

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

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

June 30, 2005

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## Independent Auditor's Report

To the Board of Education of  
Pomeroy-Palmer 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 Pomeroy-Palmer Community School District, Pomeroy, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 Pomeroy-Palmer Community School District as of 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 reports dated August 11, 2005, on our consideration of Pomeroy-Palmer Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract 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 12 and 34 through 36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pomeroy-Palmer 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 unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

August 11, 2005

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Pomeroy-Palmer 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 decreased from \$2,217,708 in fiscal 2004 to \$2,215,494 in fiscal 2005, while General Fund expenditures decreased from \$2,281,433 in fiscal 2004 to \$2,246,432 in fiscal 2005. The District's General Fund balance decreased from \$990,722 in fiscal 2004 to \$959,784 in fiscal 2005, a 3% decrease.
- The decrease in expenditures was due primarily to staff reductions. Even with the staff decrease expenditures still exceeded revenues. As a result, the District funded a portion of the current year General Fund expenditures from the carryover fund balance.
- 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 Sample Community School District as a whole and present an overall view of the District's finances.

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

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. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

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

**Figure A-1**  
**Pomeroy-Palmer GASB 34 Community School District Annual Financial Report**

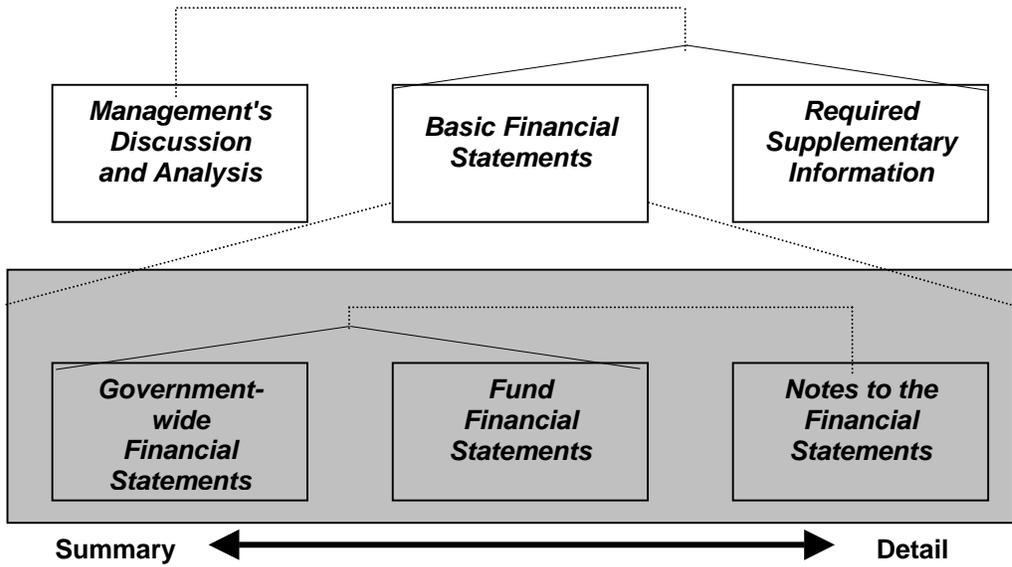


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

## **REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statements*

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

The two government-wide financial statements report the District’s net assets and how they have changed. Net assets – the difference between the District’s assets and liabilities – are one way to measure the District’s financial health or financial position. Over time, increases or decreases in the District’s net assets are an indicator of whether financial position is improving or deteriorating. To assess the District’s overall health,

additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

### *Fund Financial Statements*

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

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

The District has two kinds of funds:

*Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Management, PPEL, and Student Activity funds.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 1) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has only one Enterprise Fund, the School Nutrition Fund. The District uses *internal service funds*, the other kind of proprietary fund, to report activities that provide supplies and services for its other programs and activities. The District current has one internal service fund used to account for the District's employee flexible benefit plan.

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 at June 30, 2005 compared to June 30, 2004.

Figure A-3

Condensed Statement of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Percentage Change 2004-2005
	2005	2004	2005	2004	2005	2004	
	\$	\$	\$	\$	\$	\$	
Current and other assets	\$2,633,016	\$2,658,750	\$11,049	\$6,493	\$2,644,065	\$2,665,243	-0.8%
Capital assets	\$506,204	\$441,262	\$5,192	\$7,225	\$511,396	\$448,487	14.0%
<b>Total assets</b>	<b>\$3,139,220</b>	<b>\$3,100,012</b>	<b>\$16,241</b>	<b>\$13,718</b>	<b>\$3,155,461</b>	<b>\$3,113,730</b>	<b>1.3%</b>
Long-term liabilities	\$11,800	\$58,024	\$0	\$0	\$11,800	\$58,024	-79.7%
Other liabilities	\$1,200,779	\$1,041,430	\$647	\$95	\$1,201,426	\$1,041,520	15.4%
<b>Total liabilities</b>	<b>\$1,212,579</b>	<b>\$1,099,454</b>	<b>\$647</b>	<b>\$95</b>	<b>\$1,213,226</b>	<b>\$1,099,549</b>	<b>10.3%</b>
Net Assets:							
Invested in capital assets,							
net of related debt	\$506,204	\$441,262	\$5,192	\$7,225	\$511,396	\$448,487	14.0%
Restricted	\$417,968	\$519,405	\$0	\$0	\$417,968	\$519,405	-19.5%
Unrestricted	\$1,002,469	\$1,039,891	\$10,402	\$6,398	\$1,012,871	\$1,046,289	-3.2%
<b>TOTAL NET ASSETS</b>	<b>\$1,926,641</b>	<b>\$2,000,558</b>	<b>\$15,594</b>	<b>\$13,623</b>	<b>\$1,942,235</b>	<b>\$2,014,181</b>	<b>-3.6%</b>

The District's combined net assets decreased by nearly 4%, or approximately \$71,946, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The District does not have any debt for capital assets at this time.

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 \$101,000 or 19.5% over the prior year. The decrease was primarily a result of increased expenditures for early retirement benefits from the restricted management property tax levy.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$33,000, or 3.2%. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

Figure A-4 shows the change in net assets for the years ended June 30, 2005 and 2004.

Figure A-4

	Change in Net Assets						Percentage Change 2004-2005
	Governmental Activities		Business-type Activities		Total School District		
	2005	2004	2005	2004	2005	2004	
	\$	\$	\$	\$	\$	\$	
Revenues							
Program Revenues:							
Charges for services	\$161,792	\$175,865	\$41,653	\$37,021	\$203,445	\$212,886	-4.4%
Operating grants & contributions	\$301,701	\$297,279	\$50,708	\$48,583	\$352,409	\$345,862	1.9%
Capital grants & contributions	\$1,010	\$0	\$0	\$0	\$1,010	\$0	
General Revenues:							
Property taxes	\$1,021,574	\$1,216,080	\$0	\$0	\$1,021,574	\$1,216,080	-16.0%
Income Surtax	\$62,401	\$60,483	\$0	\$0	\$62,401	\$60,483	3.2%

Local option sales tax	\$123,400	\$0	\$0	\$0	\$123,400	\$0	
Unrestricted state grants	\$819,886	\$704,545	\$0	\$0	\$819,886	\$704,545	16.4%
Unrestricted investment earnings	\$23,900	\$23,903	\$24	\$20	\$23,924	\$23,923	0.0%
Other revenue	\$504	\$1,236	\$0	\$0	\$504	\$1,236	-59.2%
<b>Total Revenues</b>	<b>\$2,516,168</b>	<b>\$2,479,391</b>	<b>\$92,385</b>	<b>\$85,624</b>	<b>\$2,608,553</b>	<b>\$2,565,015</b>	<b>1.7%</b>
Expenses:							
Instruction	\$1,720,503	\$1,677,459	\$0	\$0	\$1,720,503	\$1,677,459	2.6%
Support services	\$710,340	\$730,923	\$0	\$0	\$710,340	\$730,923	-2.8%
Non-instructional programs	\$10,307	\$18,894	\$90,414	\$87,257	\$100,721	\$106,151	-5.1%
Other expenditures	\$148,935	\$111,281	\$0	\$0	\$148,935	\$111,281	3.4%
<b>Total expenses</b>	<b>\$2,590,085</b>	<b>\$2,538,557</b>	<b>\$90,414</b>	<b>\$87,257</b>	<b>\$2,680,499</b>	<b>\$2,625,814</b>	<b>2.1%</b>
<b>CHANGE IN NET ASSETS</b>	<b>(\$73,917)</b>	<b>(\$59,166)</b>	<b>\$1971</b>	<b>(\$1633)</b>	<b>(\$71,946)</b>	<b>(\$60,799)</b>	<b>-18.3%</b>
Net assets beginning of year	\$2,000,558	\$2,059,724	\$13,623	\$15,256	\$2,014,181	\$2,074,980	-2.9%
Net assets end of year	\$1,926,641	\$2,000,558	\$15,594	\$13,623	\$1,942,235	\$2,014,181	--3.6%

Property tax and unrestricted state grants account for 71% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 91% of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$2,516,168 and expenses were \$2,590,085. In a difficult budget year, the District was able to balance the budget by trimming expenses where possible and utilizing part of the budget carryover from previous years

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

Figure A-5 Total and Net Cost of Governmental Activities

	Total Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2005	Net Cost of Services 2004
	\$	\$	\$	\$
Instruction	\$1,720,503	\$1,677,459	\$1,344,102	\$1,297,151
Support Services	\$710,340	\$730,923	\$709,808	\$727,688
Non-instructional Programs	\$10,307	\$18,894	\$10,307	\$18,894
Other Expenses	\$148,935	\$111,281	\$61,365	\$21,680
<b>TOTAL</b>	<b>\$2,590,085</b>	<b>\$2,538,557</b>	<b>\$2,125,582</b>	<b>\$2,065,413</b>

- The cost financed by users of the District's programs was \$161,792. These revenues primarily consist of tuition charged to other schools and proceeds from student activities.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$301,701.

- The net cost of governmental activities was financed with \$1,021,574 in property tax, \$62,401 in income surtax and \$819,886 in unrestricted state grants.

### **Business Type Activities**

Revenues for business type activities were \$92,385 and expenses were \$90,414. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements.

The District increased meal prices during the past year. This increase resulted in maintaining the revenue level in the School Nutrition fund, as the number of students available to participate declined. The expenses were controlled by sound purchasing decisions.

### **INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$1,365,360.

### **Governmental Fund Highlights**

- The District's deteriorating General Fund financial position is the result of many factors. General Fund revenues remained steady while General Fund expenses decreased. However expenditures still exceeded revenues by \$31,000.
- The Physical Plant and Equipment Levy (PEEL) Fund balance decreased from \$338,413 in fiscal 2004 to \$249,946 in fiscal 2005. The district had reduced the fund levy because of the funds now available from the local option sales tax, which is used for similar purposes as PEEL.
- The new local option sales tax proceeds are reported in the Capital Projects Fund, which is a part of the Nonmajor Funds. The Capital Projects Fund started the year with a zero balance and ended the year with a balance of \$83,790. These monies must be used for future capital asset acquisitions and improvements.
- The Management Fund is also part of the Nonmajor Funds. This fund is used to pay for property and liability insurance premiums and for early retirement benefits. The fund balance in the Management Fund decreased by \$129,000 during the year due to the payment of early retirement benefits.

### **Proprietary Fund Highlights**

School Nutrition Fund net assets increased from \$13,623 at June 30, 2004 to \$15,594 at June 30, 2005, representing an increase of approximately 14%. For fiscal 2005, the District increased meal prices, resulting in the increase in net assets.

### **BUDGETARY HIGHLIGHTS**

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except blended component units, internal service funds, permanent funds and agency funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's certified budget is prepared on the cash basis (in accordance with generally accepted accounting principles). The District has not amended its certified budget for several years.

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

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

A schedule showing the original and final budget amounts compared to the District’s actual financial activity is included in the required supplementary information section of this audit report.

The District has not amended its budget for several years because we prepare the initial budget using the maximum expenditures that the District could have based on projected revenues and carryover balances. Actual expenditures are controlled during the year using a line item budget that bases expenditures on projected revenues for the year.

In spite of the District’s budgetary practice, the certified budget was exceeded in the other expenditures functional area due to the reclassification of expenditures at year-end without sufficient time to amend the certified budget.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

**Capital Assets** - At June 30, 2005 the District has invested \$511,396, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers, and transportation equipment. This amount represents a net increase of 14% from last year. More detailed information about capital assets is available in Note 3 to the Financial Statements. Depreciation expense for the year was \$69,880.

Significant capital assets activities included the new carpet in the offices and elementary computer lab, a new bus, a SUV and new playground equipment.

Figure A-6

Capital Assets (net of accumulated depreciation)

	Governmental Activities		Business type Activities		Total School District		Percentage Change 2004-2005
	2005	2004	2005	2004	2005	2004	
	\$	\$	\$	\$	\$	\$	
Land	\$10,601	\$10,601	\$0	\$0	\$10,601	\$10,601	0.0%
Buildings	\$284,301	\$305,074	\$0	\$0	\$284,301	\$305,074	-6.8%
Improvements	\$20,961	\$21,868	\$0	\$0	\$20,961	\$21,868	-4.1%
Equipment & Furniture	\$190,341	\$103,719	\$5,192	\$7,225	\$195,533	\$110,944	76.2%
<b>TOTAL</b>	<b>\$506,204</b>	<b>\$441,262</b>	<b>\$5,192</b>	<b>\$7,225</b>	<b>\$511,396</b>	<b>\$448,487</b>	<b>14.0%</b>

### Long-Term Debt

**Long-term Debt** – The District does not have any general obligation debt, but has incurred a long-term liability for Early Retirement payments. The amount due to individuals who have contracted an early retirement settlement increased \$46,224 this year, bringing the amount due to \$11,800.

## **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:

- The District has been experiencing declining enrollment for the past several years. The high school enrollment is now below 100 students and will continue to decrease. The 2005-06 kindergarten class had only 5 students. This will have a significant impact on the financial health of the district in the next few years; therefore there are ongoing discussions with neighboring districts about more sharing and other ways to save money.
- The District's faculty is reaching retirement age at a steadily increasing rate. The levy rate for the Management fund will be set to cover anticipated early retirement obligations and the District insurance premium for the next year.
- In February 2004, the District patrons passed a Local Option Sales Tax measure in both Calhoun and Pocahontas counties. The funding from the measure will be used for property tax relief, lowering the PPEL rate as the funds are generated from Local Option Sales Tax.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, 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 Megan Hauswirth, Business Manager, Pomeroy-Palmer Community School District, 202 East Harrison Street, Pomeroy, IA 50575.

## BASIC FINANCIAL STATEMENTS

## POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2005

	Governmental Activities \$	Business Type Activities \$	Total \$
<b>Assets</b>			
Cash and cash equivalents	1,268,550	9,159	1,277,709
Receivables:			
Property tax:			
Delinquent	12,582	-	12,582
Succeeding year	1,151,314	-	1,151,314
Accounts	580	197	777
Accrued interest	2,984	-	2,984
Due from other governments	197,006	-	197,006
Inventories	-	1,410	1,410
Prepaid expenses	-	283	283
Capital assets, net of accumulated depreciation	506,204	5,192	511,396
<b>Total assets</b>	<b>3,139,220</b>	<b>16,241</b>	<b>3,155,461</b>
<b>Liabilities</b>			
Accounts payable	49,465	-	49,465
Deferred revenue:			
Succeeding year property tax	1,151,314	-	1,151,314
Other	-	647	647
Long-term liabilities:			
Portion due within one year:			
Early retirement	11,800	-	11,800
<b>Total liabilities</b>	<b>1,212,579</b>	<b>647</b>	<b>1,213,226</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	506,204	5,192	511,396
Restricted for:			
Phase III	2,285	-	2,285
Gifted and talented program	21,907	-	21,907
Management levy	20,327	-	20,327
Physical plant and equipment levy	249,946	-	249,946
Other special revenue purposes	39,713	-	39,713
Local option sales tax capital projects	83,790	-	83,790
Unrestricted	1,002,469	10,402	1,012,871
<b>Total net assets</b>	<b>1,926,641</b>	<b>15,594</b>	<b>1,942,235</b>

See notes to financial statements.

## POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2005

<b>Functions/Programs</b>	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	1,195,337	75,205	188,368	1,010
Special instruction	193,204	-	14,463	-
Other instruction	331,962	86,414	10,941	-
	<u>1,720,503</u>	<u>161,619</u>	<u>213,772</u>	<u>1,010</u>
Support services:				
Student services	53,332	-	359	-
Instructional staff services	70,533	-	-	-
Administration services	225,825	-	-	-
Operation and maintenance of plant services	233,594	173	-	-
Transportation services	127,056	-	-	-
	<u>710,340</u>	<u>173</u>	<u>359</u>	<u>-</u>
Non-instructional programs	<u>10,307</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	39,685	-	-	-
AEA flowthrough	87,570	-	87,570	-
Depreciation (unallocated)*	21,680	-	-	-
	<u>148,935</u>	<u>-</u>	<u>87,570</u>	<u>-</u>
Total governmental activities	2,590,085	161,792	301,701	1,010
Business type activities:				
Non-instructional programs:				
Food service operations	90,414	41,653	50,708	-
Total	<u>2,680,499</u>	<u>203,445</u>	<u>352,409</u>	<u>1,010</u>
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				

**Change in net assets**

Net assets beginning of year

Net assets end of year

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

## POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2005

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
(930,754)	-	(930,754)
(178,741)	-	(178,741)
(234,607)	-	(234,607)
<u>(1,344,102)</u>	<u>-</u>	<u>(1,344,102)</u>
(52,973)	-	(52,973)
(70,533)	-	(70,533)
(225,825)	-	(225,825)
(233,421)	-	(233,421)
(127,056)	-	(127,056)
<u>(709,808)</u>	<u>-</u>	<u>(709,808)</u>
<u>(10,307)</u>	<u>-</u>	<u>(10,307)</u>
(39,685)	-	(39,685)
-	-	-
<u>(21,680)</u>	<u>-</u>	<u>(21,680)</u>
<u>(61,365)</u>	<u>-</u>	<u>(61,365)</u>
(2,125,582)	-	(2,125,582)
-	1,947	1,947
<u>(2,125,582)</u>	<u>1,947</u>	<u>(2,123,635)</u>
958,473	-	958,473
63,101	-	63,101
62,401	-	62,401
123,400	-	123,400
819,886	-	819,886
23,900	24	23,924
504	-	504
<u>2,051,665</u>	<u>24</u>	<u>2,051,689</u>
(73,917)	1,971	(71,946)
<u>2,000,558</u>	<u>13,623</u>	<u>2,014,181</u>
<u>1,926,641</u>	<u>15,594</u>	<u>1,942,235</u>

## POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2005

	General Fund	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
<b>Assets</b>				
Cash and pooled investments	912,183	264,455	89,485	1,266,123
Receivables:				
Property tax:				
Delinquent	11,437	777	368	12,582
Succeeding year	996,769	64,545	90,000	1,151,314
Accounts	580	-	-	580
Accrued interest	2,727	186	71	2,984
Due from other governments	130,067	-	66,939	197,006
<b>Total assets</b>	<b>2,053,763</b>	<b>329,963</b>	<b>246,863</b>	<b>2,630,589</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	32,045	15,472	1,233	48,750
Deferred revenue:				
Succeeding year property tax	996,769	64,545	90,000	1,151,314
Other	65,165	-	-	65,165
Total liabilities	1,093,979	80,017	91,233	1,265,229
Fund balances:				
Reserved for:				
Phase III	2,285	-	-	2,285
Gifted and talented program	21,907	-	-	21,907
Unreserved reported in:				
General fund	935,592	-	-	935,592
Special revenue funds	-	249,946	71,840	321,786
Capital projects funds	-	-	83,790	83,790
Total fund balances	959,784	249,946	155,630	1,365,360
<b>Total liabilities and fund balances</b>	<b>2,053,763</b>	<b>329,963</b>	<b>246,863</b>	<b>2,630,589</b>

## POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

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

June 30, 2005

<b>Total fund balances of governmental funds (Exhibit C)</b>	1,365,360
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	506,204
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	65,165
An internal service fund is used by the District's management to charge the costs of the employee flexible benefit program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	1,712
Long-term liabilities, including early retirement benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(11,800)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>1,926,641</u></u>

## POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	General Fund	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	996,702	63,101	153,260	1,213,063
Tuition	68,997	-	-	68,997
Other	28,280	5,018	84,911	118,209
State sources	1,009,985	49	23	1,010,057
Federal sources	111,530	-	-	111,530
Total revenues	<u>2,215,494</u>	<u>68,168</u>	<u>238,194</u>	<u>2,521,856</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	1,124,343	30,263	110,973	1,265,579
Special instruction	193,204	-	-	193,204
Other instruction	231,387	-	98,682	330,069
	<u>1,548,934</u>	<u>30,263</u>	<u>209,655</u>	<u>1,788,852</u>
Support services:				
Student services	53,332	-	-	53,332
Instructional staff services	70,033	-	-	70,033
Administration services	224,080	-	1,745	225,825
Operation and maintenance of plant services	176,658	44,330	30,292	251,280
Transportation services	84,658	82,042	7,201	173,901
	<u>608,761</u>	<u>126,372</u>	<u>39,238</u>	<u>774,371</u>
Non-instructional programs	<u>1,167</u>	<u>-</u>	<u>9,140</u>	<u>10,307</u>
Other expenditures:				
Facilities acquisition	-	-	39,685	39,685
AEA flowthrough	87,570	-	-	87,570
	<u>87,570</u>	<u>-</u>	<u>39,685</u>	<u>127,255</u>
Total expenditures	<u>2,246,432</u>	<u>156,635</u>	<u>297,718</u>	<u>2,700,785</u>
Net change in fund balances	(30,938)	(88,467)	(59,524)	(178,929)
Fund balances beginning of year	<u>990,722</u>	<u>338,413</u>	<u>215,154</u>	<u>1,544,289</u>
Fund balances end of year	<u>959,784</u>	<u>249,946</u>	<u>155,630</u>	<u>1,365,360</u>

## POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		(178,929)

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

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

Expenditures for capital assets	132,789	
Depreciation expense	<u>(67,847)</u>	64,942

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

(5,688)

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		46,224
------------------	--	--------

An internal service fund is used by the District's management to charge the costs of the employee flexible benefit program to the individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.

(466)**Changes in net assets of governmental activities (Exhibit B)**(73,917)

## POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Funds

June 30, 2005

	Enterprise Fund	Governmental Activities - Internal Service Fund
	Nonmajor School Nutrition	Fund
	\$	\$
<b>Assets</b>		
Cash and cash equivalents	9,159	2,427
Accounts receivable	197	-
Inventories	1,410	-
Prepaid expenses	283	-
Capital assets, net of accumulated depreciation	5,192	-
	<u>16,241</u>	<u>2,427</u>
<b>Total assets</b>	<u>16,241</u>	<u>2,427</u>
<b>Liabilities</b>		
Accounts payable	-	715
Deferred revenue	647	-
<b>Total liabilities</b>	<u>647</u>	<u>715</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	5,192	-
Unrestricted	10,402	1,712
	<u>15,594</u>	<u>1,712</u>
<b>Total net assets</b>	<u>15,594</u>	<u>1,712</u>

## POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	Enterprise Fund <u>Nonmajor School Nutrition</u> \$	Governmental Activities - Internal <u>Service Fund</u> \$
Operating revenue:		
Local sources:		
Charges for service	41,653	7,515
	<u>41,653</u>	<u>7,515</u>
Operating expenses:		
Non-instructional programs:		
Salaries	36,379	-
Benefits	10,273	7,981
Purchased services	516	-
Supplies	41,213	-
Depreciation	2,033	-
	<u>90,414</u>	<u>7,981</u>
Operating gain (loss)	<u>(48,761)</u>	<u>(466)</u>
Non-operating revenue:		
State sources	1,451	-
Federal sources	49,257	-
Interest income	24	-
Total non-operating revenue	<u>50,732</u>	<u>-</u>
Change in net assets	1,971	(466)
Net assets beginning of year	<u>13,623</u>	<u>2,178</u>
Net assets end of year	<u><u>15,594</u></u>	<u><u>1,712</u></u>

## POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2005

	Enterprise Fund	Governmental Activities - Internal Service Fund
	Nonmajor School Nutrition	Fund
	\$	\$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	42,092	-
Cash received from other services	-	7,515
Cash payments to employees for services	(46,652)	(7,536)
Cash payments to suppliers for goods or services	(36,499)	-
Net cash used by operating activities	<u>(41,059)</u>	<u>(21)</u>
Cash flows from non-capital financing activities		
State grants received	1,451	-
Federal grants received	43,552	-
Net cash provided by non-capital financing activities	<u>45,003</u>	<u>-</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	24	-
Net increase (decrease) in cash and cash equivalents	3,968	(21)
Cash and cash equivalents at beginning of year	<u>5,191</u>	<u>2,448</u>
Cash and cash equivalents at end of year	<u>9,159</u>	<u>2,427</u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>		
Operating gain (loss)	(48,761)	(466)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	5,705	-
Depreciation	2,033	-
Decrease (increase) in inventories	(401)	-
Decrease (increase) in accounts receivable	(113)	-
Decrease (increase) in prepaid expenses	(74)	-
(Decrease) increase in accounts payable	-	445
(Decrease) increase in deferred revenue	552	-
Net cash used in operating activities	<u>(41,059)</u>	<u>(21)</u>

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2005, the District received \$5,705 of federal commodities.

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2005

	Private Purpose Trust <u>Scholarship</u> \$
Additions:	
Local sources:	
Gifts and contributions	300
Deductions:	
Support services:	
Scholarships awarded	<u>300</u>
Change in net assets	-
Net assets beginning of year	<u>-</u>
Net assets end of year	<u><u>-</u></u>

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2005

**1. Summary of Significant Accounting Policies**

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

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

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

The District's internal service fund is also reported as a proprietary fund. The internal service fund is used to account for the District's employee flexible benefit plan.

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

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

#### C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

#### D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2003 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, furniture and equipment are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	-
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	1,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	20-40 years
Furniture and equipment	4-20 years

The District's collection of library books and other similar materials are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to District policy that requires proceeds from the sale of these items, if any, to be used to acquire other collection items.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough

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

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

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

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

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

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

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements in the other expenditures function exceeded the amount budgeted.

### 2. **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board number 40.

### 3. **Capital Assets**

Capital assets activity for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	10,601	-	-	10,601
Capital assets being depreciated:				
Buildings	1,121,668	-	35,000	1,086,668
Improvements other than buildings	36,275	-	-	36,275
Furniture and equipment	477,305	132,789	53,633	556,461
Total capital assets being deprec.	<u>1,635,248</u>	<u>132,789</u>	<u>88,633</u>	<u>1,679,404</u>
Less accumulated depreciation for:				
Buildings	816,594	20,773	35,000	802,367
Improvements other than buildings	14,407	907	-	15,314
Furniture and equipment	373,586	46,167	53,633	366,120
Total accumulated depreciation	<u>1,204,587</u>	<u>67,847</u>	<u>88,633</u>	<u>1,183,801</u>
Total capital assets being depreciated, net	<u>430,661</u>	<u>64,942</u>	-	<u>495,603</u>
Governmental activities capital assets, net	<u>441,262</u>	<u>64,942</u>	-	<u>506,204</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Business type activities:</b>				
Furniture and equipment	71,858	-	-	71,858
Less accumulated depreciation	<u>64,633</u>	<u>2,033</u>	-	<u>66,666</u>
Business type activities capital assets, net	<u>7,225</u>	<u>(2,033)</u>	-	<u>5,192</u>
Depreciation expense was charged to the following functions:				\$
Governmental activities:				
Instruction:				
Regular				4,260
Other				3,585
Support services:				
Instructional staff services				500
Operation and maintenance of plant services				2,625
Transportation				<u>35,197</u>
				46,167
Unallocated depreciation				<u>21,680</u>
Total depreciation expense – governmental activities				<u>67,847</u>
Business type activities:				
Food services				<u>2,033</u>

#### 4. Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Early retirement	58,024	49,336	95,560	11,800	11,800

##### Early Retirement

The District offers a voluntary early retirement plan to its licensed and classified employees. Eligible employees must be at least age fifty-five and must have completed fifteen years of service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives are based on 60% of the base of the highest paid salary during the last five years of employment plus a payment of up to \$2,400 for unused sick leave days. Early retirement expenditures for the year ended June 30, 2005 totaled \$95,560

#### 5. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$74,911, \$77,575, and \$75,232 respectively, equal to the required contributions for each year.

#### 6. Risk Management

The District is a member in the Iowa School Employee Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. 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 continuing membership in the Association had their deficit recovery assessment included in their annual premium for the 2004-2005 and 2005-2006 plan years. The deficit recovery is equal to 2% of the annual premium. The total amount of the deficit recoveries of current members is estimated to be \$2.2 million. The District's share of this assessment was \$7,992, of which \$3,996 was paid with the 2004-2005 premiums and \$3,996 is a liability as of June 30, 2005 and will be paid with the 2005-2006 premiums. Since the program is now fully insured, there will be no additional assessments due to claims exceeding premiums charged to members.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2005 were \$199,813.

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

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

**7. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$87,570 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.

**8. Commitment – Operating Lease**

The District has entered into a lease for two copy machines, which qualifies as an operating lease. The following minimum payments will be made over the lease term:

<u>Year ended June 30,</u>	<u>Minimum Lease Payment</u>
	\$
2006	15,504
2007	15,504
2008	15,504
2009	15,504
2010	15,504

REQUIRED SUPPLEMENTARY INFORMATION

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Receipts:						
Local sources	1,336,235	42,116	1,378,351	1,524,235	1,524,235	(145,884)
Intermediate sources	-	-	-	500	500	(500)
State sources	1,004,943	1,451	1,006,394	1,024,419	1,024,419	(18,025)
Federal sources	100,959	49,257	150,216	284,000	284,000	(133,784)
Total receipts	<u>2,442,137</u>	<u>92,824</u>	<u>2,534,961</u>	<u>2,833,154</u>	<u>2,833,154</u>	<u>(298,193)</u>
Disbursements:						
Instruction	1,774,474	-	1,774,474	2,637,206	2,637,206	862,732
Support services	774,377	-	774,377	1,457,225	1,457,225	682,848
Non-instructional programs	10,307	88,856	99,163	206,370	206,370	107,207
Other expenditures	127,255	-	127,255	95,115	95,115	(32,140)
Total disbursements	<u>2,686,413</u>	<u>88,856</u>	<u>2,775,269</u>	<u>4,395,916</u>	<u>4,395,916</u>	<u>1,620,647</u>
Excess (deficiency) of receipts over (under) disbursements	(244,276)	3,968	(240,308)	(1,562,762)	(1,562,762)	1,322,454
Balance beginning of year	<u>1,510,399</u>	<u>5,191</u>	<u>1,515,590</u>	<u>1,562,762</u>	<u>1,562,762</u>	<u>(47,172)</u>
Balance end of year	<u><u>1,266,123</u></u>	<u><u>9,159</u></u>	<u><u>1,275,282</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>1,275,282</u></u>

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2005

	<u>Governmental Funds</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Modified Accrual Basis</u>
	\$	\$	\$
Revenues	2,442,137	79,719	2,521,856
Expenditures	2,686,413	14,372	2,700,785
Net	(244,276)	65,347	(178,929)
Beginning fund balances	1,510,399	33,890	1,544,289
Ending fund balances	<u>1,266,123</u>	<u>99,237</u>	<u>1,365,360</u>
	<u>Proprietary Fund</u>		
	<u>Enterprise</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
	\$	\$	\$
Revenues	92,824	(439)	92,385
Expenditures	88,856	1,558	90,414
Net	3,968	(1,997)	1,971
Beginning fund balances	5,191	8,432	13,623
Ending fund balances	<u>9,159</u>	<u>6,435</u>	<u>15,594</u>

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

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

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

OTHER SUPPLEMENTARY INFORMATION

## POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Special Revenue Funds

June 30, 2005

Assets	Special Revenue Funds		Capital	Total
	Management	Student	Projects Fund	
	Levy	Activity	Sales Tax	
	\$	\$	\$	\$
Cash and pooled investments	32,392	40,242	16,851	89,485
Receivables:				
Property tax:				
Delinquent	368	-	-	368
Succeeding year	90,000	-	-	90,000
Accrued interest	-	71	-	71
Due from other governments	-	-	66,939	66,939
<b>Total assets</b>	<b>122,760</b>	<b>40,313</b>	<b>83,790</b>	<b>246,863</b>
<b>Liabilities &amp; Fund Balances</b>				
Liabilities:				
Accounts payable	633	600	-	1,233
Succeeding year property tax	90,000	-	-	90,000
Total liabilities	90,633	600	-	91,233
Fund balances:				
Unreserved reported in:				
Special revenue funds	32,127	39,713	-	71,840
Capital projects funds	-	-	83,790	83,790
Total fund balances	32,127	39,713	83,790	155,630
<b>Total liabilities and fund balances</b>	<b>122,760</b>	<b>40,313</b>	<b>83,790</b>	<b>246,863</b>

## POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	Special Revenue Funds		Capital Projects Fund	Total
	Management Levy	Student Activity Fund	Sales Tax	
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	29,860	-	123,400	153,260
Other	462	84,374	75	84,911
State sources	23	-	-	23
Total revenues	<u>30,345</u>	<u>84,374</u>	<u>123,475</u>	<u>238,194</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	110,973	-	-	110,973
Other instruction	-	98,682	-	98,682
Support services:				
Administration services	1,745	-	-	1,745
Operation and maintenance of plant services	30,292	-	-	30,292
Transportation services	7,201	-	-	7,201
Non-instructional programs	9,140	-	-	9,140
Other expenditures:				
Facilities acquisition	-	-	39,685	39,685
Total expenditures	<u>159,351</u>	<u>98,682</u>	<u>39,685</u>	<u>297,718</u>
Excess (deficiency) of revenues over (under) expenditures	(129,006)	(14,308)	83,790	(59,524)
Fund balances beginning of year	<u>161,133</u>	<u>54,021</u>	<u>-</u>	<u>215,154</u>
Fund balances end of year	<u><u>32,127</u></u>	<u><u>39,713</u></u>	<u><u>83,790</u></u>	<u><u>155,630</u></u>

## POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
	\$	\$	\$	\$	\$
Annual	5,717	3,036	3,507	-	5,246
Cheerleader	242	1,642	1,075	-	809
Class of 2003	457	-	-	(457)	-
Class of 2004	2	-	-	-	2
Class of 2005	3,138	529	2,670	-	997
Class of 2006	1,107	11,603	10,748	-	1,962
Class of 2007	525	693	-	-	1,218
Class of 2008	-	365	-	-	365
Electathon	95	1,655	462	-	1,288
FFA	4,455	14,180	17,078	-	1,557
FCCLA	3,648	2,546	3,643	-	2,551
General athletics	14,800	22,622	31,097	-	6,325
Interest	1,097	(788)	66	-	243
Student council	12,717	13,310	12,488	-	13,539
Student activity	3,429	1,817	2,241	457	3,462
French club	2,664	10,929	13,607	-	(14)
Auto club	(72)	235	-	-	163
<b>Total</b>	<b>54,021</b>	<b>84,374</b>	<b>98,682</b>	<b>-</b>	<b>39,713</b>

## POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2005	2004	2003	2002
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,213,063	1,276,624	1,203,778	1,195,462
Tuition	68,997	60,876	49,178	56,806
Other	118,209	140,128	144,187	187,078
State sources	1,010,057	887,071	995,805	982,730
Federal sources	111,530	114,753	110,392	71,828
Total revenues	<u>2,521,856</u>	<u>2,479,452</u>	<u>2,503,340</u>	<u>2,493,904</u>
Expenditures:				
Instruction:				
Regular instruction	1,265,579	1,134,862	1,143,633	1,173,480
Special instruction	193,204	222,482	221,231	221,063
Other instruction	330,069	313,740	313,507	289,771
Support services:				
Student services	53,332	48,263	45,081	43,678
Instructional staff services	70,033	70,333	62,932	60,421
Administration services	225,825	244,025	201,887	192,727
Operation and maintenance of plant services	251,280	268,099	238,634	242,688
Transportation services	173,901	83,183	130,636	116,003
Non-instructional programs	10,307	18,894	600	600
Other expenditures:				
Facilities acquisition	39,685	-	-	-
Long-term debt:				
Principal	-	-	18,000	18,000
AEA flowthrough	87,570	89,601	97,161	97,779
Total expenditures	<u>2,700,785</u>	<u>2,493,482</u>	<u>2,473,302</u>	<u>2,456,210</u>

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  
Pomeroy-Palmer 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 Pomeroy-Palmer 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 11, 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 Pomeroy-Palmer Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions 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 05-I-A and 05-I-B are material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pomeroy-Palmer 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 Pomeroy-Palmer Community School District and other parties to whom Pomeroy-Palmer Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

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

August 11, 2005

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

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

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

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

Conclusion: Response accepted.

05-I-B Signature Stamp: We noted that a stamp bearing the signature of the Board President is used to cosign checks and we noted that the board secretary (the other cosigner of the checks) has access to the stamp. This practice negates the internal control procedure established by requiring two signatures on a check

Recommendation: We recommend that this practice cease. The board may designate a person other than the board president to cosign checks. If a signature stamp is used, it should remain under the control of the person whose name the stamp bears at all times.

District Response: We will review our current procedures.

Conclusion: Response accepted.

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related Statutory Reporting:

05-II-A Official Depositories: Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

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

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

District Response: Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion: Response accepted.

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

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

05-II-E Business Transactions: Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u> \$
Roger Eichelberger, Board Member, owner of R & J Lumber, co-owner of Manson Lumber and co-owner of Pocahontas Lumber	Supplies and Windows	4,959

\$1,367 of the transactions with the Board member that were bid does not appear to be a conflict of interest. The \$3,592 of transactions that were not bid appears to be a conflict of interest because the amount exceeds the \$2,500 limit set by the Code of Iowa.

Recommendation: The District should consult legal council regarding this matter.

District Response: We will consult with our attorney.

Conclusion: Response accepted.

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

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

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

05-II-G Board Minutes: We noted one Internal Service Fund expenditure that was not approved by the board of directors. All District expenditures should be approved by the board in accordance with Iowa law and the District's payment policy.

Recommendation: The internal service fund expenditures should be on the monthly list of bills approved by the board.

District Response: The omission of this item was an oversight.

Conclusion: Response accepted.

05-II-H Certified Enrollment: No variances in the basic enrollment data certified to the Department of Education were noted.

05-II-I 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.

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

05-II-K Old Outstanding Checks: We noted that the District's bank reconciliations included approximately \$700 of old outstanding checks. Iowa Code Section 566 specifies that holders unclaimed property, which includes outstanding checks, must file a report with and send the unclaimed property to the Treasurer of Iowa.

Recommendation: The District should investigate the status of all old outstanding checks. Checks that were issued in error or in duplicate should be voided and removed from the list of outstanding checks. The District should search for the owners of all other outstanding checks, then reissue new checks if the owners are found. If the owners can not be found, the District must file an unclaimed property report with and send the money to the Treasurer State of Iowa.

Response: We will begin investigating the status of old outstanding checks and we will file an unclaimed property report with the Treasurer of Iowa if necessary.

Conclusion: Response accepted.