCAP accrued interest payable(note 4)	16,835	0	16,835
ISCAP unamortized premium	30,575	0	30,575
Deferred revenue:			
Succeeding year property tax	4,013,248	1,479,344	5,492,592
Other	45,488	17,882	63,370
Total liabilities	<u>7,740,747</u>	<u>1,500,138</u>	<u>9,240,885</u>
Fund balances:			
Reserved:			
Debt service	0	62,970	62,970
Early intervention	10,310	0	10,310
Teacher compensation	531	0	531
Unreserved:			
Designated for special purposes	62,700	0	62,700
Undesignated:			
General	1,124,071	0	1,124,071
Management levy	0	120,711	120,711
Physical plant and equipment levy	0	(33,721)	(33,721)
Other special revenue purposes	0	268,684	268,684
Total fund balances	<u>1,197,612</u>	<u>418,644</u>	<u>1,616,256</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 8,938,359	1,918,782	10,857,141

SEE NOTES TO FINANCIAL STATEMENTS.

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

Total fund balances of governmental funds (page 17)	\$ 1,616,256
<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.	10,220,344
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.	(76,287)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(8,315,000)</u>
Net assets of governmental activites (page 14)	<u>\$ 3,445,313</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Other Governmental Funds	Total
REVENUES:			
Local sources:			
Local tax	\$ 3,745,071	1,560,242	5,305,313
Tuition	651,742	0	651,742
Other	497,017	370,513	867,530
Intermediate sources	4,100	0	4,100
State sources	10,019,283	1,437	10,020,720
Federal sources	251,261	1,013,733	1,264,994
Total revenues	<u>15,168,474</u>	<u>2,945,925</u>	<u>18,114,399</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	5,413,276	59,242	5,472,518
Special instruction	2,788,710	0	2,788,710
Other instruction	933,819	348,565	1,282,384
	<u>9,135,805</u>	<u>407,807</u>	<u>9,543,612</u>
Support services:			
Student services	472,981	0	472,981
Instructional staff services	585,660	0	585,660
Administration services	1,574,039	19,510	1,593,549
Operation and maintenance of plant services	1,189,218	104,398	1,293,616
Transportation services	484,598	23,492	508,090
	<u>4,306,496</u>	<u>147,400</u>	<u>4,453,896</u>
Non-instructional programs:			
Food service operations	0	511	511
Other expenditures:			
Facilities acquisitions	0	1,508,524	1,508,524
Long-term debt:			
Principal	0	460,000	460,000
Interest and fiscal charges	0	440,749	440,749
AEA flowthrough	600,251	0	600,251
	<u>600,251</u>	<u>2,409,273</u>	<u>3,009,524</u>
Total expenditures	<u>14,042,552</u>	<u>2,964,991</u>	<u>17,007,543</u>
Excess(deficiency) of revenues over(under) expenditures	1,125,922	(19,066)	1,106,856
Other financing sources(uses):			
Transfers in	0	492,894	492,894
Transfers out	(96,930)	(395,964)	(492,894)
Sale of equipment	3,117	0	3,117
Total other financing sources(uses)	<u>(93,813)</u>	<u>96,930</u>	<u>3,117</u>
Net change in fund balances	1,032,109	77,864	1,109,973
Fund balance beginning of year	165,503	340,780	506,283
Fund balance end of year	<u>\$ 1,197,612</u>	<u>418,644</u>	<u>1,616,256</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds(page 19)		\$ 1,109,973
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
<p>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. Capital outlay expenditures exceed depreciation expense and loss on disposal in the current year, as follows:</p>		
Expenditures for capital assets	\$ 1,139,069	
Depreciation expense	(415,147)	
Loss on disposal of capital assets	<u>(2,975)</u>	720,947
<p>Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.</p>		
		460,000
<p>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.</p>		
		<u>(2,396)</u>
Changes in net assets of governmental activities(page 16)		<u><u>\$ 2,288,524</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 227,743
Receivables:	
Accounts	5,833
Inventories	10,202
Capital assets, net of accumulated depreciation(note 5)	<u>144,412</u>
TOTAL ASSETS	<u>388,190</u>
LIABILITIES	
Accounts payable	114
Salaries and benefits payable	1,502
Deferred revenue:	
Other	9,683
TOTAL LIABILITIES	<u>11,299</u>
NET ASSETS	
Investment in capital assets, net of related debt	144,412
Unrestricted	232,479
TOTAL NET ASSETS	<u>\$ 376,891</u>

SEE NOTES TO FINANCIAL STATEMENTS.

NORWALK 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	\$ 551,883
TOTAL OPERATING REVENUES	551,883
OPERATING EXPENSES:	
Non-instructional programs:	
Salaries	181,174
Benefits	58,569
Services	70,089
Supplies	315,486
Other	28
Depreciation	17,442
TOTAL OPERATING EXPENSES	642,788
OPERATING LOSS	(90,905)
NON-OPERATING REVENUES:	
State sources	8,555
Federal sources	161,096
Interest income	233
TOTAL NON-OPERATING REVENUES	169,884
Change in net assets	78,979
Net assets beginning of year	297,912
Net assets end of year	\$ 376,891

SEE NOTES TO FINANCIAL STATEMENTS.

NORWALK 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	\$ 541,405
Cash received from miscellaneous operating activities	7,637
Cash payments to employees for services	(244,435)
Cash payments to suppliers for goods or services	(315,771)
Net cash used in operating activities	(11,164)
Cash flows from non-capital financing activities:	
State grants received	8,555
Federal grants received	118,776
Net cash provided by non-capital financing activities	127,331
Cash flows from capital and related financing activities:	
Acquisition of assets	(32,577)
Net cash used in capital and related financing activities	(32,577)
Cash flows from investing activities:	
Interest on investments	233
Net cash provided by investing activities	233
Net increase in cash and cash equivalents	83,823
Cash and cash equivalents at beginning of year	143,920
Cash and cash equivalents at end of year	\$ 227,743
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (90,905)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	42,320
Depreciation	17,442
Decrease in inventories	27,350
Increase in accounts receivable	(2,920)
Increase in accounts payable	112
Decrease in salary and benefits payable	(4,692)
Increase in deferred revenue	129
Net cash used in operating activities	\$ (11,164)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 227,743
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	

During the year ended June 30, 2004, the District received Federal commodities valued at \$42,320.

SEE NOTES TO FINANCIAL STATEMENTS.

NORWALK COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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

The Norwalk Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Norwalk, Iowa, and the predominate agricultural territory in Warren 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, Norwalk 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 Norwalk 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 Warren 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 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 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 District reports the following major proprietary funds:

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.

C. Measurement Focus and Basis of Accounting

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	\$ 1,500
Buildings	1,500
Land improvements	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,500

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

Asset Class	Estimated Useful Life (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, have been accrued as liabilities.

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

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

Long-term 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 \$2,665,373 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:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	General	\$ 95,215
Debt Service	Special Revenues - Physical Plant and Equipment Levy	395,964
Special Revenues - Expendable Trust	General	<u>1,715</u>
Total		<u>\$ 492,894</u>

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

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as

noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2004 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2003-04B	1/30/04	1/28/05	\$ 2,040,804	11,103	2,027,000	16,835
2004-05A	6/30/04	6/30/05	1,508,130	0	1,500,000	0
			<u>\$ 3,548,934</u>	<u>11,103</u>	<u>3,527,000</u>	<u>16,835</u>

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

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2003-04A	\$ 0	1,530,000	1,530,000	0

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

Series	Interest Rates on Warrants	Interest Rates on Investments
2003-04A	2.000%	1.051%
2003-04B	2.000%	1.310%
2004-05A	3.000%	2.463%

The net interest earned or due from the series is recorded as a revenue or a expenditure at maturity.

(5) 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	\$ 27,300	0	0	27,300
Total capital assets not being depreciated	<u>27,300</u>	<u>0</u>	<u>0</u>	<u>27,300</u>
Capital assets being depreciated:				
Buildings	13,080,199	1,085,262	0	14,165,461
Land improvements	923,561	0	0	923,561
Machinery and equipment	2,427,765	53,807	51,290	2,430,282
Total capital assets being depreciated	<u>16,431,525</u>	<u>1,139,069</u>	<u>51,290</u>	<u>17,519,304</u>
Less accumulated depreciation for:				
Buildings	4,444,185	263,051	0	4,707,236
Land improvements	573,929	21,120	0	595,049
Machinery and equipment	1,941,314	130,976	48,315	2,023,975
Total accumulated depreciation	<u>6,959,428</u>	<u>415,147</u>	<u>48,315</u>	<u>7,326,260</u>
Total capital assets being depreciated, net	<u>9,472,097</u>	<u>723,922</u>	<u>2,975</u>	<u>10,193,044</u>
Governmental activities capital assets, net	<u>\$ 9,499,397</u>	<u>723,922</u>	<u>2,975</u>	<u>10,220,344</u>
Business-type activities:				
Furniture and equipment	\$ 260,497	32,577	1,882	291,192
Less accumulated depreciation	131,220	17,442	1,882	146,780
Business-type activities capital assets, net	<u>\$ 129,277</u>	<u>15,135</u>	<u>0</u>	<u>144,412</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 18,832
Other	5,022
Support services:	
Instructional staff services	24,378
Administration	18,760
Operation and maintenance	14,335
Transportation	49,649
	<u>130,976</u>
Unallocated depreciation	<u>284,171</u>
Total governmental activities depreciation expense	<u>\$ 415,147</u>
Business-type activities:	
Food services	<u>\$ 17,442</u>

(6) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 8,685,000	0	370,000	8,315,000	375,000
Notes payable	90,000	0	90,000	0	0
Total	\$ 8,775,000	0	460,000	8,315,000	375,000

General Obligation Bonds Payable

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

Year Ending June 30,	Bond Issue of May 1, 1997			Bond Issue of April 1, 1998 Series A		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2005	5.00%	\$ 5,000	199,995	4.30%	\$ 320,000	77,942
2006	5.10	5,000	199,745	4.35	335,000	64,183
2007	5.15	5,000	199,490	4.40	350,000	49,610
2008	5.20	5,000	199,232	4.45	370,000	34,210
2009	5.25	5,000	198,973	4.55	390,000	17,745
2010	5.25	380,000	198,710	-	-	-
2011	5.35	400,000	178,760	-	-	-
2012	5.40	420,000	157,360	-	-	-
2013	5.40	435,000	134,680	-	-	-
2014	5.40	460,000	111,190	-	-	-
2015	5.50	500,000	86,350	-	-	-
2016	5.50	520,000	58,850	-	-	-
2017	5.50	550,000	30,250	-	-	-
2018	-	-	-	-	-	-
2019	-	-	-	-	-	-
2020	-	-	-	-	-	-
2021	-	-	-	-	-	-
Total		\$ 3,690,000	1,953,585		\$ 1,765,000	243,690

Year Ending June 30,	Bond Issue of May 1, 2001			Total	
	Interest Rates	Principal	Interest	Principal	Interest
2005	4.38% \$	50,000	140,812	375,000	418,749
2006	4.38	25,000	138,624	365,000	402,552
2007	4.50	25,000	137,530	380,000	386,630
2008	4.50	25,000	136,406	400,000	369,848
2009	4.50	25,000	135,280	420,000	351,998
2010	4.50	25,000	134,156	405,000	332,866
2011	4.50	25,000	133,030	425,000	311,790
2012	4.50	40,000	131,906	460,000	289,266
2013	4.55	55,000	130,106	490,000	264,786
2014	4.60	60,000	127,601	520,000	238,791
2015	4.70	50,000	124,841	550,000	211,191
2016	4.75	55,000	122,491	575,000	181,341
2017	4.80	60,000	119,880	610,000	150,130
2018	5.00	540,000	117,000	540,000	117,000
2019	5.00	570,000	90,000	570,000	90,000
2020	5.00	600,000	61,500	600,000	61,500
2021	5.00	630,000	31,500	630,000	31,500
Total		\$ 2,860,000	2,012,663	8,315,000	4,209,938

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$564,267, \$504,786, and \$468,264 respectively, equal to the required contributions for each year.

(8) Risk Management

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

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational

services provided through the area education agency. The District's actual amount for this purpose totaled \$600,251 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Deficit fund balance

The Special Revenue, Physical Plant and Equipment Levy fund had a deficit undesignated balance of \$33,721 at June 30, 2004.

REQUIRED SUPPLEMENTAL INFORMATION

NORWALK 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
Revenues:		
Local sources	\$ 6,824,585	552,116
Intermediate sources	4,100	0
State sources	10,020,720	8,555
Federal sources	1,264,994	161,096
Total revenues	18,114,399	721,767
Expenditures:		
Instruction	9,543,612	0
Support services	4,453,896	0
Non-instructional programs	511	642,788
Other expenditures	3,009,524	0
Total expenditures	17,007,543	642,788
Excess(deficiency) of revenues over(under) expenditures	1,106,856	78,979
Other financing sources, net	3,117	0
Excess(deficiency) of revenues and other financing sources over(under) expenditures	1,109,973	78,979
Balance beginning of year	506,283	297,912
Balance end of year	\$ 1,616,256	376,891

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
7,376,701	6,974,194	6,974,194	402,507
4,100	500	500	3,600
10,029,275	10,160,330	10,160,330	(131,055)
1,426,090	1,323,650	1,323,650	102,440
18,836,166	18,458,674	18,458,674	377,492
9,543,612	10,025,742	11,024,088	1,480,476
4,453,896	4,382,031	4,897,955	444,059
643,299	645,000	700,511	57,212
3,009,524	3,354,084	3,187,735	178,211
17,650,331	18,406,857	19,810,289	2,159,958
1,185,835	51,817	(1,351,615)	2,537,450
3,117	400,000	400,000	(396,883)
1,188,952	451,817	(951,615)	2,140,567
804,195	1,272,849	1,272,849	(468,654)
1,993,147	1,724,666	321,234	1,671,913

NORWALK 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 \$1,403,432.

OTHER SUPPLEMENTAL INFORMATION

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

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue Funds	Debt Service	
ASSETS							
Cash and pooled investments	\$ 119,034	236,041	(86,262)	34,940	303,753	57,660	361,413
Receivables:							
Property tax							
Current year delinquent	4,097	0	5,469	0	9,566	18,542	28,108
Succeeding year	240,000	0	444,095	0	684,095	795,249	1,479,344
Accrued interest	0	0	0	115	115	29	144
Due from other governments	0	0	49,773	0	49,773	0	49,773
TOTAL ASSETS	\$ 363,131	236,041	413,075	35,055	1,047,302	871,480	1,918,782
LIABILITIES AND FUND EQUITY							
Liabilities:							
Interfund payable	\$ 500	0	0	0	500	0	500
Accounts payable	0	2,412	0	0	2,412	0	2,412
Deferred revenue:							
Succeeding year property tax	240,000	0	444,095	0	684,095	795,249	1,479,344
Other	1,920	0	2,701	0	4,621	13,261	17,882
	<u>242,420</u>	<u>2,412</u>	<u>446,796</u>	<u>0</u>	<u>691,628</u>	<u>808,510</u>	<u>1,500,138</u>
Fund equity:							
Fund balances:							
Reserved for debt service	0	0	0	0	0	62,970	62,970
Unreserved, undesignated	120,711	233,629	(33,721)	35,055	355,674	0	355,674
	<u>120,711</u>	<u>233,629</u>	<u>(33,721)</u>	<u>35,055</u>	<u>355,674</u>	<u>62,970</u>	<u>418,644</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ 363,131	236,041	413,075	35,055	1,047,302	871,480	1,918,782

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue Funds				Total Special Revenue Funds	Debt Service	Capital Projects	Total
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust				
REVENUES:								
Local sources:								
Local tax:								
Local tax:	\$ 326,483	0	424,320	0	750,803	809,439	0	1,560,242
Other	0	342,807	23,790	2,763	369,360	1,153	0	370,513
State sources	317	0	385	0	702	735	0	1,437
Federal sources	0	0	57,747	0	57,747	0	955,986	1,013,733
TOTAL REVENUES	326,800	342,807	506,242	2,763	1,178,612	811,327	955,986	2,945,925
EXPENDITURES:								
Current:								
Instruction:								
Regular instruction	51,148	0	5,994	2,100	59,242	0	0	59,242
Other instruction	0	348,565	0	0	348,565	0	0	348,565
Support services:								
Administration services	19,510	0	0	0	19,510	0	0	19,510
Operation and maintenance of plant services	104,398	0	0	0	104,398	0	0	104,398
Transportation	23,492	0	0	0	23,492	0	0	23,492
Non-instructional programs:								
Food service operations	511	0	0	0	511	0	0	511
Other expenditures:								
Facilities acquisition	718	0	155,856	0	156,574	0	1,351,950	1,508,524
Long-term debt:								
Principal	0	0	0	0	0	460,000	0	460,000
Interest and fiscal charges	0	0	0	0	0	440,749	0	440,749
TOTAL EXPENDITURES	199,777	348,565	161,850	2,100	712,292	900,749	1,351,950	2,964,991
Excess(deficiency) of revenues over(under) expenditures	127,023	(5,758)	344,392	663	466,320	(89,422)	(395,964)	(19,066)
OTHER FINANCING SOURCES(USES):								
Transfers in	0	0	0	1,715	1,715	95,215	395,964	492,894
Transfers out	0	0	(395,964)	0	(395,964)	0	0	(395,964)
TOTAL OTHER FINANCING SOURCES(USES)	0	0	(395,964)	1,715	(394,249)	95,215	395,964	96,930
Excess(deficiency) of revenues and other financing sources over(under) expenditures and other financing uses	127,023	(5,758)	(51,572)	2,378	72,071	5,793	0	77,864
FUND BALANCES BEGINNING OF YEAR	(6,312)	239,387	17,851	32,677	283,603	57,177	0	340,780
FUND BALANCES END OF YEAR	\$ 120,711	233,629	(33,721)	35,055	355,674	62,970	0	418,644

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORWALK 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
D Oviatt Investment Fund	\$ 42,631	0	21,124	0	21,507
Change Fund	450	0	450	0	0
Middle School Accounts:					
General Athletics	1,834	1,109	2,408	2,654	3,189
Concessions	700	5,541	3,663	(1,378)	1,200
Chorus	847	9,846	10,642	0	51
Cross Country	150	0	0	0	150
Boys Basketball	1,000	2,022	1,027	(995)	1,000
Football	1,200	1,658	1,271	(387)	1,200
Baseball	1,700	0	1,720	2,020	2,000
Boys Track	500	854	351	(503)	500
Wrestling	500	615	240	(375)	500
Girls Basketball	1,000	1,938	1,235	(703)	1,000
Volleyball	500	1,633	527	(1,106)	500
Softball	1,200	465	1,274	1,109	1,500
Girls Track	500	548	212	(336)	500
Cheerleaders	160	360	377	0	143
Student Council	7,713	4,139	4,485	0	7,367
Art Club	0	2,571	2,027	0	544
Ace Club	355	4,500	4,855	0	0
Annual	1,027	1,114	882	0	1,259
SADD	155	378	115	0	418
High School Accounts:					
General Athletics	36,697	29,280	24,392	(4,705)	36,880
Concessions	2,969	9,417	3,375	0	9,011
All School Play	1,416	972	679	0	1,709
Speech	1,000	(25)	427	952	1,500
Chorus	2,500	0	1,983	2,483	3,000
Dinner Show	4,580	9,485	10,166	0	3,899
Swing Choir	5,537	5,763	6,052	0	5,248
Band	5,925	58,858	63,258	3,023	4,548
Tri-M Club	130	0	0	0	130
Athletic Letter Club	1,000	0	0	0	1,000
Cross Country	1,250	3,248	2,929	(53)	1,516
Swimming	200	0	0	0	200
Boys Basketball	6,633	16,665	11,591	(3,709)	7,998
Football	22,056	36,890	31,953	(7,680)	19,313
Boys Soccer	3,000	9,458	8,088	189	4,559
Baseball	5,625	15,877	16,757	438	5,183
Boys Track	2,500	2,281	3,478	1,197	2,500
Boys Tennis	1,337	644	932	846	1,895
Boys Golf	2,000	2,288	3,012	1,224	2,500
Wrestling	5,734	4,128	2,395	1,075	8,542
Weight Room	2,000	0	0	0	2,000
Girls Basketball	5,124	6,479	3,596	(1,140)	6,867

NORWALK 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
High School Accounts(Continued):					
Volleyball	6,349	5,735	7,650	210	4,644
Girls Soccer	2,891	6,435	6,105	772	3,993
Softball	7,648	12,467	11,829	(860)	7,426
Girls Track	2,500	5,340	5,424	593	3,009
Girls Tennis	1,000	227	579	852	1,500
Girls Golf	2,000	2,828	3,042	755	2,541
Cheerleaders	1,707	7,437	4,927	0	4,217
Drill Team	1,385	13,394	11,652	316	3,443
Class of 2004	797	0	502	0	295
Class of 2005	0	13,461	12,524	0	937
Student Council	6,822	7,355	12,298	0	1,879
Art Club	813	3,363	2,461	0	1,715
French Club	4,119	1,047	2,012	0	3,154
Spanish Club	4,375	2,773	2,146	0	5,002
Annual	8,129	5,844	5,222	0	8,751
Newspaper	685	240	565	0	360
MOC	86	0	0	0	86
National Honor Society	1,298	405	124	0	1,579
SADD	396	920	978	0	338
SES	52	33	0	0	85
Debate	2,000	1,690	3,466	2,276	2,500
Mock Trial	1,000	0	244	744	1,500
Fanatecs/Pep Club	0	790	867	202	125
Poetry Club	0	24	0	0	24
 Total	 \$ 239,387	 342,807	 348,565	 0	 233,629

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORWALK COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, EXPENDABLE TRUST ACCOUNTS
 YEAR ENDED JUNE 30, 2004

	Balance Beginning of Year	Revenues	Expendi- tures	Transfer in	Balance End of Year
V Montgomery Memorial	\$ 1,906	19	500	0	1,425
J Graham Scholarship	5,654	67	650	0	5,071
Frederick Scholarship	5,022	63	50	0	5,035
J W Winter Scholarship	20,095	244	200	0	20,139
L Ghrist Scholarship	0	0	0	1,715	1,715
D Oviatt Scholarship	0	1,870	200	0	1,670
Norwalk Bank Scholarship	0	500	500	0	0
	<u>\$ 32,677</u>	<u>2,763</u>	<u>2,100</u>	<u>1,715</u>	<u>35,055</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 5,305,313	5,058,678	4,825,203	4,083,807
Tuition	651,742	562,761	461,058	497,718
Other	867,530	873,724	796,100	1,117,389
Intermediate sources	4,100	1,841	7,063	20,837
State sources	10,020,720	9,561,884	10,147,308	8,908,181
Federal sources	1,264,994	419,515	294,581	193,628
Total	\$ 18,114,399	16,478,403	16,531,313	14,821,560
Expenditures:				
Instruction:				
Regular instruction	\$ 5,472,518	5,280,396	5,759,774	5,377,410
Special instruction	2,788,710	2,595,218	2,649,538	2,125,277
Other instruction	1,282,384	1,398,288	1,213,939	1,272,819
Support services:				
Student services	472,981	522,323	529,608	437,088
Instructional staff services	585,660	496,274	496,032	468,960
Administration services	1,593,549	1,543,304	1,875,354	1,809,678
Operation and maintenance of plant services	1,293,616	1,373,322	1,363,320	1,216,654
Transportation services	508,090	461,675	429,892	438,742
Non-instructional programs	511	12,857	11,683	53,314
Other expenditures:				
Facilities acquisitions	1,508,524	261,122	2,510,753	2,204,173
Long-term debt:				
Principal	460,000	584,702	590,000	534,507
Interest and other charges	440,749	467,924	492,128	357,176
AEA flow-through	600,251	612,443	602,268	587,565
Total	\$ 17,007,543	15,609,848	18,524,289	16,883,363

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORWALK 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	\$ 42,320
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 04	7,562
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 04	111,214
			<u>118,776</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	4797-G	<u>73,693</u>
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 04	<u>17,208</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 04	<u>6,207</u>
FUND FOR THE IMPROVEMENT OF EDUCATION	84.215	FY 04	<u>1,006,010</u>
INNOVATIVE EDUCATION PROGRAM STRATEGIES(TITLE V PROGRAM)	84.298	FY 04	<u>10,255</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 04	<u>42,416</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI A)	84.369	FY 04	<u>12,962</u>
AREA EDUCATION AGENCY 11:			
SPECIAL EDUCATION - GRANTS TO STATES(PART B)			
	84.027	FY 04	<u>71,096</u>
DEPARTMENT OF HUMAN SERVICES:			
MEDICAL ASSISTANCE PROGRAM(MEDICAID)	93.778	FY 04	<u>17,050</u>
TOTAL			<u>\$ 1,417,993</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Norwalk 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 basic 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
Norwalk Community School District:

We have audited the financial statements of Norwalk Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated December 14, 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 Norwalk Community School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings and Questioned Costs.

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

Internal Control Over Financial Reporting

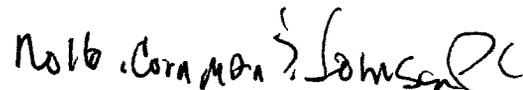
In planning and performing our audit, we considered Norwalk Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over 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 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 II of the accompanying Scheduled of Findings and Questioned Costs.

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

reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior year reportable conditions have all been resolved except item II-A-04.

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


NOLTE, CORNMAN & JOHNSON, P.C.

December 14, 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
Norwalk Community School District

Compliance

We have audited the compliance of Norwalk 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. Norwalk 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 Norwalk Community School District's management. Our responsibility is to express an opinion on Norwalk 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 Norwalk 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 Norwalk Community School District's compliance with those requirements.

In our opinion, Norwalk 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 Norwalk 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 Norwalk 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.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. 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 Norwalk Community School District's ability to administer a major

federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described as item III-A-04 in Part III of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that 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 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. However, we believe item III-A-04 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Norwalk Community School District and other parties to whom Norwalk 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, P.C.

December 14, 2004

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

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed 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:
 - CFDA Number 84.215 - Fund for the Improvement of Education
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Norwalk Community School District did not qualify as a low-risk auditee.

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

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-04 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

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

Conclusion - Response accepted.

NORWALK 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:

CFDA Number 84.215: Fund for the Improvement of Education
Federal Award Year: 2004
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-04 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

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

Conclusion - Response accepted.

III-B-04 Davis Bacon Requirements - The District received a grant that is subject to the Davis Bacon and Related Acts whose testing and documentation requirements were not met.

Recommendation - The District must test the wages paid by contractors to the prevailing wage rate for the District as set by the Department of Labor. Also, the District must retain this documentation of this testing.

Response - We will comply with Davis Bacon Requirements in any future grants.

Conclusion - Response accepted.

NORWALK 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 are providing 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 a variance in the basic enrollment data certified to the Department of Education. The number of resident students was understated by .7 students. The number of part-time students was understated by .38 students. Also, the supplemental weighing was understated by 3.66.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve these matters.

Response - We will contact the Iowa Department of Education and the Department of Management.

Conclusion - Response accepted.

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.

IV-K-04 Financial Condition - The District had a deficit undesignated fund balance in the Special Revenues, Physical Plant and Equipment Levy fund of \$33,721.

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit.

Response - We are working on this.

Conclusion- Response accepted.