

WALNUT COMMUNITY SCHOOL DISTRICT

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

June 30, 2004

Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-Wide Financial Statements:		
Statement of Net Assets	A	14-15
Statement of Activities	B	16-17
Governmental Fund Financial Statements:		
Balance Sheet	C	18
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	19
Statement of Revenues, Expenditures and Changes in Fund Balances	E	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	21
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	22
Statement of Revenues, Expenses, and Changes in Net Assets	H	23
Statement of Cash Flows	I	24
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	25
Statement of Changes in Fiduciary Net Assets	K	26
Notes to Financial Statements		27-37
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund		39
Budget to GAAP Reconciliation		40
Notes to Required Supplementary Information - Budgetary Reporting		41
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	43
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	44
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	45
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	4	46
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	5	47
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		48-49
Schedule of Findings		50-52

Independent Auditor's Report

To the Board of Education of
Walnut Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Walnut Community School District, Walnut, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's 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 basic financial statements based on our audit.

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

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

As described in Note 10 to the financial statements, during the year ended June 30, 2004, Walnut Community School District adopted Governmental Accounting Standards Board Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement Number 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement Number 38, Certain Financial Statement Note Disclosures; Statement Number 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation Number 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated August 5, 2004, on our consideration of Walnut Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 39 through 41 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

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

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

August 5, 2004

Walnut Management Discussion & Analysis

June 30, 2004

This section of the Walnut Community School District's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2004. The analysis focuses on the District's financial performance as a whole. Please read it in conjunction with the District's financial statements, which immediately follow this section.

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

Financial Highlights

- During the year ended June 30, 2004, the State of Iowa imposed a 2.5% reduction in State Foundation aid, which reduced the General Fund revenues by approximately \$20,000.
- Since the reduction occurred mid year, the District had already obligated the resources to fund fiscal 2004 salaries and programs.
- The District's General Fund balance decreased from \$(94,401) in fiscal 2003 to \$(127,860) in fiscal 2004.

Overview of the Financial Statements

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

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

- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the Government-wide statements.
- The *governmental funds statements* explain how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- *Proprietary funds statements* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services and daycare.
- *Fiduciary funds statements* provide information about the relationships in which the District acts solely as a trustee or agent for the benefit of others.

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

Government-wide Statements

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

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

- *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the Government-wide statements.
- The District's enterprise 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 two enterprise funds, School Nutrition and Daycare.
- *Fiduciary funds:* The District is the trustee or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Condensed Statement of Net Assets		
	Governmental Activities	Bus. Type Activities
Current and other assets	\$1,989,570	\$11,825
Capital assets	<u>2,135,366</u>	<u>47,319</u>
Total assets	\$4,124,936	\$59,144
Current liabilities	\$1,866,328	\$15,234
Long-term liabilities	<u>1,695,937</u>	<u>16,644</u>
Total liabilities	\$3,562,265	\$31,878
Net assets		
Invested in capital assets, net of related debt	\$ 583,741	\$30,675
Restricted	186,917	0
Unrestricted	<u>(207,987)</u>	<u>(3,409)</u>
Total net assets	\$ 562,671	\$27,266

Changes in Net Assets Total for the Walnut CSD

	Governmental Activities	Bus. Type Activities
Revenues:		
Program revenues:		
Charges for service	\$ 311,300	\$ 90,511
Operating grants and contributions	259,446	83,047
Capital grants and contributions	0	0
General revenues:		
Property tax	1,028,143	0
Income Surtax	43,126	0
Local Option Sales Tax	158,723	0
Unrestricted State Aid	759,128	0
Other	<u>8,697</u>	<u>32</u>
Total revenues	\$2,568,563	\$ 173,590
Expenses:		
Governmental activities:		
Instruction	\$1,621,564	0
Support services	694,932	0
Non-instructional programs	0	166,474
Other expenses	<u>254,219</u>	<u>0</u>
Total governmental activities	<u>\$2,570,715</u>	166,474
Transfers	<u>3,800</u>	<u>(3,800)</u>
Total expenses	\$2,574,515	\$ 162,674
Increase (decrease) in net assets	(5,952)	10,916
Net assets beginning of year	\$ 568,623	\$ 16,350
Net assets end of year	\$ 562,671	\$ 27,266

Governmental Activities

- Revenues for governmental activities were \$2,568,563 while expenses amounted to \$2,570,715.

- The **local option sales tax revenue** of \$158,723 contributed greatly to maintaining the net assets balance of the governmental activities. The proceeds were used to repay principal and interest on bonds.

The following table presents the cost of the District’s major governmental activities: instruction, support services, non-instructional programs and other expenses. The table shows each activity’s net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District’s taxpayers by each of these functions.

Net cost of Governmental Activities	
Instruction	\$1,134,620
Support services	682,625
Non-instructional programs	0
Other expenses	<u>182,724</u>
Total	\$1,999,969

- The cost of all governmental activities this year was \$2,570,715.
- The portion of the cost financed by users of the District’s programs was \$311,300.
- The federal and state government and private contributors subsidized certain programs with grants and contributions totaling \$259,446.
- The net cost portion of governmental activities was financed with \$1,028,143 in property tax, \$759,128 in unrestricted state aid, \$158,723 local options sales tax, and \$43,126 in income surtax.

Business-Type Activities

Revenues of the District’s business-type activities totaled \$173,590, while expenses totaled \$166,474. The District’s business-type activities include the School Nutrition and Daycare Funds. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income. The food service activities showed a decrease in net assets, while the daycare activities showed an increase in net assets.

Financial Analysis of the District's Funds

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

Governmental Fund Highlights

- The General Fund balance decreased by \$33,459. Expenses exceeded revenues mainly because employee costs need to be contained. During the year ended June 30, 2004, the State of Iowa imposed a 2.5% reduction in State Foundation aid, which reduced the General Fund revenues by approximately \$20,000.
- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased \$15,067. This fund was used for the purchase of equipment and building repairs.
- The Capital Projects, Local Options Sales Tax fund balance decreased \$31,500 during fiscal year 2004. All current year sales tax proceeds and a portion of the carry over balance from last year were used to pay principal and interest on the District's general obligation bonds.
- The Management Fund balance increased \$21,592 due to an increase in the levy requested.
- The Student Activity Fund balance increased \$7,036 due to an increase in admission fees.

Proprietary Fund Highlights

- The School Nutrition Fund balance decreased by \$6,978 due to higher labor and food costs.
- Fiscal year 2004 was the first year that the District operated a daycare program. The Fund showed a \$14,094 profit for the year.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private purpose trust and agency funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's certified budget is prepared on the cash basis. The District did not amend its budget during the year.

School districts have two levels of budgetary control. One form of budgetary control exists through the "certified budget", which includes all funds of the District as noted above. This budget is certified with the County Auditor and Department of Management each year. Iowa school districts may not certify a general fund budget in excess of its spending authority.

The other level of budgetary control is the "unspent (maximum) authorized budget" and pertains only to the General Fund of the District. The maximum authorized budget is the total "spending authority" in the General Fund of the District. The unspent balance is a budgetary concept and does not mean the "actual General Fund cash". It is imperative for users of District financial information to make this important distinction. The unspent balance is the amount of spending authority that is carried over into the next fiscal year. The unspent balance is a budgetary carryover and does not represent actual dollars (General Fund cash) or actual financial position (unreserved, undesignated General Fund balance) of the District.

The district budgeted an amount that would show the full expenditures of all funds including the unspent balance, but in reality the district does not want to spend the unspent balance.

Expenses in the instructional area of the budget exceeded the original budgeted amount. The district should have amended the budget. Expenses in the instructional area need to be contained in the future.

Capital Asset and Debt Administration

Capital Assets

By the end of fiscal 2004, the District had invested \$2,182,685, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers and audio-visual equipment, transportation equipment, and administrative offices. This amount represents a net **decrease** of one percent from last year. Depreciation expense for the year was approximately \$106,402. During the year the District used a lease purchase agreement to purchase a portable building for the daycare program. The District also spent \$42,644 to remodel the school building. More detailed information about capital assets is available in Note 6 to the financial statements.

Long-Term Debt

At year-end, the district had \$1,712,581 in general obligation and other long-term debt outstanding. This represents a decrease of \$72,758 from last year. The school districts debt is for early retirement, capital leases and bond indebtedness.

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:

- Elimination of the budget guarantee
- Changes in enrollment (the district decreased 18 students)
- Addition of a new pre-school special education program

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jeff Kruse, Walnut Superintendent; PO Box 528; 415 Antique City Drive; Walnut, IA 51577.

BASIC FINANCIAL STATEMENTS

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents:			
ISCAP	671,814	-	671,814
Other	214,597	9,213	223,810
Receivables:			
Property tax:			
Delinquent	11,455	-	11,455
Succeeding year	951,885	-	951,885
Accounts	-	1,629	1,629
Accrued interest:			
ISCAP	1,616	-	1,616
Other	1,258	-	1,258
Due from other governments	136,945	-	136,945
Inventories	-	983	983
Capital assets, net of accumulated depreciation	2,135,366	47,319	2,182,685
Total assets	4,124,936	59,144	4,184,080
Liabilities			
Warrants issued in excess of bank balance	-	6,047	6,047
Accounts payable	19,173	563	19,736
Salaries and benefits payable	210,317	7,986	218,303
Accrued interest payable	8,080	638	8,718
Deferred revenue:			
Succeeding year property tax	951,885	-	951,885
ISCAP warrants payable	673,000	-	673,000
ISCAP accrued interest payable	2,450	-	2,450
ISCAP premium	1,423	-	1,423
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	105,000	-	105,000
Capital leases	15,314	1,362	16,676
Early retirement	26,784	-	26,784
Portion due after one year:			
General obligation bonds payable	1,415,000	-	1,415,000
Capital leases	16,311	15,282	31,593
Early retirement	117,528	-	117,528
Total liabilities	3,562,265	31,878	3,594,143

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Net assets			
Invested in capital assets, net of related debt	583,741	30,675	614,416
Restricted for:			
Physical plant and equipment levy	48,528	-	48,528
Other special revenue purposes	31,589	-	31,589
Local option sales tax capital projects	98,223	-	98,223
Debt service	8,567	-	8,567
Unrestricted	<u>(207,987)</u>	<u>(3,409)</u>	<u>(211,396)</u>
Total net assets	<u><u>562,661</u></u>	<u><u>27,266</u></u>	<u><u>589,927</u></u>

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

Functions/Programs	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues</u>	
			<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
Governmental activities:				
Instruction:				
Regular instruction	1,093,990	215,781	128,384	-
Special instruction	186,190	-	40,466	-
Other instruction	341,384	93,996	8,317	-
	<u>1,621,564</u>	<u>309,777</u>	<u>177,167</u>	<u>-</u>
Support services:				
Student services	6,922	-	8,653	-
Instructional staff services	72,740	-	1,812	-
Administration services	362,692	-	-	-
Operation and maintenance of plant services	182,263	1,523	-	-
Transportation services	70,315	-	319	-
	<u>694,932</u>	<u>1,523</u>	<u>10,784</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	24,541	-	-	-
Long-term debt interest	83,539	-	-	-
AEA flowthrough	71,495	-	71,495	-
Depreciation (unallocated)*	74,644	-	-	-
	<u>254,219</u>	<u>-</u>	<u>71,495</u>	<u>-</u>
Total governmental activities	<u>2,570,715</u>	<u>311,300</u>	<u>259,446</u>	<u>-</u>
Business type activities:				
Non-instructional programs:				
Food service operations	112,537	44,756	60,771	-
Daycare	53,937	45,755	22,276	-
Total business-type activities	<u>166,474</u>	<u>90,511</u>	<u>83,047</u>	<u>-</u>
Total	<u>2,737,189</u>	<u>401,811</u>	<u>342,493</u>	<u>-</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Debt service				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Total general revenues				
Transfers				
Total general revenues and transfers				

Change in net assets

Net assets beginning of year, as restated

Net assets end of year

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

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
(749,825)	-	(749,825)
(145,724)	-	(145,724)
<u>(239,071)</u>	<u>-</u>	<u>(239,071)</u>
<u>(1,134,620)</u>	<u>-</u>	<u>(1,134,620)</u>
1,731	-	1,731
(70,928)	-	(70,928)
(362,692)	-	(362,692)
(180,740)	-	(180,740)
<u>(69,996)</u>	<u>-</u>	<u>(69,996)</u>
<u>(682,625)</u>	<u>-</u>	<u>(682,625)</u>
(24,541)	-	(24,541)
(83,539)	-	(83,539)
-	-	-
<u>(74,644)</u>	<u>-</u>	<u>(74,644)</u>
<u>(182,724)</u>	<u>-</u>	<u>(182,724)</u>
<u>(1,999,969)</u>	<u>-</u>	<u>(1,999,969)</u>
-	(7,010)	(7,010)
-	14,094	14,094
<u>-</u>	<u>7,084</u>	<u>7,084</u>
<u>(1,999,969)</u>	<u>7,084</u>	<u>(1,992,885)</u>
954,427	-	954,427
899	-	899
72,817	-	72,817
43,126	-	43,126
158,723	-	158,723
759,128	-	759,128
8,697	32	8,729
<u>1,997,817</u>	<u>32</u>	<u>1,997,849</u>
<u>(3,800)</u>	<u>3,800</u>	<u>-</u>
<u>1,994,017</u>	<u>3,832</u>	<u>1,997,849</u>
(5,952)	10,916	4,964
<u>568,623</u>	<u>16,350</u>	<u>584,973</u>
<u>562,671</u>	<u>27,266</u>	<u>589,937</u>

WALNUT COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2004

	General Fund \$	Nonmajor Governmental Funds \$	Total \$
Assets			
Cash and pooled investments:			
ISCAP	671,814	-	671,814
Other	54,078	160,519	214,597
Receivables:			
Property tax:			
Delinquent	10,052	1,403	11,455
Succeeding year	721,321	230,564	951,885
Accrued interest - ISCAP	1,616	-	1,616
Accrued interest - other	1,232	26	1,258
Interfund receivable/payable	(30,000)	30,000	-
Due from other governments	112,211	24,734	136,945
Total assets	<u>1,542,324</u>	<u>447,246</u>	<u>1,989,570</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	19,173	-	19,173
Salaries and benefits payable	210,317	-	210,317
ISCAP warrants payable	673,000	-	673,000
ISCAP accrued interest payable	2,450	-	2,450
ISCAP premium	1,423	-	1,423
Deferred revenue:			
Succeeding year property tax	721,321	230,564	951,885
Other	42,500	-	42,500
Total liabilities	<u>1,670,184</u>	<u>230,564</u>	<u>1,900,748</u>
Fund balances:			
Reserved for:			
Debt service	-	16,647	16,647
Unreserved	(127,860)	200,035	72,175
Total fund balances	<u>(127,860)</u>	<u>216,682</u>	<u>88,822</u>
Total liabilities and fund balances	<u>1,542,324</u>	<u>447,246</u>	<u>1,989,570</u>

WALNUT COMMUNITY SCHOOL DISTRICT

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

June 30, 2004

Total fund balances of governmental funds (Exhibit C)	88,822
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	2,135,366
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	42,500
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	(8,080)
Long-term liabilities, including bonds payable, capital leases and early retirement benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(1,695,937)</u>
Net assets of governmental activities (Exhibit A)	<u><u>562,671</u></u>

WALNUT COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	936,060	287,282	1,223,342
Tuition	102,756	-	102,756
Other	114,035	103,206	217,241
Intermediate sources	8,653	-	8,653
State sources	947,343	-	947,343
Federal sources	62,578	-	62,578
Total revenues	<u>2,171,425</u>	<u>390,488</u>	<u>2,561,913</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	1,068,045	-	1,068,045
Special instruction	186,190	-	186,190
Other instruction	239,912	87,082	326,994
	<u>1,494,147</u>	<u>87,082</u>	<u>1,581,229</u>
Support services:			
Student services	6,922	-	6,922
Instructional staff services	72,740	-	72,740
Administration services	329,441	33,251	362,692
Operation and maintenance of plant services	174,076	8,187	182,263
Transportation services	56,063	-	56,063
	<u>639,242</u>	<u>41,438</u>	<u>680,680</u>
Other expenditures:			
Facilities acquisition	-	67,185	67,185
Long-term debt:			
Principal	-	114,380	114,380
Interest and fiscal charges	-	84,194	84,194
AEA flowthrough	71,495	-	71,495
	<u>71,495</u>	<u>265,759</u>	<u>337,254</u>
Total expenditures	<u>2,204,884</u>	<u>394,279</u>	<u>2,599,163</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(33,459)</u>	<u>(3,791)</u>	<u>(37,250)</u>
Other financing sources (uses):			
Operating transfers in	-	207,971	207,971
Operating transfers out	-	(211,771)	(211,771)
Total other financing sources (uses)	<u>-</u>	<u>(3,800)</u>	<u>(3,800)</u>
Net change in fund balances	(33,459)	(7,591)	(41,050)
Fund balances beginning of year, as restated	(94,401)	224,273	129,872
Fund balances end of year	<u>(127,860)</u>	<u>216,682</u>	<u>88,822</u>

See notes to financial statements.

WALNUT COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

\$ \$

Net change in fund balances - total governmental funds (Exhibit E) (41,050)

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

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

Expenditures for capital assets	42,644	
Depreciation expense	<u>(104,254)</u>	(61,610)

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

6,650

Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

114,379

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.

656

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement	<u>(24,977)</u>	
------------------	-----------------	--

Changes in net assets of governmental activities (Exhibit B)

(5,952)

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2004

	Nonmajor Enterprise Funds
	<u>\$</u>
Assets	
Cash and cash equivalents	9,213
Accounts receivable	1,629
Inventories	983
Capital assets, net of accumulated depreciation	<u>47,319</u>
Total assets	<u>59,144</u>
Liabilities	
Accounts payable	563
Excess of Warrants Issued Over Bank Balance	6,047
Interest payable	638
Salaries and benefits payable	7,986
Capital leases	<u>16,644</u>
Total liabilities	<u>31,878</u>
Net assets	
Invested in capital assets, net of related debt	30,675
Unrestricted	<u>(3,409)</u>
Total net assets	<u><u>27,266</u></u>

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds

Year ended June 30, 2004

	Nonmajor Enterprise Funds
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>90,511</u>
Operating expenses:	
Non-instructional programs:	
Salaries	79,568
Benefits	18,704
Purchased services	1,384
Supplies	63,942
Depreciation	2,148
Other	728
	<u>166,474</u>
Operating gain (loss)	<u>(75,963)</u>
Non-operating revenue:	
State sources	1,700
Federal sources	59,071
Interest income	32
Total non-operating revenue	<u>60,803</u>
Gain (loss) before contributions and transfers	(15,160)
Capital contributions	22,276
Transfers in	<u>3,800</u>
Change in net assets	10,916
Net assets beginning of year	<u>16,350</u>
Net assets end of year	<u><u>27,266</u></u>

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2004

	Nonmajor Enterprise Funds
	\$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	43,897
Cash received from daycare services	45,755
Cash payments to employees for services	(97,057)
Cash payments to suppliers for goods or services	(55,390)
Net cash used by operating activities	<u>(62,795)</u>
Cash flows from non-capital financing activities:	
State grants received	1,700
Federal grants received	47,792
Net cash provided by non-capital financing activities	<u>49,492</u>
Cash flows from capital and related financing activities:	
Sale of capital assets	22,276
Acquisition of capital assets	(24,396)
Net cash used by capital and related financing activities	<u>(2,120)</u>
Cash flows from investing activities:	
Interest on investments	32
Net increase (decrease) in cash and cash equivalents	(15,391)
Cash and cash equivalents at beginning of year	<u>18,557</u>
Cash and cash equivalents at end of year	<u><u>3,166</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(75,963)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	11,279
Depreciation	2,148
Decrease (increase) in inventories	(969)
Decrease (increase) in accounts receivable	(895)
(Decrease) increase in accounts payable	354
(Decrease) increase in salaries and benefits payable	1,215
(Decrease) increase in deferred revenue	36
Net cash used in operating activities	<u><u>(62,795)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$11,279 of federal commodities.

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2004

	Private Purpose Trust Scholarship	Agency
	<u>\$</u>	<u>\$</u>
Assets		
Cash and pooled investments	3,140	459
Liabilities		
Other payables	<u>-</u>	<u>459</u>
Net Assets		
Reserved for scholarships	<u><u>3,140</u></u>	<u><u>-</u></u>

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2004

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Interest	70
Deductions:	
Support services:	
Scholarships awarded	<u>175</u>
Change in net assets	(105)
Net assets beginning of year	<u>3,245</u>
Net assets end of year	<u><u>3,140</u></u>

WALNUT COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2004

1. Summary of Significant Accounting Policies

Walnut Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of Walnut, Iowa and the predominately agricultural territory in a portion of Pottawattamie, Shelby and Cass 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, Walnut Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The Walnut Community School District has no component units that meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The District's proprietary fund consists of the Enterprise, School Nutrition Fund and Day Care Fund. These funds are used to account for the operations of the District's food service and day care operations.

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the

District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

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

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

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

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

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	5,000
Buildings	5,000
Improvements other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	5,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	5-25 years
Furniture and equipment	3-20 years

Salaries and Benefits Payable – Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are 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 receivable and other receivables not collected within sixty days after year end.

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

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

[Long-term Liabilities](#) – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

[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 ended June 30, 2004, disbursements in the [instruction](#) function exceeded the amount budgeted.

2. **Cash and Pooled Investments**

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

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

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$3,592 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

3. Interfund Receivables and Payables

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

Receivable Fund	Payable Fund	Amount
		\$
Special Revenue:		
Physical Plant and Equipment Levy Fund	General Fund	30,000

The PPEL fund has loaned funds to the general fund to help cash flow in the General Fund. The loan is to be repaid in the next fiscal year.

4. Interfund Transfers

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

Transfer to	Transfer from	Amount
		\$
Debt Service	Special Revenue:	
	Physical Plant and Equipment Levy Fund	21,170
Debt Service	Capital Projects	186,801
Enterprise:		
Day Care	Capital Projects	3,800

These transfers reflect funds transferred for payment of debt service obligations and to the Day Care for acquired equipment.

5. Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School 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. Bankers Trust Co. N.A. 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	297,009	1,616	295,000	2,450
2004-05A	6/30/04	6/30/05	374,805	-	378,000	-
Total			<u>671,814</u>	<u>1,616</u>	<u>673,000</u>	<u>2,450</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. In addition, the District 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 for the year ended June 30, 2004, is as follows:

Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
\$	\$	\$	\$
-	285,000	285,000	-

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

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

6. Capital Assets

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

	Balance Beginning of Year, as Restated	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	40,125	-	-	40,125
Capital assets being depreciated:				
Buildings	4,182,836	-	-	4,182,836
Improvements other than buildings	-	42,644	-	42,644
Furniture and equipment	713,123	-	-	713,123
Total capital assets being deprec.	4,895,959	42,644	-	4,938,603
Less accumulated depreciation for:				
Buildings	2,212,426	63,815	-	2,276,241
Improvements other than buildings	-	853	-	853
Furniture and equipment	526,682	39,586	-	566,268
Total accumulated depreciation	2,739,108	104,254	-	2,843,362
Total capital assets being depreciated, net	2,156,851	(61,610)	-	2,095,241
Governmental activities capital assets, net	2,196,976	(61,610)	-	2,135,366

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Capital assets being depreciated:				
Buildings	-	42,644	-	42,644
Furniture and equipment	35,717	2,196	-	37,913
Total capital assets being deprec.	<u>35,717</u>	<u>44,840</u>	-	<u>80,557</u>
Less accumulated depreciation for:				
Buildings	-	1,421	-	1,421
Furniture and equipment	31,090	727	-	31,817
Total accumulated depreciation	<u>31,090</u>	<u>2,148</u>	-	<u>33,238</u>
Business type activities capital assets, net	<u>4,627</u>	<u>42,692</u>	-	<u>47,319</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	968
Other	14,390
Support Services:	
Transportation	14,252
	<u>29,610</u>
Unallocated depreciation	<u>74,644</u>
Total depreciation expense – governmental activities	<u>104,254</u>
Business type activities:	
Day Care	1,421
Food services	727
Total Business type activities	<u>2,148</u>

7. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
General obligation bonds	1,620,000	-	100,000	1,520,000	105,000
Capital leases	46,004	16,644	14,379	48,269	16,676
Early retirement	119,335	44,772	19,795	144,312	26,784
Total	<u>1,785,339</u>	<u>61,416</u>	<u>134,174</u>	<u>1,712,581</u>	<u>148,460</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age **fifty-five** and must have completed **fifteen** years of continuous service to the

District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives are based on salary in effect in year of application. Early retirement expenditures for the year ended June 30, 2004 totaled \$19,795.

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, 1998			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2005	5.5	105,000	75,403	180,403
2006	5.5	115,000	69,628	184,628
2007	5.3	120,000	63,303	183,303
2008	4.6	125,000	56,943	181,943
2009	4.6	130,000	51,193	181,193
2010-2014	4.7-5.0	750,000	157,584	907,584
2015	5.0	175,000	8,750	183,750
		<u>1,520,000</u>	<u>482,804</u>	<u>2,002,804</u>

Capital Leases

The District has leased technology equipment under a capital lease. The following is a schedule of future minimum lease payments at 8.66% under the capital lease, together with the net present value of the minimum lease payments as of June 30, 2004.

	Year Ending June 30,	Amount
		\$
	2005	17,370
	2006	17,370
Minimum Lease Payments		34,740
Less Amount Representing Interest		3,115
Present Value of Minimum Lease Payments		<u>31,625</u>

The District has leased a portable building under a capital lease for the Day Care operation. The following is a schedule of future minimum lease payments at 5.75% under the capital lease, together with the net present value of the minimum lease payments as of June 30, 2004.

	Year Ending June 30,	Amount
		\$
	2005	2,000
	2006	2,000
	2007	2,000
	2008	2,000
	2009	2,000
	2010-2011	9,942
Minimum Lease Payments		19,942
Less Amount Representing Interest		3,298
Present Value of Minimum Lease Payments		<u>16,644</u>

8. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$77,284, \$68,820, and \$68,010 respectively, equal to the required contributions for each year.

9. Risk Management

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

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

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. The District's annual contributions to ISEBA for the year ended June 30, 2004, were \$233,195.

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

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

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

Walnut 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.

10. 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 \$71,495 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.

11. Accounting Change and Restatement

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

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

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

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

	Fund		
	General	Nonmajor	Total
	\$	\$	\$
Net assets, June 30, 2003, as previously reported	(102,495)	224,273	121,778
GASB Interpretation 6 adjustments	8,094	-	8,094
Net assets, July 1, 2003, as restated for Governmental funds	<u>(94,401)</u>	<u>224,273</u>	129,872
GASB 34 adjustments:			
Capital assets net of accumulated depreciation of \$2,739,108			2,196,976
Long-term liabilities:			
Bonds			(1,620,000)
Capital leases			(46,004)
Early retirement			(119,335)
Accrued interest payable			(8,736)
Deferred revenue			<u>35,850</u>
Net assets, July 1, 2003, as restated			<u>568,623</u>

12. Financial Condition

The General Fund has a deficit unreserved fund balance of \$127,860 at June 30, 2004.

REQUIRED SUPPLEMENTARY INFORMATION

WALNUT COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Receipts:						
Local sources	1,508,350	89,684	1,598,034	1,370,608	1,370,608	227,426
State sources	953,155	1,700	954,855	993,137	993,137	(38,282)
Federal sources	62,585	59,071	121,656	115,000	115,000	6,656
Total receipts	<u>2,524,090</u>	<u>150,455</u>	<u>2,674,545</u>	<u>2,478,745</u>	<u>2,478,745</u>	<u>195,800</u>
Disbursements:						
Instruction	1,629,079	-	1,629,079	1,380,135	1,380,135	(248,944)
Support services	704,809	-	704,809	728,769	728,769	23,960
Non-instructional programs	-	163,726	163,726	221,253	221,253	57,527
Other expenditures	265,927	-	265,927	269,164	269,164	3,237
Total disbursements	<u>2,599,815</u>	<u>163,726</u>	<u>2,763,541</u>	<u>2,599,321</u>	<u>2,599,321</u>	<u>(164,220)</u>
Excess (deficiency) of receipts over (under) disbursements	(75,725)	(13,271)	(88,996)	(120,576)	(120,576)	31,580
Other financing sources (uses) net	<u>(3,800)</u>	<u>(2,120)</u>	<u>(5,920)</u>	<u>-</u>	<u>-</u>	<u>(5,920)</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements	(79,525)	(15,391)	(94,916)	(120,576)	(120,576)	25,660
Balance beginning of year	<u>294,122</u>	<u>18,557</u>	<u>312,679</u>	<u>186,048</u>	<u>186,048</u>	<u>126,631</u>
Balance end of year	<u><u>214,597</u></u>	<u><u>3,166</u></u>	<u><u>217,763</u></u>	<u><u>65,472</u></u>	<u><u>65,472</u></u>	<u><u>152,291</u></u>

WALNUT COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
	\$	\$	\$
Revenues	2,524,090	37,823	2,561,913
Expenditures	2,599,815	(652)	2,599,163
Net	(75,725)	38,475	(37,250)
Other financing sources (uses) net	(3,800)	-	(3,800)
Beginning fund balances	294,122	(164,250)	129,872
Ending fund balances	<u>214,597</u>	<u>(125,775)</u>	<u>88,822</u>

	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
	\$	\$	\$
Revenues	150,455	859	151,314
Expenditures	163,726	2,748	166,474
Net	(13,271)	(1,889)	(15,160)
Other financing sources (uses) net	(2,120)	28,196	26,076
Beginning fund balances	18,557	(2,207)	16,350
Ending fund balances	<u>3,166</u>	<u>24,100</u>	<u>27,266</u>

WALNUT 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 Internal Service, Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the [cash basis](#). Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

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

During the year ended June 30, [2004](#), disbursements in the [instruction](#) function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

WALNUT COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2004

Assets	Special Revenue Funds			Capital Projects Funds	Debt Service	Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	Local Option Sales Tax		
	\$	\$	\$	\$	\$	\$
Cash and pooled investments	21,073	31,563	17,746	73,499	16,638	160,519
Receivables:						
Property tax:						
Delinquent	612	-	782	-	9	1,403
Succeeding year	75,000	-	65,161	-	90,403	230,564
Accrued interest	-	26	-	-	-	26
Interfund receivable	-	-	30,000	-	-	30,000
Due from other governments	-	-	-	24,734	-	24,734
Total assets	96,685	31,589	113,689	98,233	107,050	447,246
Liabilities & Fund Balances						
Liabilities:						
Deferred revenue:						
Succeeding year property tax	75,000	-	65,161	-	90,403	230,564
Fund balances:						
Reserved for debt service	-	-	-	-	16,647	16,647
Unreserved fund balance	21,685	31,589	48,528	98,233	-	200,035
Total fund balances	21,685	31,589	48,528	98,233	16,647	216,682
Total liabilities and fund balances	96,685	31,589	113,689	98,233	107,050	447,246

WALNUT COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	Special Revenue Funds			Capital Projects Funds		Total
	Management	Student	Physical	Local	Debt	
	Levy	Activity	Plant and	Option	Service	
	\$	\$	Equipment	Sales Tax	\$	\$
			Levy	\$		
Revenues:						
Local sources:						
Local tax	54,843	-	72,817	158,723	899	287,282
Other	-	94,118	8,658	378	52	103,206
Total revenues	<u>54,843</u>	<u>94,118</u>	<u>81,475</u>	<u>159,101</u>	<u>951</u>	<u>390,488</u>
Expenditures:						
Current:						
Instruction:						
Other instruction	-	87,082	-	-	-	87,082
Support services:						
Administration services	33,251	-	-	-	-	33,251
Operation and maintenance of plant services	-	-	8,187	-	-	8,187
Other expenditures:						
Facilities acquisition	-	-	67,185	-	-	67,185
Long-term debt:						
Principal	-	-	-	-	114,380	114,380
Interest and fiscal charges	-	-	-	-	84,194	84,194
Total expenditures	<u>33,251</u>	<u>87,082</u>	<u>75,372</u>	<u>-</u>	<u>198,574</u>	<u>394,279</u>
Excess (deficiency) of revenues over (under) expenditures	<u>21,592</u>	<u>7,036</u>	<u>6,103</u>	<u>159,101</u>	<u>(197,623)</u>	<u>(3,791)</u>
Other financing sources (uses):						
Operating transfers in	-	-	-	-	207,971	207,971
Operating transfers out	-	-	(21,170)	(190,601)	-	(211,771)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(21,170)</u>	<u>(190,601)</u>	<u>207,971</u>	<u>(3,800)</u>
Net change in fund balance	21,592	7,036	(15,067)	(31,500)	10,348	(7,591)
Fund balances beginning of year, as restated	<u>93</u>	<u>24,553</u>	<u>63,595</u>	<u>129,733</u>	<u>6,299</u>	<u>224,273</u>
Fund balances end of year	<u>21,685</u>	<u>31,589</u>	<u>48,528</u>	<u>98,233</u>	<u>16,647</u>	<u>216,682</u>

WALNUT COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Intra- Fund Transfers</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$	\$
Music	(1,382)	1,721	3,116	-	(2,777)
Show choir	2,921	-	630	-	2,291
Athletics	12,951	38,300	38,044	-	13,207
Cheerleaders	2	-	234	-	(232)
Student services	(123)	6,786	5,227	-	1,436
FFA	519	13,953	12,841	-	1,631
FHA	(2,373)	7,047	4,237	-	437
Industrial arts	(149)	2,166	2,707	-	(690)
Class of 2002	243	-	-	(243)	-
Class of 2003	(17)	17	-	-	-
Class of 2004	4,302	1,028	5,279	-	51
Class of 2005	1,211	10,152	5,558	-	5,805
Class of 2006	1,373	117	15	-	1,475
Class of 2007	1,277	-	1,054	-	223
Class of 2008	353	1,575	1,151	-	777
Class of 2009	-	1,575	237	243	1,581
National Honor Society	(31)	494	259	-	204
Student council	1,209	935	807	-	1,337
Annual	2,340	1,533	1,487	-	2,386
Academic Programs	-	175	93	-	82
Dare	-	100	60	-	40
K-2 Classroom	-	3,676	2,704	-	972
AR/Reading	897	2,742	2,312	-	1,327
June 30, 2003 accrual entries	(970)	-	(970)	-	-
June 30, 2004 accrual entries	-	26	-	-	26
Total	24,553	94,118	87,082	-	31,589

WALNUT COMMUNITY SCHOOL DISTRICT
Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund

Year ended June 30, 2004

	<u>WEA</u> \$
Balance beginning of year	502
Additions:	
Collections	250
Deductions:	
Miscellaneous	<u>293</u>
Balance end of year	<u><u>459</u></u>

WALNUT COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2004	2003	2002	2001
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,223,342	1,181,369	975,167	967,296
Tuition	102,756	81,119	76,248	65,050
Other	217,241	137,319	116,589	120,693
Intermediate sources	8,653	-	-	6,846
State sources	947,343	993,583	939,605	936,859
Federal sources	62,578	90,718	52,560	85,531
Total revenues	<u>2,561,913</u>	<u>2,484,108</u>	<u>2,160,169</u>	<u>2,182,275</u>
Expenditures:				
Instruction:				
Regular instruction	1,068,045	926,440	851,885	848,050
Special instruction	186,190	149,211	192,434	174,965
Other instruction	326,994	332,302	285,077	299,196
Support services:				
Student services	6,922	78,954	31,873	61,690
Instructional staff services	72,740	66,419	116,063	189,977
Administration services	329,441	270,056	251,250	262,533
Operation and maintenance of plant services	182,263	200,608	166,742	256,510
Transportation services	56,063	65,188	60,317	84,847
Central support services	33,251	28,369	25,663	6,276
Non-instructional programs	-	809	6,716	-
Other expenditures:				
Facilities acquisition	67,185	57,215	17,505	39,023
Long-term debt:				
Principal	114,380	108,502	102,041	85,000
Interest and other charges	84,194	90,306	96,707	96,053
AEA flowthrough	71,495	74,999	74,764	76,163
Total expenditures	<u>2,599,163</u>	<u>2,449,378</u>	<u>2,279,037</u>	<u>2,480,283</u>

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

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

We have audited the financial statements of the Walnut Community School District as of and for the year ended June 30, 2004, and have issued our report dated August 5, 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 Walnut Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that are described in Part II of the accompanying Schedule of Findings.

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

Internal Control over Financial Reporting

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

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

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

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

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

August 5, [2004](#)

WALNUT COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

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

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

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

Conclusion: Response accepted.

04-I-B Accounting System: We noted that the bank reconciliations did not always agree with the books without adjustments, and that some payments were credited to expenses accounts when they should have been recorded in revenue accounts.

Recommendation: The District should ensure that the bank reconciles to the district records each month without adjustments and that all receipts are recorded as revenues so the board has a more accurate reporting of actual expenses with which to make decisions and for proper reporting to governmental agencies.

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

Conclusion: Response accepted.

WALNUT COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

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

04-II-B Certified Budget: Disbursements for the year ended June 30, 2004, exceeded the amounts budgeted in the instruction functional 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.

District Response: We will amend future budgets before disbursements exceed the budgeted amounts in any of the four functional areas.

Conclusion: Response accepted.

04-II-C Questionable Expenditures: We noted several invoices with no supporting documents including credit card payments

Recommendation: All payments of bills should have supporting invoices or documentation before and payments are made. A credit card statement is not a supporting document, there must be invoices supporting all credit card charges.

District Response: We will ensure that all future bills and credit card payments have supporting documentation in the future.

Conclusion: Response accepted.

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

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

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

04-II-G Board Minutes: We noted that the lists of Student Activity Fund bills were not approved by the Board or published and many automatic bank debits for payments were not signed off by the President or approved by the board. In addition the minutes in some cases were not signed by the President.

Recommendation: All District bills should be approved by the Board prior to payment. Bills that are paid prior to Board approval in accordance with Iowa law and District policy should be approved by the Board at the next meeting. All bill payments should be signed by the president and published monthly including any automatic debits paid out of the bank accounts such as debt service payments.

WALNUT COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting (Continued):

District Response: All bills will be approved by the Board and a list of the approved bills will be kept with the minutes and published monthly. The minutes will be signed in the future.

Conclusion: Response accepted.

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

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

04-II-J Certified Annual Report (CAR): We reviewed a draft copy of the CAR and we noted no significant deficiencies in the amounts reported.

04-II-K Financial Condition: The General Fund has a deficit unreserved, undesignated fund balance of \$127,860 at June 30, 2004. The Student Activity Fund also has a few accounts with deficit balances at June 30, 2004.

Recommendation: The District should continue to monitor these funds and investigate alternatives to eliminate these deficits.

District Response: We have increased the Management Fund property tax levy for next year. This will enable the District to pay early retirement expenses from the Management Fund, rather than the General Fund. We have also increased the cash reserve levy for next year.

Conclusion: Response accepted.

04-II-L Reclassification of Student Activity Fund Accounts: The Student Activity Fund is to be used to account for the District's extra curricular activities, such as athletics and student clubs. We noted transactions for industrial arts resale, reading fundraisers, and field trips that should be accounted for in the General Fund.

Recommendation: We recommend these accounts be reviewed and transferred to the proper fund.

District Response: We will review the accounts and make any necessary adjustments.

Conclusion: Response accepted.