

SCHLESWIG COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

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Schleswig Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2003 Election)</b>		
Rhonda Nemitz	President	2005
Kelli Rupert	Board Member	2003
Carla Schoenfield	Board Member	2003
Todd Schultz	Board Member	2004
Patti Miller	Board Member	2005

<b>Board of Education (After September 2003 Election)</b>		
Rhonda Nemitz	President	2005
Kelli Rupert	Board Member	2006
Michele Kinnersley	Board Member	2006
Todd Schultz	Board Member	2004
Patti Miller	Board Member	2005

**School Officials**

Jack Johnson	Superintendent	2004
Sherri Jones	District Secretary	2004
Vanessa Zimmer	District Treasurer	2004
Mundt, Franck & Schumacher	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  
Schleswig 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 Schleswig 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 Schleswig 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.

As described in Note 10 to the financial statements, during the year ended June 30, 2004, Schleswig Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated July 28, 2004, on our consideration of the Schleswig Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of

laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 34 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 Schleswig Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 4, 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 PC*  
NOLTE, CORNMAN & JOHNSON, P.C.

July 28, 2004

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

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

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

### **2004 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$2,188,672 in fiscal 2003 to \$2,195,986 in fiscal 2004, while General Fund expenditures increased from \$2,096,752 in fiscal 2003 to \$2,184,522 in fiscal 2004. This resulted in an increase in the District's General Fund balance from \$739,476 in fiscal 2003 to a balance of \$752,193 in fiscal 2004, a 2% increase from the prior year.

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

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

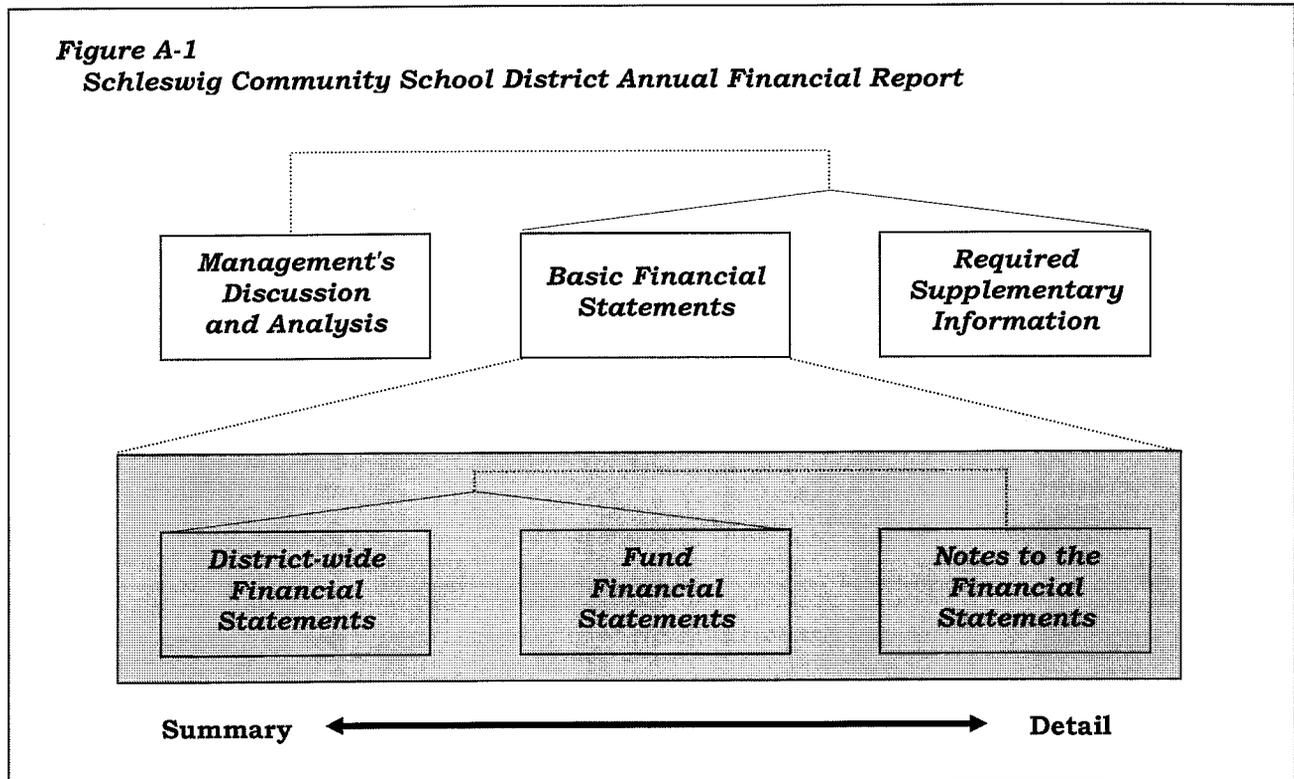


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-wide and Fund Financial Statements</b>				
	District-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

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## 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 three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental 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, 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.

- 3) *Fiduciary funds*: The District is the trustee, of fiduciary, for assets that belong to others. These funds include the Agency Fund.

Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for the proprietary funds include 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.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Current and other assets	\$ 2,023,760	47,613	2,071,373
Capital Assets	361,905	4,027	365,932
Total assets	<u>2,385,665</u>	<u>51,640</u>	<u>2,437,305</u>
Other liabilities	948,823	37,948	986,771
Total liabilities	<u>948,823</u>	<u>37,948</u>	<u>986,771</u>
Net assets:			
Invested in capital assets, net of related debt	361,905	4,027	365,932
Restricted	288,715	0	288,715
Unrestricted	786,222	9,665	795,887
Total net assets	<u>\$ 1,436,842</u>	<u>13,692</u>	<u>1,450,534</u>

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

Figure A-4  
Changes of Net Assets

	Governmental	Business-type	Total
	Activities	Activities	School District
	2004	2004	2004
<b>Revenues:</b>			
<b>Program revenues:</b>			
Charges for services	\$ 195,792	45,451	241,243
Operating grants and contributions and restricted interest	252,005	38,689	290,694
Capital grants, contributions and restricted interest	17,042	0	17,042
<b>General revenues:</b>			
Property tax	1,073,320	0	1,073,320
Local option sales and service tax	37,607	0	37,607
Unrestricted state grants	843,046	0	843,046
Unrestricted investment earnings	18,773	230	19,003
<b>Total revenues</b>	<b>2,437,585</b>	<b>84,370</b>	<b>2,521,955</b>
<b>Program expenses:</b>			
<b>Governmental activities:</b>			
Instructional	1,527,267	0	1,527,267
Support services	673,839	0	673,839
Non-instructional programs	0	82,134	82,134
Other expenses	187,387	0	187,387
<b>Total expenses</b>	<b>2,388,493</b>	<b>82,134</b>	<b>2,470,627</b>
<b>Change in net assets</b>	<b>\$ 49,092</b>	<b>2,236</b>	<b>51,328</b>

Property tax and unrestricted state grants account for 79% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 92% of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$2,382,031 and expenses were \$2,388,493.

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	\$ 1,527,267	1,170,981
Support services	673,839	667,542
Other expenses	187,387	85,131
<b>Totals</b>	<b>\$ 2,388,493</b>	<b>1,923,654</b>

- The cost financed by users of the District's programs was \$195,792.

- 
- Federal and state governments subsidized certain programs with grants and contributions totaling \$269,047.
  - The net cost of governmental activities was financed with \$1,055,373 in property and other taxes and \$843,046 in unrestricted state grants.

### **Business-Type Activities**

Revenues of the District's business-type activities were \$84,370 and expenses were \$82,134. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## **INDIVIDUAL FUND ANALYSIS**

As previously noted, the Schleswig 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 balance of \$1,019,383, below last year's ending fund balances of \$1,032,482.

### **Governmental Fund Highlights**

- The District's improved General Fund financial position is the result of many factors. The increase in revenue from local sources helped to increase total revenues for the General Fund.

### **Proprietary Fund Highlights**

- School Nutrition Fund net assets increased from \$11,456 at June 30, 2003, to \$13,692 at June 30, 2004, representing an increase of 20%.

## **BUDGETARY HIGHLIGHTS**

The District's receipts were \$155,048 less than budgeted receipts, a variance of 6%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

Total expenditures were less than budgeted, 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.

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional programs and other expenditures functional areas due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2004, the District had invested \$361,905, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-

visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$46,547.

The original cost of the District's capital assets was \$1.23 million. Governmental funds account for \$1.20 million with the remainder of \$.03 million in the Proprietary, School Nutrition Fund.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Land	\$ 117,443	0	117,443
Buildings	144,814	0	144,814
Machinery and equipment	99,648	4,027	103,675
Total	\$ 361,905	4,027	365,932

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Continued budget concerns at the state level will affect future projections. Due to declining enrollment, the District has received very little new money for the past several years, and the state legislatures rollback in the budget guarantee will continue to have a negative impact on funding for the District.
- Potential substantial increases in gasoline/diesel fuel would also impact the District's efforts to control expenditures.
- Passage of the one cent Local Option Sales and Services Tax will now allow the District to use these funds to purchase buses, equipment and major repairs for the District in lieu of PPEL. This will be very beneficial for the District to have use of these funds to purchase buses, technology equipment or do major repairs and possibly lower property taxes.
- Schleswig Community School District has been negotiating with Denison Community School District to two-way share as opposed to the one-way that now exists. Denison Community School District has made it clear that they intend to build rather than two-way share.
- The Denison Community School District and the Schleswig Community School District (9-12 high school students agreement) is a 3-year agreement which will expire in 2006. We currently pay 80% of the regular program district cost. Denison has indicated that they may not renew the agreement unless a 100% payment is ratified. This could cost the District up to \$100,000 per year in tuition expense.

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**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 Sherri Jones, Business Manager, Schleswig Community School District, 714 Date Street, Schleswig, Iowa, 51461.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents:			
Other	\$ 1,027,553	43,645	1,071,198
Receivables			
Property tax:			
Delinquent	13,072	0	13,072
Succeeding year	794,783	0	794,783
Income surtax	55,554	0	55,554
Due from other funds	37,689	0	37,689
Due from other governments	95,109	0	95,109
Inventories	0	3,968	3,968
Capital assets, net of accumulated depreciation(Note 5)	361,905	4,027	365,932
<b>TOTAL ASSETS</b>	<b>2,385,665</b>	<b>51,640</b>	<b>2,437,305</b>
<b>LIABILITIES</b>			
Salaries and benefits payable	128,380	0	128,380
Due to other funds	0	37,689	37,689
Due to other governments	25,660	0	25,660
Deferred revenue:			
Succeeding year property tax	794,783	0	794,783
Other	0	259	259
<b>TOTAL LIABILITIES</b>	<b>948,823</b>	<b>37,948</b>	<b>986,771</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	361,905	4,027	365,932
Restricted for:			
Talented and Gifted	21,525	0	21,525
Capital projects	37,607	0	37,607
Management levy	86,088	0	86,088
Physical plant and equipment levy	114,024	0	114,024
Other special revenue purposes	29,471	0	29,471
Unrestricted	786,222	9,665	795,887
<b>TOTAL NET ASSETS</b>	<b>\$ 1,436,842</b>	<b>13,692</b>	<b>1,450,534</b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	\$ 1,193,832	154,241	153,097	0
Special instruction	280,686	37,949	10,999	0
Other instruction	52,749	0	0	0
	<u>1,527,267</u>	<u>192,190</u>	<u>164,096</u>	<u>0</u>
Support services:				
Student services	48,217	0	0	0
Instructional staff services	52,280	0	0	0
Administration services	322,592	0	0	0
Operation and maintenance of plant services	171,970	0	0	0
Transportation services	58,023	3,602	2,695	0
Central services	20,757	0	0	0
	<u>673,839</u>	<u>3,602</u>	<u>2,695</u>	<u>0</u>
Other expenditures:				
Facilities acquisitions	88,997	0	0	17,042
AEA flowthrough	85,214	0	85,214	0
Depreciation(unallocated)*	13,176	0	0	0
	<u>187,387</u>	<u>0</u>	<u>85,214</u>	<u>17,042</u>
Total governmental activities	2,388,493	195,792	252,005	17,042
Business-Type activities:				
Non-instructional programs:				
Nutrition services	82,134	45,451	38,689	0
Total business-type activities	<u>82,134</u>	<u>45,451</u>	<u>38,689</u>	<u>0</u>
Total	<u>\$ 2,470,627</u>	<u>241,243</u>	<u>290,694</u>	<u>17,042</u>

**General Revenues:**

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

Changes in net assets

Net assets beginning of year, as restated(Note 10)

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
(886,494)	0	(886,494)
(231,738)	0	(231,738)
(52,749)	0	(52,749)
<u>(1,170,981)</u>	<u>0</u>	<u>(1,170,981)</u>
(48,217)	0	(48,217)
(52,280)	0	(52,280)
(322,592)	0	(322,592)
(171,970)	0	(171,970)
(51,726)	0	(51,726)
(20,757)	0	(20,757)
<u>(667,542)</u>	<u>0</u>	<u>(667,542)</u>
(71,955)	0	(71,955)
0	0	0
(13,176)	0	(13,176)
<u>(85,131)</u>	<u>0</u>	<u>(85,131)</u>
(1,923,654)	0	(1,923,654)
0	2,006	2,006
0	2,006	2,006
<u>(1,923,654)</u>	<u>2,006</u>	<u>(1,921,648)</u>
\$ 991,151	0	991,151
82,169	0	82,169
37,607	0	37,607
843,046	0	843,046
18,773	230	19,003
<u>1,972,746</u>	<u>230</u>	<u>1,972,976</u>
49,092	2,236	51,328
<u>1,387,750</u>	<u>11,456</u>	<u>1,399,206</u>
\$ <u>1,436,842</u>	<u>13,692</u>	<u>1,450,534</u>

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

	General	Other Nonmajor Governmental Funds	Total
<b>ASSETS</b>			
Cash and pooled investments:			
Other	\$ 774,751	252,802	1,027,553
Receivables:			
Property tax:			
Delinquent	11,635	1,437	13,072
Succeeding year	685,929	108,854	794,783
Income surtax	55,554	0	55,554
Due from other funds	37,689	0	37,689
Due from other governments	82,145	12,964	95,109
<b>TOTAL ASSETS</b>	<b>\$ 1,647,703</b>	<b>376,057</b>	<b>2,023,760</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Salaries and benefits payable	128,367	13	128,380
Due to other governments	25,660	0	25,660
Deferred revenue:			
Succeeding year property tax	685,929	108,854	794,783
Income surtax	55,554	0	55,554
Total liabilities	895,510	108,867	1,004,377
Fund balances:			
Reserved for:			
Talented and Gifted	21,525	0	21,525
Unreserved:			
Undesignated	730,668	267,190	997,858
Total fund balances	752,193	267,190	1,019,383
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,647,703</b>	<b>376,057</b>	<b>2,023,760</b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

<b>Total fund balances of governmental funds (page 16)</b>	\$ 1,019,383
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	361,905
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	<u>55,554</u>
<b>Net assets of governmental activites (page 13)</b>	<u><u>\$ 1,436,842</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>			
Local sources:			
Local tax	\$ 915,647	139,726	1,055,373
Tuition	139,342	0	139,342
Other	45,946	28,024	73,970
State sources	1,014,565	0	1,014,565
Federal sources	80,486	17,042	97,528
Total revenues	<u>2,195,986</u>	<u>184,792</u>	<u>2,380,778</u>
<b>EXPENDITURES:</b>			
Current:			
Instruction:			
Regular instruction	1,131,027	47,687	1,178,714
Special instruction	280,686	0	280,686
Other instruction	22,204	30,545	52,749
	<u>1,433,917</u>	<u>78,232</u>	<u>1,512,149</u>
Support services:			
Student services	48,217	0	48,217
Instructional staff services	45,243	7,037	52,280
Administration services	322,592	0	322,592
Operation and maintenance of plant services	135,628	36,342	171,970
Transportation services	92,954	0	92,954
Central services	20,757	0	20,757
	<u>665,391</u>	<u>43,379</u>	<u>708,770</u>
Other expenditures:			
Facilities acquisitions	0	88,997	88,997
AEA flowthrough	85,214	0	85,214
	<u>85,214</u>	<u>88,997</u>	<u>174,211</u>
Total expenditures	<u>2,184,522</u>	<u>210,608</u>	<u>2,395,130</u>
Excess(deficiency) of revenues over(under) expenditures	11,464	(25,816)	(14,352)
Other financing sources:			
Sale of equipment	1,253	0	1,253
Total other financing sources	<u>1,253</u>	<u>0</u>	<u>1,253</u>
Net change in fund balances	12,717	(25,816)	(13,099)
Fund balance beginning of year	739,476	293,006	1,032,482
Fund balance end of year	<u>\$ 752,193</u>	<u>267,190</u>	<u>1,019,383</u>

SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG 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 18)** \$ (13,099)

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

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

Capital outlays	\$ 52,471	
Depreciation expense	(45,834)	6,637

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 55,554

**Changes in net assets of governmental activities(page 15)** \$ 49,092

SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2004

	School Nutrition
<b>ASSETS</b>	
Cash and pooled investments	\$ 43,645
Inventories	3,968
Capital assets, net of accumulated depreciation	4,027
<b>Total assets</b>	<b>51,640</b>
 <b>LIABILITIES</b>	
Due to other funds	37,689
Deferred revenue:	
Other	259
<b>Total liabilities</b>	<b>37,948</b>
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	4,027
Unrestricted	9,665
<b>Total net assets</b>	<b>\$ 13,692</b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
Operating revenues:	
Local sources:	
Charges for services	\$ 45,451
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	33,236
Benefits	4,454
Services	1,480
Supplies	42,251
Depreciation	713
Total operating expenses	82,134
Operating loss	(36,683)
Non-operating revenues:	
State sources	1,311
Federal sources	37,378
Interest on investments	230
Total non-operating revenues	38,919
Change in net assets	2,236
Net assets beginning of year	11,456
Net assets end of year	\$ 13,692

SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG 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	\$ 36,004
Cash received from miscellaneous operating activities	9,706
Cash payments to employees for services	(37,689)
Cash payments to suppliers for goods or services	(38,762)
Net cash provided by operating activities	(30,741)
Cash flows from non-capital financing activities:	
State grants received	1,311
Federal grants received	32,759
Proceeds from General Fund	37,689
Net cash provided by non-capital financing activities	71,759
Cash flows from capital and related financing activities:	
Purchase of capital assets	(2,094)
Net cash used in capital and related financing activities	(2,094)
Cash flows from investing activities:	
Interest on investments	230
Net cash provided by investing activities	230
Net increase in cash and cash equivalents	39,154
Cash and cash equivalents at beginning of year	4,491
Cash and cash equivalents at end of year	\$ 43,645
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (36,683)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	4,619
Depreciation	713
Decrease in inventories	351
Increase in deferred revenue	259
Net cash used in operating activities	\$ (30,741)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 43,645
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	

During the year ended June 30, 2004, the District received Federal commodities valued at \$4,619.

SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
YEAR ENDED JUNE 30, 2004

	<u>Agency</u>
<b>Assets</b>	
Cash and pooled investments	\$ 2,770
Accrued interest receivable	0
<b>Total assets</b>	<u>2,770</u>
<b>Liabilities</b>	
Due to other funds	<u>2,770</u>
<b>Total liabilities</b>	<u>2,770</u>
<b>Net assets</b>	
Unreserved:	
Undesignated	<u>\$ 0</u>

SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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

The Schleswig 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 Schleswig, Iowa, and the predominate agricultural territory in Crawford and Ida Counties. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, Schleswig 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 Schleswig 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 Crawford and Ida Counties Assessors' Conference Board.

B. Basis of Presentation

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

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

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

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

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

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

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

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary 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 fund:

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

The District also reports a fiduciary fund which focus on net assets and changes in net assets. The District's fiduciary fund includes the following:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations

and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared

revenues, grants and reimbursements from other governments.

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

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

Asset Class	Amount
Land	\$ 1,400
Buildings	1,400
Improvements other than buildings	1,400
Machinery and equipment:	
School Nutrition Fund equipment	500

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-20 years

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

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

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

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. During the year June 30, 2004, disbursements in the non-instructional and other expenditures functional areas exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

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

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

Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investments are all category 1, which means the investments are insured or registered or the securities are held by the District or its agent in the District's name.

The District's investments at June 30, 2004 are as follows:

<u>Type</u>	<u>Fair Value</u>
Certificate of Deposit	236,879
Certificate of Deposit	15,757
Certificate of Deposit	53,573
	<u>\$ 306,209</u>

**(3) Due From and Due to other Funds**

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

Receivable Fund	Payable Fund	Amount
General	Nutrition	\$ 37,689

**(4) Interfund Transfers**

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

Transfer to	Transfer from	Amount
General	Management	\$ 17,224

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

**(5) Capital Assets**

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

	Balance Beginning of Year, as restated (Note 9)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 117,443	0	0	117,443
Total capital assets not being depreciated	117,443	0	0	117,443
Capital assets being depreciated:				
Buildings	658,785	0	0	658,785
Machinery and equipment	405,721	52,471	0	458,192
Total capital assets being depreciated	1,064,506	52,471	0	1,116,977
Less accumulated depreciation for:				
Buildings	500,795	13,176	0	513,971
Machinery and equipment	325,886	32,658	0	358,544
Total accumulated depreciation	826,681	45,834	0	872,515
Total capital assets being depreciated, net	237,825	6,637	0	244,462
Governmental activities capital assets, net	\$ 355,268	6,637	0	361,905
Business-type activities:				
Machinery and equipment	\$ 26,904	2,094	2,105	26,893
Less accumulated depreciation	24,258	713	2,105	22,866
Business-type activities capital assets, net	\$ 2,646	1,381	0	4,027

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 15,118
Support services:	
Transportation	17,540
	<u>32,658</u>
Unallocated depreciation	13,176
Administration	<u>13,176</u>
Total governmental activities depreciation expense	<u>\$ 45,834</u>
Business-type activities:	
Food services	\$ 713
Total business-type activities depreciation expense	<u>\$ 713</u>

**(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 payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$58,056, \$52,422, \$52,063, respectively, equal to the required contributions for each year.

**(8) Risk Management**

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

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

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$151,812.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program.

In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

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

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

Schleswig 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 \$85,214 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) Accounting Change and Restatements**

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

Governmental Accounting Standards Board(GASB) Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement Number 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments; Omnibus, Statement Number 38, Certain Financial Statement Note Disclosures, and Statement Number 41, Budgetary Comparison Schedule - Perspective Differences; were implemented during the year ended June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include Government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

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

beginning net asset amount for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

Beginning capital assets for governmental activities of \$1,487,339 were restated to \$1,181,949. The restatement primarily removed assets below the District's capitalizations threshold.

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

	Fund		Total
	General	Other Nonmajor Governmental Funds	
Net assets, June 30, 2003, as previously reported	\$ 739,476	293,006	1,032,482
GASB Interpretation 6 adjustments	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	<u>\$ 739,476</u>	<u>293,006</u>	<u>1,032,482</u>
GASB 34 adjustments:			
Capital assets, net of accumulated depreciation of \$826,681			<u>355,268</u>
Net assets, July 1, 2003, as restated			<u>\$ 1,387,750</u>

**(11) Budget Overexpenditure**

Per the Code of Iowa, disbursements may not legally exceed budgeted expenditures at the functional are level. During the year ended June 30, 2004, disbursements in the non-instructional programs and other expenditures functional areas exceeded the amounts budgeted.

REQUIRED SUPPLEMENTAL INFORMATION

SCHLESWIG COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 1,232,387	45,940
State sources	1,014,564	1,311
Federal sources	97,273	37,378
Total revenues	<u>2,344,224</u>	<u>84,629</u>
Disbursements:		
Instruction	1,518,269	0
Support services	722,873	0
Non-instructional programs	0	83,164
Other expenditures	174,211	0
Total expenditures	<u>2,415,353</u>	<u>83,164</u>
Excess(deficiency) of receipts over(under) disbursements	(71,129)	1,465
Other financing sources, net	<u>1,253</u>	<u>0</u>
Excess(deficiency) of receipts over(under) disbursements	(69,876)	1,465
Balance beginning of year	<u>1,135,118</u>	<u>4,491</u>
Balance end of year	<u>\$ 1,065,242</u>	<u>5,956</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
1,278,327	1,335,285	1,335,285	(56,958)
1,015,875	1,107,616	1,107,616	(91,741)
134,651	141,000	141,000	(6,349)
<u>2,428,853</u>	<u>2,583,901</u>	<u>2,583,901</u>	<u>(155,048)</u>
1,518,269	2,788,839	2,788,839	1,270,570
722,873	895,000	895,000	172,127
83,164	80,000	80,000	(3,164)
174,211	91,337	91,337	(82,874)
<u>2,498,517</u>	<u>3,855,176</u>	<u>3,855,176</u>	<u>1,356,659</u>
(69,664)	(1,271,275)	(1,271,275)	(1,201,611)
1,253	0	0	(1,253)
(68,411)	(1,271,275)	(1,271,275)	(1,202,864)
1,139,609	990,552	990,552	149,057
<u>1,071,198</u>	<u>(280,723)</u>	<u>(280,723)</u>	<u>1,351,921</u>

SCHLESWIG COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 2,344,224	36,554	2,380,778
Expenditures	2,415,353	(20,223)	2,395,130
Net	(71,129)	56,777	(14,352)
Other financing sources, net	1,253	0	1,253
Beginning fund balances	1,135,118	(102,636)	1,032,482
Ending fund balances	\$ 1,065,242	(45,859)	1,019,383

	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 84,629	(259)	84,370
Expenditures	83,164	(1,030)	82,134
Net	1,465	771	2,236
Other financing sources, net	0	0	0
Beginning fund balances	4,491	6,965	11,456
Ending fund balances	\$ 5,956	7,736	13,692

SCHLESWIG COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as 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 ended June 30, 2004, disbursements in the non-instructional and other expenditures functional areas exceeded the amount budgeted.

OTHER SUPPLEMENTAL INFORMATION

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

	Special Revenue Funds				Capital Projects	Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue		
<b>ASSETS</b>						
Cash and pooled investments	\$ 85,807	29,484	112,868	228,159	24,643	252,802
Receivables:						
Property tax:						
Current year delinquent	281	0	1,156	1,437	0	1,437
Succeeding year	40,000	0	68,854	108,854	0	108,854
Due from other governments	0	0	0	0	12,964	12,964
<b>TOTAL ASSETS</b>	<b>\$ 126,088</b>	<b>29,484</b>	<b>182,878</b>	<b>338,450</b>	<b>37,607</b>	<b>376,057</b>
<b>LIABILITIES AND FUND EQUITY</b>						
Liabilities:						
Salaries and benefits payable	0	13	0	13	0	13
Deferred revenue:						
Succeeding year property tax	40,000	0	68,854	108,854	0	108,854
<b>Total Liabilities</b>	<b>40,000</b>	<b>13</b>	<b>68,854</b>	<b>108,867</b>	<b>0</b>	<b>108,867</b>
Fund equity:						
Fund balances:						
Unreserved:						
Undesignated	86,088	29,471	114,024	229,583	37,607	267,190
<b>Total fund balances</b>	<b>86,088</b>	<b>29,471</b>	<b>114,024</b>	<b>229,583</b>	<b>37,607</b>	<b>267,190</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 126,088</b>	<b>29,484</b>	<b>182,878</b>	<b>338,450</b>	<b>37,607</b>	<b>376,057</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SCHLESWIG 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 Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Capital Projects	
REVENUES:						
Local sources:						
Local tax	\$ 19,950	0	82,169	102,119	37,607	139,726
Other	0	26,347	1,677	28,024	0	28,024
Federal sources	0	0	17,042	17,042	0	17,042
TOTAL REVENUES	19,950	26,347	100,888	147,185	37,607	184,792
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	17,223	0	30,464	47,687	0	47,687
Other instruction	0	30,545	0	30,545	0	30,545
Support services:						
Instructional staff	0	0	7,037	7,037	0	7,037
Operation and maintenance of plant services	28,459	0	7,883	36,342	0	36,342
Other expenditures:						
Facilities acquisitions	0	0	88,997	88,997	0	88,997
TOTAL EXPENDITURES	45,682	30,545	134,381	210,608	0	210,608
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(25,732)	(4,198)	(33,493)	(63,423)	37,607	(25,816)
FUND BALANCE BEGINNING OF YEAR	111,820	33,669	147,517	293,006	0	293,006
FUND BALANCE END OF YEAR	\$ 86,088	29,471	114,024	229,583	37,607	267,190

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SCHLESWIG 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 End of Year
Art Class Project	\$ 362	0	0	362
Middle School Student Council	841	245	319	767
Enironmental Club	73	0	0	73
School Annual	1,438	475	11	1,902
School Carnival	1,695	0	0	1,695
Music Boosters	2,513	0	0	2,513
Vocal Music Activities	(2,406)	0	1,695	(4,101)
Instrumental Music Activities	(167)	491	1,447	(1,123)
Band Trip Fund	2,032	0	0	2,032
Athletic Boosters	16,301	3,434	1,743	17,992
Boys Basketball Activities	(806)	0	1,436	(2,242)
Football Activities	(4,422)	0	974	(5,396)
Wrestling Activities	296	0	0	296
Girls Basketball Activities	(653)	0	1,305	(1,958)
Girls Volleyball Activities	(182)	0	50	(232)
Golf Activities	430	0	0	430
Pep Bus Activities	588	0	0	588
Activity Fund Savings	557	677	0	1,234
Special Student Projects	15,179	21,025	21,565	14,639
<b>Total</b>	<b>\$ 33,669</b>	<b>26,347</b>	<b>30,545</b>	<b>29,471</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
<b>Revenues:</b>				
Local sources:				
Local tax	\$ 1,055,373	970,659	963,431	930,481
Tuition	139,342	117,645	166,588	131,022
Other	73,970	66,762	66,420	155,381
State sources	1,014,565	1,069,787	992,729	1,166,103
Federal sources	97,528	97,119	81,479	64,723
<b>Total</b>	<b>\$ 2,380,778</b>	<b>2,321,972</b>	<b>2,270,647</b>	<b>2,447,710</b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular instruction	\$ 1,178,714	1,085,534	1,117,894	1,098,390
Special instruction	280,686	337,815	312,381	267,909
Other instruction	52,749	52,620	56,344	66,127
Support services:				
Student services	48,217	43,271	43,858	42,031
Instructional staff services	52,280	61,187	50,525	34,456
Administration services	322,592	221,308	215,814	220,284
Operation and maintenance of plant services	171,970	176,467	151,387	140,641
Transportation services	92,954	142,527	75,181	123,804
Central services	20,757	20,507	52,835	51,770
Non-instructional programs	0	0	0	30,597
Other expenditures:				
Facilities acquisitions	88,997	0	67,713	43,201
AEA flow-through	85,214	91,422	91,497	97,791
<b>Total</b>	<b>\$ 2,395,130</b>	<b>2,232,658</b>	<b>2,235,429</b>	<b>2,217,001</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

## **Certified Public Accountants**

(a professional corporation)

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

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

We have audited the financial statements of Schleswig Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated July 28, 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 Schleswig 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.

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

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Schleswig Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our 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 the accompanying Schedule of Findings.

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

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

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

*Nolte, Cornman & Johnson PC*

NOLTE, CORNMAN & JOHNSON, P.C.

July 28, 2004

SCHLESWIG COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004

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

REPORTABLE CONDITIONS:

- I-A-04 Segregation of Duties - One important aspect of internal control 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 segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response – We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

- I-B-04 Activity Fund – The District had several accounts in the Student Activity Fund with deficit balances at June 30, 2004. We also noted that the Student Activity Fund includes an interest account that is not allocated to different activity accounts on a yearly basis.

Recommendation – The District should review purchase approval procedures for the Student Activity Fund and may wish to require additional approval before ordering goods or services from these accounts. The District should investigate alternatives to eliminate these deficit balances. The District should allocate interest in the Student Activity Fund on a yearly basis.

Response – We will continue to review our procedures and implement additional controls where deemed possible.

Conclusion – Response Accepted.

SCHLESWIG COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004

Part II: Other Findings Related to Statutory Reporting

II-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.

II-B-04 Certified Budget - District disbursements for the year ended June 30, 2004 exceeded the amount budgeted in the non-instructional and other expenditures program area.

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

Response - We will amend the budget if necessary in the future.

Conclusion - Response accepted.

II-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.

II-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. .

II-E-04 Business Transactions - We noted no business transactions between the District and District officials or employees.

II-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.

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

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

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

Conclusion- Response accepted.

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

II-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.

II-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.

II-K-04 Notice of Public Hearing for Public Improvements - The District did not publish the notice of public hearing on the new roof project in the time period required by Chapter 73A.2 of the Code of Iowa.

Recommendation - Before entering into any contract for public improvements where the net cost is \$25,000 or more, the District should set a date for a public hearing and give notice at least ten days prior to the hearing.

Response - This area of concern will be reviewed with our architects. We will follow Iowa Codes.

Conclusion - Response accepted.