

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

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Brooklyn-Guernsey-Malcom Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2004 Election)		
Scott Steffen	President	2006
Lavern Bartackek	Vice President	2004
Duane McDonald	Board Member	2004
Gaylene Connor	Board Member	2005
Wayne Cooper	Board Member	2005
Bev Rens	Board Member	2006
Bob Parker	Board Member	2005

**Board of Education
(After September 2004 Election)**

Scott Steffen	President	2006
Bev Rens	Vice President	2006
Duane McDonald	Board Member	2007
Gaylene Connor	Board Member	2005
Wayne Cooper	Board Member	2005
Arlene Ford	Board Member	2007
Bob Parker	Board Member	2005

School Officials

Terry A McLeod	Superintendent	2005
Sharon Goodrich	District Secretary/ Business Manager	2005
Brian Gruhn	Attorney	2005

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
Brooklyn-Guernsey-Malcom 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 Brooklyn-Guernsey-Malcom Community School District, Brooklyn, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards 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 Brooklyn-Guernsey-Malcom Community School District at June 30, 2005, 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.

In accordance with Government Auditing Standards, we have also issued our report dated August 5, 2005 on our consideration of Brooklyn-Guernsey-Malcom Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is 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 13 and 38 through 40 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 required 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 Brooklyn-Guernsey-Malcom 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, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary 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.

August 5, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Brooklyn-Guernsey-Malcom 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, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$4,624,927 in fiscal 2004 to \$4,790,658 in fiscal 2005, while General Fund expenditures decreased from \$4,644,117 in fiscal 2004 to \$4,182,589 in fiscal 2005. This resulted in an increase in the District's fund balance from \$790,002 in fiscal 2004 to \$1,398,071 in fiscal 2005, which was a 77% increase from the prior year.
- The largest factor in the increased revenue was the increase in state aid from \$1,856,883 in fiscal 2004 to \$2,272,910 in fiscal 2005. This was somewhat offset by a decrease in property tax revenue from \$1,736,970 in fiscal 2004 to \$1,526,860 in fiscal 2005.
- The decrease in expenditures was attributable to the decrease in purchased services, supplies, and equipment expenses.

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 Brooklyn-Guernsey-Malcom Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how the governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Brooklyn-Guernsey-Malcom 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 Brooklyn-Guernsey-Malcom Community School District acts solely as an agent or custodian for the benefit of those outside of the School District.

Notes to 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 Special Revenue Funds.

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

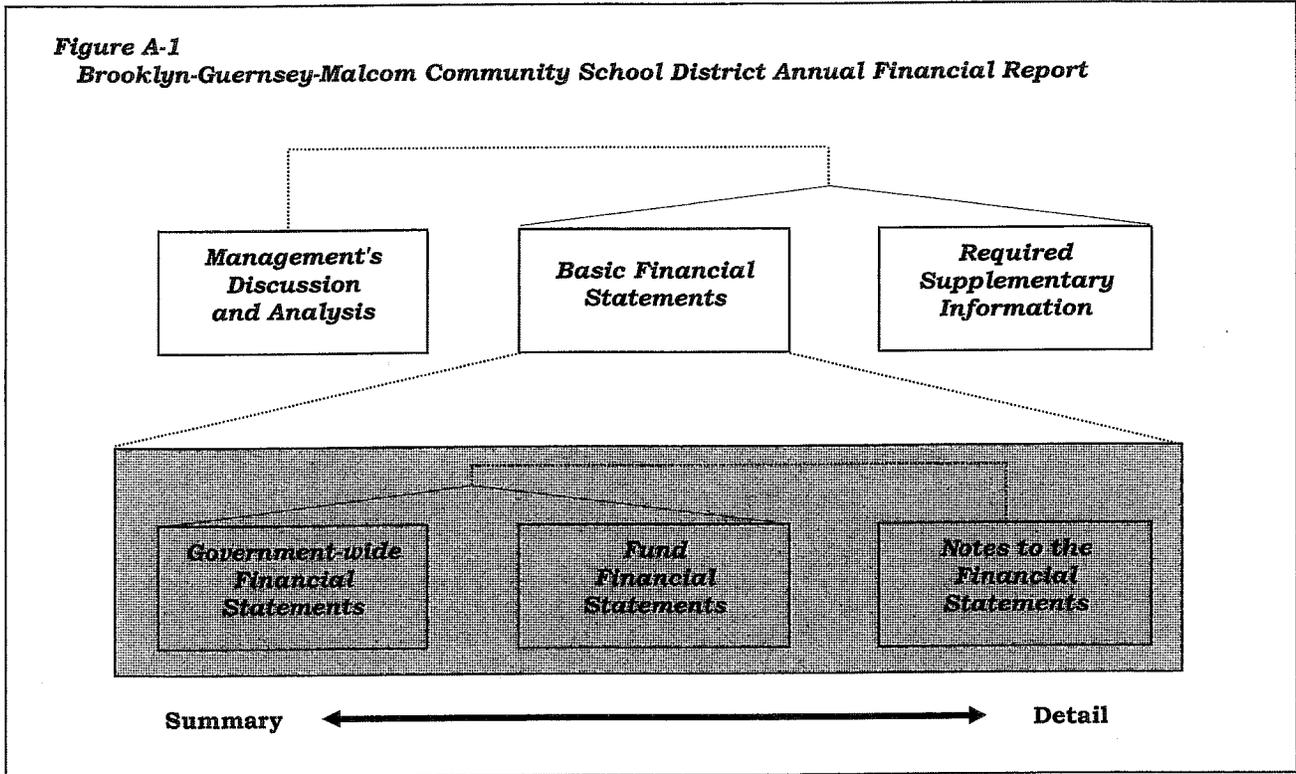


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents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

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

The two Government-wide 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 tax and state aid finance most of these activities.
- *Business-type activities*: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

The required financial statements for 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 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, the School Nutrition Fund and the Daycare Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund 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, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change 2004-05
	2005	2004	2005	2004	2005	2004	
Current and other assets	\$ 8,372,681	8,568,050	\$ 59,967	35,928	\$ 8,432,648	8,603,978	-1.99%
Capital assets	5,698,767	5,618,645	50,959	59,609	5,749,726	5,678,254	1.26%
Total assets	<u>14,071,448</u>	<u>14,186,695</u>	<u>110,926</u>	<u>95,537</u>	<u>14,182,374</u>	<u>14,282,232</u>	<u>-0.70%</u>
Long-term obligations	8,753,575	5,035,390	0	0	8,753,575	5,035,390	73.84%
Other liabilities	2,481,867	3,609,201	4,415	5,122	2,486,282	3,614,323	-31.21%
Total liabilities	<u>11,235,442</u>	<u>8,644,591</u>	<u>4,415</u>	<u>5,122</u>	<u>11,239,857</u>	<u>8,649,713</u>	<u>29.94%</u>
Net assets:							
Invested in capital assets, net of related debt	430,971	4,286,383	50,959	59,609	481,930	4,345,992	-88.91%
Restricted	761,348	792,128	0	0	761,348	792,128	-3.89%
Unrestricted	1,643,687	463,593	55,552	30,806	1,699,239	494,399	243.70%
Total net assets	<u>\$ 2,836,006</u>	<u>5,542,104</u>	<u>\$ 106,511</u>	<u>90,415</u>	<u>\$ 2,942,517</u>	<u>5,632,519</u>	<u>-47.76%</u>

The District's combined net assets decreased by nearly 89% over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately 4% from the prior year. The decrease was primarily a result of the reclassification of the amount designated by the board to the unrestricted line.

Unrestricted net assets-the part of net assets that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements- increased approximately 243% over the prior year.

Figure A-4 shows the changes in net assets for the year ended June 30, 2005.

Figure A-4
Changes of Net Assets

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2005	2004	2005	2004	2005	2004	2004-05
Revenues:							
Program revenues:							
Charges for services	\$ 492,598	441,901	\$ 178,245	168,144	670,843	610,045	9.97%
Operating grants and contributions and restricted interest	593,092	681,669	98,267	92,628	691,359	774,297	-10.71%
Capital grants and contributions and restricted interest	0	485,824	0	0	0	485,824	-100.00%
General revenues:							
Property tax	2,315,404	2,680,113	0	0	2,315,404	2,680,113	-13.61%
Local option sales and service tax	379,291	0	0	0	379,291	0	0.00%
Unrestricted state grants	2,302,752	1,868,817	0	0	2,302,752	1,868,817	23.22%
Other	147,757	3,636,459	239	239	147,996	3,636,698	-95.93%
Total revenues	<u>6,230,894</u>	<u>9,794,783</u>	<u>276,751</u>	<u>261,011</u>	<u>6,507,645</u>	<u>10,055,794</u>	<u>-35.28%</u>
Program expenses:							
Governmental activities:							
Instructional	2,989,316	3,076,290	0	0	2,989,316	3,076,290	-2.83%
Support services	1,316,272	1,449,269	0	0	1,316,272	1,449,269	-9.18%
Non-instructional programs	0	0	260,655	240,851	260,655	240,851	8.22%
Other expenses	1,305,740	1,886,406	0	0	1,305,740	1,886,406	-30.78%
Total expenses	<u>5,611,328</u>	<u>6,411,965</u>	<u>260,655</u>	<u>240,851</u>	<u>5,871,983</u>	<u>6,652,816</u>	<u>-11.74%</u>
Change in net assets	619,566	3,382,818	16,096	20,160	635,662	3,402,978	-81.32%
Net assets beginning of year, as restated (Note 12)	<u>2,216,440</u>	<u>2,159,286</u>	<u>90,415</u>	<u>70,255</u>	<u>2,306,855</u>	<u>2,229,541</u>	<u>3.47%</u>
Net assets end of year	<u>\$ 2,836,006</u>	<u>5,542,104</u>	<u>\$ 106,511</u>	<u>90,415</u>	<u>2,942,517</u>	<u>5,632,519</u>	<u>-47.76%</u>

Property tax and unrestricted state grants account for 71% of the District's total revenues. The District's expenses primarily relate to instruction and support services, which account for 73% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$6,230,894 and expenses were \$5,611,328.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses. The net cost of services is the result after subtracting grants and charges for services that the District used to offset the program's total cost.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 2,989,316	2,090,441
Support services	1,316,272	1,315,917
Other expenses	1,305,740	1,119,280
Totals	<u>\$ 5,611,328</u>	<u>4,525,638</u>

- A portion of the cost financed by users of the District's programs was \$492,598
- The federal and state government subsidized certain programs with operating grants and contributions totaling \$593,092
- The net cost portion of governmental activities was financed with \$2,315,404 in property tax, \$2,302,752 in unrestricted state grants, and unrestricted investment earnings of \$143,552

Business-Type Activities

The District's business-type activities are the School Nutrition Fund, and the Daycare Fund. Revenues of the District's business-type activities totaled \$276,751 in 2005, which is an increase of 6% over the prior year. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income. Expenses increased 8% to \$260,655 for business-type activities in 2005, this was due to an increased cost to provide meals.

INDIVIDUAL FUND ANALYSIS

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

As the District completed the year, its governmental funds reported combined fund balances of \$5,638,492, an increase of \$867,737 above last years ending fund balances of \$4,770,755.

Governmental Fund Highlights

- The District's increase in General Fund financial position is the result of many factors. Growth during the year in local and state sources resulted in an increase in revenues. The District also increased its General Fund expenditures over the prior year. The biggest change in General Fund expenditures came in the instructional area.
- Rising insurance costs continue to be a concern. The District's Management Fund paid out \$53,323 for workers' compensation, liability, auto/bus, and building/property insurance in fiscal year 2005. The Management fund balance increased \$19,137 during the year, primarily because of less monies paid for early retirement incentives compared to 2004.
- The District's expenditure decrease was due to spending less on general supplies and equipment purchases compared to fiscal year 2004. To keep costs under control, the District continued to closely monitor operating expenses.

Proprietary Fund Highlights

- School Nutrition Fund net assets increased from \$101,554 at June 30, 2004 to \$118,123 at June 30, 2005, representing an increase of 16.3%.
- The increase to the fund balance in the Nutrition Fund can be attributed to increase in state and federal funding during the year.
- The Daycare Fund continues to have a deficit of fund balance of \$11,612, which decreased in 2005 from a deficit of \$11,139 in 2004.

BUDGETARY HIGHLIGHTS

The District's revenues were \$382,192 more than budgeted revenues. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget exceeded in the 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, 2005, the District had invested \$5,749,726, 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 the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$246,633.

The original cost of the District's capital assets was \$8,017,664. Governmental funds account for \$7,909,125, with the remainder of \$108,539 accounted for in the Proprietary School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$443,856 at June 30, 2005, compared to \$238,462 reported at June 30, 2004. The primary reason for such a change is due to the restatement of capital assets(Note 12). This restatement removed \$259,336 of accumulated depreciation that was miscalculated in prior years.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
	Land	\$ 65,520	65,520	\$ 0	0	\$ 65,520	65,520
Buildings	5,229,516	5,362,756	0	0	5,229,516	5,362,756	-2.55%
Improvements other than buildings	10,834	11,516	0	0	10,834	11,516	-6.29%
Machinery and equipment	392,897	178,853	50,959	59,609	443,856	238,462	46.27%
Total	<u>\$ 5,698,767</u>	<u>5,618,645</u>	<u>\$ 50,959</u>	<u>59,609</u>	<u>\$ 5,749,726</u>	<u>5,678,254</u>	<u>1.24%</u>

Long-Term Debt

At year-end, the District had \$8,753,575 in bonds, notes and other long-term debt outstanding. This represents an increase of 1.5% from last year's balance of \$8,620,390. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2005	2004	
General obligation	\$ 8,315,000	8,535,000	-2.6%
Bond anticipation note	368,816	25,718	1334.1%
Early retirement	69,759	59,672	16.9%
Totals	<u>\$ 8,753,575</u>	<u>8,620,390</u>	<u>1.5%</u>

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:

- Although the District has experienced declining enrollment for a few years, the District expects a slight increase in enrollment.
- SILO tax is bringing in money to help pay the deficits that have been made by cuts in funding.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projection. The District has been forced to shift funding to property taxes.

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 Sharon Goodrich, Board Secretary, Brooklyn-Guernsey-Malcom Community School District, 1090 Jackson Street, Brooklyn, Iowa, 52211.

BASIC FINANCIAL STATEMENTS

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
U.S. Trasury Securities on deposit with escrow agent	\$ 3,628,401	0	3,628,401
Cash and cash equivalents:	2,250,303	51,623	2,301,926
Receivables			
Property tax:			
Delinquent	62,568	0	62,568
Succeeding year	2,037,697	0	2,037,697
Income surtax	287,243	0	287,243
Accounts	260	880	1,140
Due from other governments	48,022	0	48,022
Prepaid expense	58,187	0	58,187
Inventories	0	7,464	7,464
Capital assets, net of accumulated depreciation(Note 5)	5,698,767	50,959	5,749,726
TOTAL ASSETS	14,071,448	110,926	14,182,374
LIABILITIES			
Accounts payable	41,644	0	41,644
Salaries and benefits payable	367,605	1,787	369,392
Accrued interest payable	30,469	0	30,469
ISEBA assessment payable (Note 8)	4,452	0	4,452
Deferred revenue:			
Succeeding year property tax	2,037,697	0	2,037,697
Other	0	2,628	2,628
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds	230,000	0	230,000
Bond acticipation note	321,138	0	321,138
Early retirement	22,416	0	22,416
Portion due after one year:			
General obligation bonds	8,085,000	0	8,085,000
Bond acticipation note	47,678	0	47,678
Early retirement	47,343	0	47,343
TOTAL LIABILITIES	11,235,442	4,415	11,239,857
NET ASSETS			
Investment in capital assets, net of related debt	430,971	50,959	481,930
Restricted for:			
Physical plant and equipment levy	717,114	0	717,114
Other special revenue purposes	44,234	0	44,234
Unrestricted	1,643,687	55,552	1,699,239
TOTAL NET ASSETS	\$ 2,836,006	106,511	2,942,517

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 2,080,942	217,294	406,632
Special instruction	620,979	69,757	0
Other instruction	287,395	205,192	0
	<u>2,989,316</u>	<u>492,243</u>	<u>406,632</u>
Support services:			
Student services	43,073	0	0
Instructional staff services	115,767	0	0
Administration services	509,434	0	0
Operation and maintenance of plant services	443,150	0	0
Transportation services	204,848	355	0
	<u>1,316,272</u>	<u>355</u>	<u>0</u>
Other expenditures:			
Facilities acquisitions	585,299	0	0
Long-term debt interest	400,059	0	0
AEA flowthrough	186,460	0	186,460
Depreciation(unallocated) *	133,922	0	0
	<u>1,305,740</u>	<u>0</u>	<u>186,460</u>
Total governmental activities	5,611,328	492,598	593,092
Business-Type activities:			
Non-instructional programs:			
Nutrition services	248,160	166,223	98,267
Enterprise	12,495	12,022	0
Total business-type activities	<u>260,655</u>	<u>178,245</u>	<u>98,267</u>
Total	<u>\$ 5,871,983</u>	<u>670,843</u>	<u>691,359</u>

General Revenues:

Property tax levied for:
 General purposes
 Debt service
 Capital outlay
Local option sales and services tax
Unrestricted state grants
Gain on sale of equipment
Compensation for loss of fixed assets
Unrestricted investment earnings

Total general revenues

Changes in net assets

Net assets beginning of year, as restated (Note 12)

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(1,457,016)	0	(1,457,016)
(551,222)	0	(551,222)
(82,203)	0	(82,203)
<u>(2,090,441)</u>	<u>0</u>	<u>(2,090,441)</u>
(43,073)	0	(43,073)
(115,767)	0	(115,767)
(509,434)	0	(509,434)
(443,150)	0	(443,150)
(204,493)	0	(204,493)
<u>(1,315,917)</u>	<u>0</u>	<u>(1,315,917)</u>
(585,299)	0	(585,299)
(400,059)	0	(400,059)
0	0	0
(133,922)	0	(133,922)
<u>(1,119,280)</u>	<u>0</u>	<u>(1,119,280)</u>
(4,525,638)	0	(4,525,638)
0	16,330	16,330
0	(473)	(473)
<u>0</u>	<u>15,857</u>	<u>15,857</u>
<u>(4,525,638)</u>	<u>15,857</u>	<u>(4,509,781)</u>
\$ 1,683,763	0	1,683,763
370,353	0	370,353
261,288	0	261,288
379,291	0	379,291
2,302,752	0	2,302,752
4,101	0	4,101
104	0	104
143,552	239	143,791
<u>5,145,204</u>	<u>239</u>	<u>5,145,443</u>
619,566	16,096	635,662
2,216,440	90,415	2,306,855
<u>\$ 2,836,006</u>	<u>106,511</u>	<u>2,942,517</u>

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	Physical Plant and Equipment Levy
ASSETS		
U.S. Treasury Securities on deposit with escrow agent	\$ 0	0
Cash and pooled investments:	1,689,360	482,125
Receivables:		
Property tax:		
Delinquent	21,744	1,151
Succeeding year	1,418,230	76,654
Income surtax	114,897	172,346
Interfund	6,290	238,638
Accounts	260	0
Due from other governments	48,022	0
Prepaid expense	0	0
TOTAL ASSETS	\$ 3,298,803	970,914
LIABILITIES AND FUND BALANCES		
Liabilities:		
Excess of warrants issued over bank balance	\$ 0	0
Interfund payable	0	0
Accounts payable	0	4,800
Salaries and benefits payable	367,605	0
Deferred revenue:		
Succeeding year property tax	1,418,230	76,654
Income surtax	114,897	172,346
Total liabilities	<u>1,900,732</u>	<u>253,800</u>
Fund balances:		
Reserved for:		
Debt Service	0	0
Unreserved:		
Designated for special purpose	119,000	0
Undesignated	1,279,071	717,114
Total fund balances	<u>1,398,071</u>	<u>717,114</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,298,803	970,914

SEE NOTES TO FINANCIAL STATEMENTS.

Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
0	3,628,401	0	3,628,401
167,120	0	44,234	2,382,839
32,948	5,282	1,443	62,568
0	412,813	130,000	2,037,697
0	0	0	287,243
0	0	0	244,928
0	0	0	260
0	0	0	48,022
0	0	58,187	58,187
<u>200,068</u>	<u>4,046,496</u>	<u>233,864</u>	<u>8,750,145</u>
0	105,490	27,046	132,536
244,928	0	0	244,928
36,844	0	0	41,644
0	0	0	367,605
0	412,813	130,000	2,037,697
0	0	0	287,243
<u>281,772</u>	<u>518,303</u>	<u>157,046</u>	<u>3,111,653</u>
0	3,528,193	0	3,528,193
0	0	0	119,000
(81,704)	0	76,818	1,991,299
<u>(81,704)</u>	<u>3,528,193</u>	<u>76,818</u>	<u>5,638,492</u>
<u>200,068</u>	<u>4,046,496</u>	<u>233,864</u>	<u>8,750,145</u>

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2005

Total fund balances of governmental funds (pages 17&18)	\$	5,638,492
 Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.		5,698,767
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.		(30,469)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		287,243
ISEBA assessment payable, is not yet due and payable in the current period due to the completion of a lawsuit settlementand, therefore, are not reported as liabilities in the governmental funds.		(4,452)
Long-term liabilities, including notes and loans payable, and early retirement, are not due and payable in the current period and, therefore are not reported in the funds.		<u>(8,753,575)</u>
Net assets of governmental activites (page 14)	\$	<u>2,836,006</u>

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	General	Physical Plant and Equipment Levy
REVENUES:		
Local sources:		
Local tax	\$ 1,526,860	261,288
Local option sales and service tax	0	0
Tuition	287,051	0
Other	76,698	1,365
State sources	2,704,103	0
Federal sources	191,741	0
Total revenues	<u>4,786,453</u>	<u>262,653</u>
EXPENDITURES:		
Current:		
Instruction:		
Regular instruction	2,048,735	0
Special instruction	620,979	0
Other instruction	152,408	0
	<u>2,822,122</u>	<u>0</u>
Support services:		
Student services	43,073	0
Instructional staff services	115,767	0
Administration services	509,434	0
Operation and maintenance of plant services	341,916	0
Transportation services	163,817	0
	<u>1,174,007</u>	<u>0</u>
Other expenditures:		
Facilities acquisitions	0	12,734
Long-term debt:		
Principal	0	0
Interest and fiscal charges	0	0
AEA flowthrough	186,460	0
	<u>186,460</u>	<u>12,734</u>
Total expenditures	<u>4,182,589</u>	<u>12,734</u>
Excess (deficiency) of revenues over (under) expenditures	603,864	249,919
Other financing sources (uses):		
Transfers in	0	0
Transfers out	0	0
Sale of bonds	0	0
Compensation for loss of fixed assets	104	0
Sales of equipment and materials	4,101	0
Total other financing sources	<u>4,205</u>	<u>0</u>
Net change in fund balances	608,069	249,919
Fund balance beginning of year	790,002	467,195
Fund balance end of year	<u>\$ 1,398,071</u>	<u>717,114</u>

SEE NOTES TO FINANCIAL STATEMENTS.

Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
0	370,353	238,802	2,397,303
379,291	0	0	379,291
0	0	0	287,051
6,429	120,572	2,556	207,620
0	0	0	2,704,103
0	0	0	191,741
385,720	490,925	241,358	6,167,109
0	0	0	2,048,735
0	0	0	620,979
0	0	134,987	287,395
0	0	134,987	2,957,109
0	0	0	43,073
0	0	0	115,767
0	0	0	509,434
0	0	78,186	420,102
0	0	0	163,817
0	0	78,186	1,252,193
609,020	0	0	621,754
0	641,902	0	641,902
0	409,159	0	409,159
0	0	0	186,460
609,020	1,051,061	0	1,859,275
609,020	1,051,061	213,173	6,068,577
(223,300)	(560,136)	28,185	98,532
0	431,022	0	431,022
(431,022)	0	0	(431,022)
765,000	0	0	765,000
0	0	0	104
0	0	0	4,101
333,978	431,022	0	769,205
110,678	(129,114)	28,185	867,737
(192,382)	3,657,307	48,633	4,770,755
(81,704)	3,528,193	76,818	5,638,492

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2005

Net change in fund balances - total governmental funds (pages 20&21)	\$	867,737
 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	\$ 58,769	
Depreciation expense	<u>(237,983)</u>	(179,214)
 Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments were as follows:		
Repaid	641,902	
Issued	<u>(765,000)</u>	(123,098)
 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.		
		9,100
 Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds.		
		59,580
 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	(10,087)	
ISEBA assessment	<u>(4,452)</u>	(14,539)
 Changes in net assets of governmental activities (page 16)	 \$	 <u>619,566</u>

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2005

	School		
	Nutrition	Daycare	Total
ASSETS			
Cash and pooled investments	\$ 62,328	0	62,328
Accounts receivable	0	880	880
Inventories	7,464	0	7,464
Capital assets, net of accumulated depreciation	50,959	0	50,959
Total assets	<u>120,751</u>	<u>880</u>	<u>121,631</u>
LIABILITIES			
Excess of warrants issued over bank balance	0	10,705	10,705
Salaries and benefits payable	0	1,787	1,787
Deferred Revenue:			
Other	2,628	0	2,628
Total liabilities	<u>2,628</u>	<u>12,492</u>	<u>15,120</u>
NET ASSETS			
Invested in capital assets, net of related debt	50,959	0	50,959
Unrestricted	67,164	(11,612)	55,552
Total net assets	<u>\$ 118,123</u>	<u>(11,612)</u>	<u>106,511</u>

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2005

	School Nutrition	Daycare	Total
OPERATING REVENUE:			
Local sources:			
Charges for services	\$ 166,223	12,022	178,245
TOTAL OPERATING REVENUES	<u>166,223</u>	<u>12,022</u>	<u>178,245</u>
OPERATING EXPENSES:			
Non-instructional programs:			
Food service operations:			
Salaries	86,676	9,664	96,340
Benefits	10,844	2,831	13,675
Services	5,775	0	5,775
Supplies	136,215	0	136,215
Depreciation	8,650	0	8,650
Total non-instructional	<u>248,160</u>	<u>12,495</u>	<u>260,655</u>
TOTAL OPERATING EXPENSES	<u>248,160</u>	<u>12,495</u>	<u>260,655</u>
OPERATING LOSS	<u>(81,937)</u>	<u>(473)</u>	<u>(82,410)</u>
NON-OPERATING REVENUES:			
State sources	3,715	0	3,715
Federal sources	94,552	0	94,552
Interest income	239	0	239
TOTAL NON-OPERATING REVENUES	<u>98,506</u>	<u>0</u>	<u>98,506</u>
Changes in net assets	16,569	(473)	16,096
Net assets beginning of year	<u>101,554</u>	<u>(11,139)</u>	<u>90,415</u>
Net assets end of year	<u>\$ 118,123</u>	<u>(11,612)</u>	<u>106,511</u>

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit I

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2005

	School Nutrition	Other Enterprise Funds	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 162,564	0	162,564
Cash received from miscellaneous operating activities	2,844	11,142	13,986
Cash payments to employees for services	(97,520)	(12,387)	(109,907)
Cash payments to suppliers for goods or services	(125,031)	0	(125,031)
Net cash used in operating activities	<u>(57,143)</u>	<u>(1,245)</u>	<u>(58,388)</u>
Cash flows from non-capital financing activities:			
State grants received	3,715	0	3,715
Federal grants received	75,964	0	75,964
Net cash provided by non-capital financing activities	<u>79,679</u>	<u>0</u>	<u>79,679</u>
Cash flows from investing activities:			
Interest on investments	239	0	239
Net cash provided by investing activities	<u>239</u>	<u>0</u>	<u>239</u>
Net increase(decrease) in cash and cash equivalents	22,775	(1,245)	21,530
Cash and cash equivalents at beginning of year	39,553	(9,460)	30,093
Cash and cash equivalents at end of year	<u>\$ 62,328</u>	<u>(10,705)</u>	<u>51,623</u>
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	\$ (81,937)	(473)	(82,410)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Commodities consumed	18,588	0	18,588
Depreciation	8,650	0	8,650
Increase in inventories	(1,629)	0	(1,629)
Increase in accounts receivable	0	(880)	(880)
Increase in salaries and benefits payable	0	108	108
Decrease in deferred revenue	(815)	0	(815)
Net cash used in operating activities	<u>\$ (57,143)</u>	<u>(1,245)</u>	<u>(58,388)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and pooled investments	\$ 62,328	(10,705)	51,623
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			

During the year ended June 30, 2005, the District received Federal commodities valued at \$18,588.

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

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

The Brooklyn-Guernsey-Malcom Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Brooklyn, Iowa, and portions of Guernsey and Malcom, and the predominate agricultural territory in Poweshiek County. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, Brooklyn-Guernsey-Malcom 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 Brooklyn-Guernsey-Malcom 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 Poweshiek County Assessors' Conference Board.

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The Special Revenue - Physical Plant and Equipment Levy (PPEL) Fund is used to account for resources used in building improvements and equipment purchases.

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services,

administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the GAAP basis. The financial statements of the District are prepared by making memorandum adjusting entries to the GAAP 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, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

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	\$ 1,000
Buildings	1,000
Land improvements	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

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

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

Salaries and Benefits Payable - Payroll and related expenditures for 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 ended June 30, 2005, disbursements in the other expenditures area exceeded the amount budgeted.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2005 were entirely covered by federal depository insurance or 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 as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	\$ <u>257,636</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The U.S. Treasury Securities are classified as 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.

Securities are stated at fair value. Securities traded on a national or international exchange are valued the last reported sales price at current exchange rates.

At June 30, 2005, the District had investments in U.S. Treasury Securities as follows:

<u>Type</u>	<u>Fair Value</u>
U.S. Treasury Securities	<u>\$ 3,628,401</u>

(3) Due From and Due to Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Capital Projects	\$ 6,290
PPEL	Capital Projects	<u>238,638</u>
Total		<u>\$ 244,928</u>

The Capital Projects Fund is repaying the General Fund and PPEL Fund for bills paid at the end of the 2002-03 fiscal year. The balance was suppose to be paid during the current year. At year end, is was noted that it has not been repaid yet, therefore it is put as a receivable and payable on the District's financial statements.

(4) Transfers

The detail of transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	<u>\$ 431,022</u>

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, 2005 is as follows:

	<u>Balance Beginning of Year, as Restated (Note 12)</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 65,520	0	0	65,520
Total capital assets not being depreciated	<u>65,520</u>	<u>0</u>	<u>0</u>	<u>65,520</u>
Capital assets being depreciated:				
Buildings	6,662,008	0	0	6,662,008
Improvements other than buildings	34,092	0	0	34,092
Machinery and equipment	1,140,572	58,769	51,836	1,147,505
Total capital assets being depreciated	<u>7,836,672</u>	<u>58,769</u>	<u>51,836</u>	<u>7,843,605</u>
Less accumulated depreciation for:				
Buildings	1,299,252	133,240	0	1,432,492
Improvements other than buildings	22,576	682	0	23,258
Machinery and equipment	702,383	104,061	51,836	754,608
Total accumulated depreciation	<u>2,024,211</u>	<u>237,983</u>	<u>51,836</u>	<u>2,210,358</u>
Total capital assets being depreciated, net	<u>5,812,461</u>	<u>(179,214)</u>	<u>0</u>	<u>5,633,247</u>
Governmental activities capital assets, net	<u>\$ 5,877,981</u>	<u>(179,214)</u>	<u>0</u>	<u>5,698,767</u>

	Balance Beginning Of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 108,989	0	450	108,539
Less accumulated depreciation	49,380	8,650	450	57,580
Business-type activities capital assets, net	\$ 59,609	(8,650)	0	50,959

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 31,839
Support services:		
Operation and maintenance of plant services		29,582
Transportation		42,640
Administration		104,061
Unallocated depreciation		133,922
Total governmental activities depreciation expense		\$ 237,983
Business-type activities:		
Food services		\$ 8,650
Total business-type activities depreciation expense		\$ 8,650

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2005 are summarized as follows:

	Balance Beginning of Year, as Restated (Note 12)	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation	\$ 8,535,000	0	220,000	8,315,000	230,000
Bond anticipation note	25,718	765,000	421,902	368,816	321,138
Early Retirement	59,672	27,045	16,958	69,759	22,416
Total	\$ 8,620,390	792,045	658,860	8,753,575	573,554

General Obligation

On March 1, 2004, the District issued \$3,725,000 of general obligation refunding bonds, with interest rates ranging from 3.00% to 4.00%, for a crossover refunding of a portion of the general obligation bonds issued September 1, 1999. The District entered into an escrow agreement whereby the proceeds from general obligation refunding bonds were converted into U.S. Securities. These securities along with additional cash were placed in an escrow account for the express purpose of paying the \$3,585,000 principal of the refunded general obligation bonds when they become callable on May 1, 2009 and the interest from May 1, 2004 to and including May 1, 2009 on the refunding bonds. After the principal and interest on all of the outstanding bonds have been paid, any remaining funds in the escrow account, together with any interest thereon, shall be returned to the District. The transactions, balances and liabilities of the escrow account are recorded by the District since the refunded debt is not considered extinguished.

Details of the District's June 30, 2005 General Obligation bonds indebtedness are as follows:

Year Ending June 30,	Interest Rate	Bond issue September 1, 1999		
		Principal	Interest	Total
2006	5.75 %	\$ 230,000	235,096	465,096
2007	5.75	245,000	221,870	466,870
2008	4.80	260,000	207,782	467,782
2009	4.75	270,000	195,302	465,302
2010	4.80	285,000	182,478	467,478
2011	4.90	300,000	168,798	468,798
2012	4.95	315,000	154,098	469,098
2013	5.00	330,000	138,506	468,506
2014	5.10	345,000	122,006	467,006
2015	5.10	365,000	104,410	469,410
2016	5.15	380,000	85,796	465,796
2017	5.20	400,000	66,226	466,226
2018	5.20	420,000	45,426	465,426
2019	5.30	445,000	23,586	468,586
Subtotal		\$ 4,590,000	1,951,380	6,541,380

Year Ending June 30,	Interest Rate	Bond issue March 1, 2004		
		Principal	Interest	Total
2006	3.00 %	\$ 0	130,195	130,195
2007	3.00	0	130,195	130,195
2008	3.00	0	130,195	130,195
2009	3.00	0	130,195	130,195
2010	3.00	335,000	127,720	462,720
2011	3.00	350,000	117,520	467,520
2012	3.00-3.20	360,000	106,945	466,945
2013	3.20-3.30	370,000	95,525	465,525
2014	3.30-3.50	380,000	83,325	463,325
2015	3.50-3.70	395,000	70,128	465,128
2016	3.70-3.75	410,000	55,615	465,615
2017	3.75-3.90	425,000	40,103	465,103
2018	3.90-4.00	440,000	23,490	463,490
2019	4.00	260,000	7,900	267,900
Subtotal		\$ 3,725,000	1,249,050	4,974,050
Total		\$ 8,315,000	3,200,430	11,515,430

Bond Anticipation Notes

Details of the District's June 30, 2005 Revenue Bonds is as follows:

Year Ending June 30,	Interest Rate	Note issue July 15, 2004		
		Principal	Interest	Total
2006	3.00 %	\$ 321,138	7,955	329,093
2007	3.00	47,678	202	47,880
Total		\$ 368,816	8,157	376,973

Early Retirement

The District offers a voluntary early retirement plan to its full-time certified employees. Eligible employees must be at least age fifty-five, and less than sixty-five, and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. A cash payment will be made in either one or two payments, at the discretion of the employees, on July 15, September 15, November

15, or January 15 of the following year, based on the formula using unused leave days, the daily substitute teacher pay rate, and years of District service. The District will also continue paying the health insurance coverage for a single policy at the rate of the cost of a single policy in effect at the time of retirement until the retiree reaches age 65. During the year ended June 30, 2005, the District paid \$16,958 in early retirement benefits.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$145,641, \$137,933, \$135,079, respectively, equal to the required contributions for each year.

(8) Risk Management

The District was a member in the Iowa School Employee Benefits Association (ISEBA), an Iowa Code Chapter 28E organization until June 30, 2004. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members that terminated from ISEBA on June 30, 2004 received an assessment in December 2004 which is due July 1, 2005. The total assessment for terminated members is approximately \$1.95 million. The District's share of this assessment was \$4,452 which is recorded as a liability as of June 30, 2005.

Brooklyn-Guernsey-Malcom 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 \$186,460 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2005, expenditures in the other expenditures functional program area exceeded the amount budgeted.

(11) Deficit Fund Balance

The District had two deficit fund balances at June 30, 2005. The Enterprise Fund - Daycare Fund had a deficit undesignated balance of \$11,612. The Capital Projects Fund had deficit fund balance of \$81,704.

(12) Accounting Restatements

There are two restatements of the June 30, 2004 reported balances that will affect the governmental funds. The first restatement is of the capital assets, and the other is to restate the amount of general obligation bonds reported as long-term debt.

Beginning capital assets for governmental activities of \$5,618,645 were restated to \$5,877,981. The restatement decreased the accumulated depreciation in the machinery and equipment due to miscalculations in prior years.

	Balance 6/30/2004 as Previously Reported	Increases	Decreases	Balance 7/1/2004 as restated
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 65,520	0	0	65,520
Total capital assets not being depreciated	65,520	0	0	65,520
Capital assets being depreciated:				
Buildings	6,662,008	0	0	6,662,008
Improvements other than buildings	34,092	0	0	34,092
Machinery and equipment	1,140,572	0	0	1,140,572
Total capital assets being depreciated	7,836,672	0	0	7,836,672
Less accumulated depreciation for:				
Buildings	1,299,252	0	0	1,299,252
Improvements other than buildings	22,576	0	0	22,576
Machinery and equipment	961,719	0	259,336	702,383
Total accumulated depreciation	2,283,547	0	259,336	2,024,211
Total capital assets being depreciated, net	5,553,125	0	(259,336)	5,812,461
Governmental activities capital assets, net	\$ 5,618,645	0	(259,336)	5,877,981

Restatement of the long-term debt is caused by not recognizing the amount of debt that had been crossover refunded in the prior year. The \$3,585,000 that was refunded needs to stay on the Statement of Net Assets until paid in full by the escrow agent.

	Balance 6/30/2004 as Previously Reported	Increases	Decreases	Balance 7/1/2004 as restated
General obligation bonds	\$ 4,950,000	3,585,000	0	8,535,000

The affects of the restatements in the governmental activities are summarized as follows:

Net assets, June 30, 2004, as previously reported	\$ 5,542,104
Increase in long-term debt not previously recorded due to crossover refunding bonds.	(3,585,000)
Increase in capital assets not previously recorded net of accumulated depreciation.	<u>259,336</u>
Net assets, July 1, 2004, as restated for governmental funds	<u>\$ 2,216,440</u>

REQUIRED SUPPLEMENTAL INFORMATION

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (GAAP BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Revenues:		
Local sources	\$ 3,271,265	178,484
State sources	2,704,103	3,715
Federal sources	191,741	94,552
Total revenues	<u>6,167,109</u>	<u>276,751</u>
Expenditures:		
Instruction	2,957,109	0
Support services	1,252,193	0
Non-instructional programs	0	260,655
Other expenditures	1,859,275	0
Total expenditures	<u>6,068,577</u>	<u>260,655</u>
Excess(deficiency) of revenues over(under) expenditures	98,532	16,096
Other financing sources, net	<u>769,205</u>	<u>0</u>
Excess(deficiency) of revenues and other financing sources over expenditures	867,737	16,096
Balance beginning of year	<u>4,770,755</u>	<u>90,415</u>
Balance end of year	<u>\$ 5,638,492</u>	<u>106,511</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
3,449,749	3,104,385	3,104,385	345,364
2,707,818	2,753,283	2,753,283	(45,465)
286,293	204,000	204,000	82,293
<u>6,443,860</u>	<u>6,061,668</u>	<u>6,061,668</u>	<u>382,192</u>
2,957,109	3,675,000	3,675,000	717,891
1,252,193	1,592,000	1,592,000	339,807
260,655	305,000	305,000	44,345
1,859,275	1,724,209	1,724,209	(135,066)
<u>6,329,232</u>	<u>7,296,209</u>	<u>7,296,209</u>	<u>966,977</u>
114,628	(1,234,541)	(1,234,541)	(1,349,169)
<u>769,205</u>	<u>0</u>	<u>0</u>	<u>(769,205)</u>
883,833	(1,234,541)	(1,234,541)	(2,118,374)
<u>4,861,170</u>	<u>1,882,159</u>	<u>1,882,159</u>	<u>2,979,011</u>
<u>5,745,003</u>	<u>647,618</u>	<u>647,618</u>	<u>5,097,385</u>

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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

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

During the year ended June 30, 2005, disbursements in the other expenditures function exceeded the amount budgeted.

OTHER SUPPLEMENTAL INFORMATION

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2005

	<u>Special Revenue Funds</u>		
	Manage- ment	Student Activity	Total Special Revenue
ASSETS			
Cash and pooled investments	\$ 0	44,234	44,234
Receivables:			
Property tax:			
Current year delinquent	1,443	0	1,443
Succeeding year	130,000	0	130,000
Prepaid expenses	58,187	0	58,187
TOTAL ASSETS	\$ 189,630	44,234	233,864
LIABILITIES AND FUND EQUITY			
Liabilities:			
Excess of warrants issued over bank balance	\$ 27,046	0	27,046
Deferred revenue:			
Succeeding year property tax	130,000	0	130,000
Total Liabilities	157,046	0	157,046
Fund equity:			
Fund balances:			
Unreserved:			
Undesignated	32,584	44,234	76,818
Total fund balances	32,584	44,234	76,818
TOTAL LIABILITIES AND FUND EQUITY	\$ 189,630	44,234	233,864

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2005

	Special Revenue Funds		
	Manage- ment	Student Activity	Total Special Revenue
REVENUES:			
Local sources:			
Local tax	\$ 97,323	141,479	238,802
Other	0	2,556	2,556
TOTAL REVENUES	<u>97,323</u>	<u>144,035</u>	<u>241,358</u>
EXPENDITURES:			
Current:			
Instruction:			
Other instruction		0 134,987	134,987
Support services:			
Operation and maintenance of plant services	78,186	0	78,186
TOTAL EXPENDITURES	<u>78,186</u>	<u>134,987</u>	<u>213,173</u>
EXCESS OF REVENUES OVER EXPENDITURES	19,137	9,048	28,185
FUND BALANCE BEGINNING OF YEAR	<u>13,447</u>	<u>35,186</u>	<u>48,633</u>
FUND BALANCE END OF YEAR	<u>\$ 32,584</u>	<u>44,234</u>	<u>76,818</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2005

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Interest	\$ 1,168	136	0	1,304
Dramatics	1,958	338	436	1,860
Vocal music	1,887	1,650	2,674	863
JH vocal music	543	525	882	186
Band Resale	0	155	223	(68)
Band uniform cleaning	978	0	0	978
Athletics	(12,092)	47,739	37,093	(1,446)
Volleyball	120	4,693	3,354	1,459
Band instrument rent	369	270	518	121
Pool activity	1,367	6,026	6,272	1,121
Boys basketball	12	0	0	12
Football	(471)	0	0	(471)
Wrestling	500	328	828	0
Girls basketball	682	1,519	2,095	106
Girls softball	239	1,094	1,094	239
Girls track	631	2,223	2,185	669
Boys track	2	199	199	2
Student council	7,405	18,766	18,610	7,561
JH student council	322	4,800	4,784	338
Elementary student council	4,460	7,055	7,407	4,108
Silver spirit poms	1,967	4,273	4,455	1,785
Elementary student council cam	2,111	2,420	3,380	1,151
Elementary student welfare	941	1,506	2,149	298
Echo	4,101	9,387	7,695	5,793
FHA	239	0	0	239
Pep club	84	0	0	84
Boys letter club	38	0	0	38
Girls letter club	36	0	0	36
HS cheerleaders	1,486	3,826	4,504	808
JH cheerleaders	10	0	0	10
French club	80	0	0	80
Jump rope for heart	1,887	56	1,087	856
FCA	1,745	0	0	1,745
Elementary resale	559	0	0	559
Special athletics	4,006	12,939	12,336	4,609
AFS	170	0	0	170
Class of 2004	1,184	0	1,184	0
Class of 2005	2,157	1,023	3,180	0
Class of 2006	2,106	8,437	6,117	4,426
Class of 2007	199	2,112	246	2,065
Class of 2008	0	540	0	540
Total	<u>\$ 35,186</u>	<u>144,035</u>	<u>134,987</u>	<u>44,234</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BROOKLYN-GUERNSEY-MALCOM 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,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 2,776,594	2,682,910	2,354,566	2,373,353
Tuition	287,051	277,792	197,101	133,575
Other	207,620	207,714	276,838	223,445
State sources	2,704,103	2,464,710	2,530,862	2,472,930
Federal sources	191,741	571,600	119,985	104,111
Total	\$ 6,167,109	6,204,726	5,479,352	5,307,414
Expenditures:				
Instruction:				
Regular instruction	\$ 2,048,735	2,091,818	1,866,606	1,990,129
Special instruction	620,979	549,516	497,093	551,189
Other instruction	287,395	438,253	356,892	398,780
Support services:				
Student services	43,073	42,443	68,474	41,135
Instructional staff services	115,767	108,106	69,346	131,166
Administration services	509,434	511,743	479,280	433,456
Operation and maintenance of plant services	420,102	619,082	424,908	482,306
Transportation services	163,817	302,023	130,252	185,448
Other expenditures:				
Facilities acquisitions	621,754	1,216,670	179,214	1,482,741
Long Term Debt:				
Principal	641,902	966,725	262,557	192,000
Interest	409,159	359,404	283,475	281,919
AEA flow-through	186,460	183,434	189,299	188,016
Total	\$ 6,068,577	7,389,217	4,807,396	6,358,285

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Brooklyn-Guernsey-Malcom 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 Brooklyn-Guernsey-Malcom Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 5, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Brooklyn-Guernsey-Malcom 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 an opinion 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 Part I of the accompanying Schedule of Findings.

A material weakness is a reportable 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 caused by error or fraud 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 I-A-05 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Brooklyn-Guernsey-Malcom 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 grant agreements 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 such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters 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, 2005 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.

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

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


NOLTE, CORNMAN & JOHNSON, P.C.

August 5, 2005

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

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

REPORTABLE CONDITIONS:

I-A-05 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-05 Activity Admissions - The Activity gate admissions and change box were not reconciled with pre-numbered tickets.

Recommendation - The District should establish reconciliation procedures for activity admissions. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the change box and admissions to the number of tickets issued.

Response - The District is looking into the issue and any procedural changes will be implemented as needed.

Conclusion - Response accepted.

I-C-05 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year.

Recommendation - The District needs to forward these checks to the Treasurer of Iowa after a reasonable length of time.

Response - The District will send the outstanding fund into the State of Iowa for the Great Iowa Treasurer Hunt as soon as possible.

Conclusion - Response accepted.

I-D-05 Student Activity Fund - We noted during our audit that the Student Activity fund included an interest account.

Recommendation - The interest earned each year should be allocated at least on an annual basis to the individual activity accounts.

Response - We will allocate the amount on an annual basis to the individual activity accounts.

Conclusion - Response accepted.

I-E-05 Student Activity Deficit Accounts - We noted during our audit that the district has large deficit accounts in the Student Activity fund.

Recommendation - The district should continue to monitor this fund and investigate alternatives to eliminate these deficits.

Response - We will make the necessary changes.

Conclusion - Response accepted.

I-F-05 Grants - We noted during our audit, that when expenditures for specific projects were posted; it appeared that the expenses were not always properly posted to those projects.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting Manual for Iowa LEAs and AEAs. The proper coding also allows the District to maintain accountability of the grants by matching the revenues to the expenditures.

Response - The superintendent codes all purchase orders for invoices received.

Conclusion - Response acknowledged. The District needs to make sure that expenditures are being coded to all necessary grants they have received.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part II: Other Findings Related to Statutory Reporting

II-A-05 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, 2005.

II-B-05 Certified Budget - District disbursements for the year ended June 30, 2005, exceeded the amount budgeted in the other expenditures 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.

Response - We will make sure that the budget is amended in the future before disbursements are made. The Board is given a budget report each month of what the budget is and the actual figures.

Conclusion - Response accepted.

II-C-05 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. However, we noted during our audit that the District overpaid certified staff \$13,859 in salary and benefits. The overpayment did not appear to be authorized by the District.

Recommendation - The District should collect the monies back from the employees for the unauthorized overpayment. In addition, the District should review procedures in place for identifying and correcting payroll mistakes.

Response - We have requested repayment from the teachers that are no longer with the District. The other teachers are repaying the amount that was overpaid as a deduction from their payroll.

Conclusion - Response accepted.

II-D-05 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-05 Business Transactions - No business transactions between the District and District officials were noted.

II-F-05 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-05 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-H-05 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students which were enrolled out and tuition out to community colleges were both overstated by one student.

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

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

Conclusion - Response accepted.

II-I-05 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-05 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-05 Financial Condition - During our audit, we noted deficit fund balances in two funds. The Enterprise Fund - Daycare Fund and Capital Projects Fund had deficit fund balances of \$11,612 and \$81,704, respectively.

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

Response - We will monitor these funds and investigate any available options to eliminate these deficits.

Conclusion - Response accepted.