

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

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

June 30, 2004

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Independent Auditor's Report

To the Board of Education of
East Buchanan 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 East Buchanan Community School District, Winthrop, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 East Buchanan Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

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

In accordance with Government Auditing Standards, we have also issued our reports dated October 19, 2004, on our consideration of East Buchanan Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 14 and 38 through 39 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. However, 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 East Buchanan Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003, (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 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

October 19, 2004

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Management Discussion and Analysis

This section of the East Buchanan Community School District's Comprehensive Annual Financial Report represents its discussion and analysis of the District's financial performance during the fiscal year ending June 30, 2004. Please read it in conjunction [with the District's](#) financial statements, which immediately follow this section. Since the East Buchanan Community School District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

Financial Highlights

During the year ended June 30, 2004, State of Iowa imposed a 2.5% across-the-board reduction in November, which reduced state revenues in the General Fund.

Due to the state budget cut, negotiated health insurance buy-out and one-time expenditures the General Fund ending fund balance declined from \$1,665,317 in fiscal year 2003 to \$1,434,939 in fiscal year 2004. The district responded to the reduction by using a portion of the District's unspent balance.

Interest rates declined again in fiscal year 2004 similar to fiscal year causing interest earnings in the General Fund alone to drop from \$41,669 in fiscal year 2003 to \$27,242 in fiscal year 2004.

In the spring of fiscal year 2003 the district closed the K-2 elementary facility in Quasqueton and moved all students to the new and remodeled facilities in Winthrop the fall of fiscal year 2004. The district constructed a new K-12 media center, open access computer lab, a new multi-purpose room, remodeled the middle school and elementary areas, installed an elevator and ramps making all areas handicapped accessible, and relocated the central administration office with funding from a \$1,000,000 Vision Iowa Infrastructure Grant received in fiscal year 2001 and matching Voted Physical Plant and Equipment Levy monies.

The District entered into a 28E Agreement with the City of Winthrop in FY03 to lease district property for the construction of a daycare facility which opened in the spring of fiscal year 2004. The district rents a room in the facility for its preschool program.

During fiscal year 2003 the patrons of the county passed a Local Option Sales Tax levy to be used for infrastructure. The levy will provide approximately \$1,800,000 over a ten year period with the funding starting in fiscal year 2004. During fiscal year 2004 the district began construction on a new bus garage in the northeast corner of district property. The project is expected to be completed during fiscal year 2005.

Overview of the Financial Statements

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

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

The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the Government-wide statements.

The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short term* as well as what remains for future spending.

Proprietary funds statements offer *short- and long-term* financial information about the activities the District operates *like businesses*, such as food services.

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

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

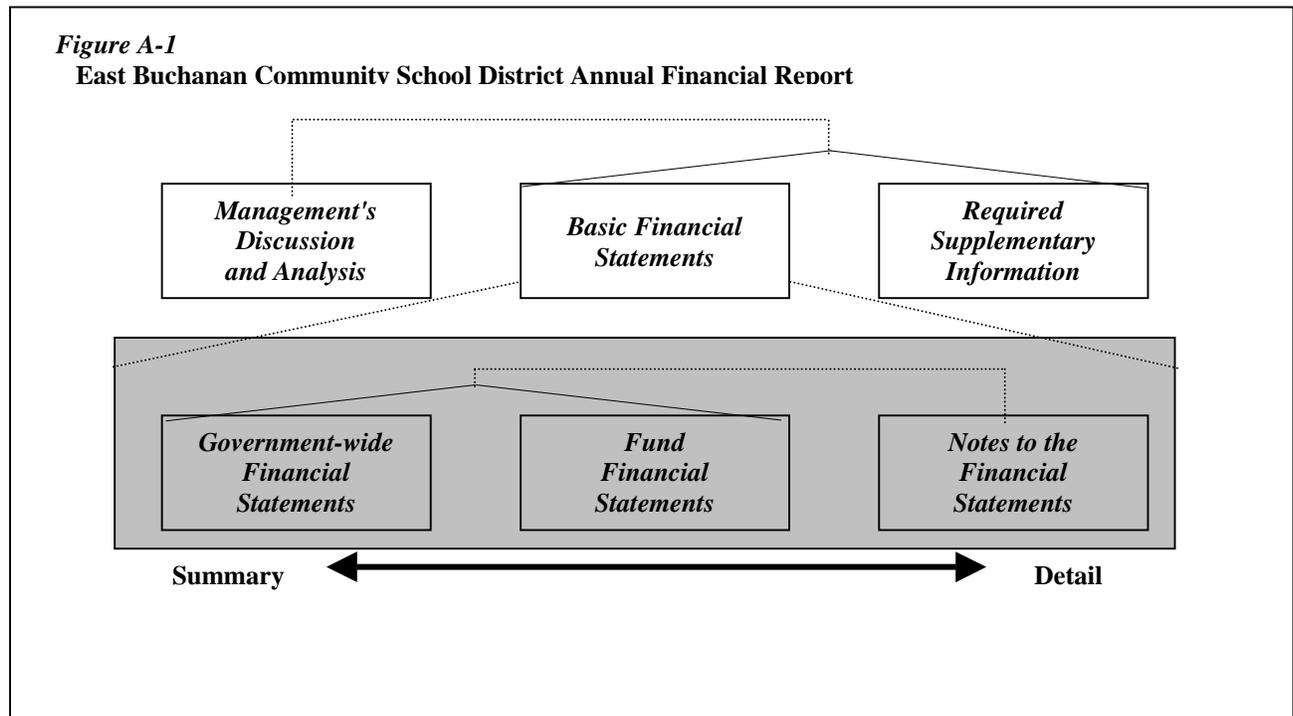


Figure A-2 below summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents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

<i>Figure A-2: Major Features of the Government-Wide and Fund Financial Statements</i>				
	Government-wide Statements	Fund Financial 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 is included here	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	Statement of net assets Statement of activities	Balance sheet Statement of revenues, expenditures, and changes in fund balances	Statement of net assets Statement of cash flows Statement of revenues, expenses, and changes in net assets	Statement of fiduciary net assets Statement of changes in fiduciary net assets
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	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

Government-wide Financial Statements

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

The two Government-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – is 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 its 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 building and other facilities.

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

Governmental activities: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state aid finance most of these activities.

Business-type activities: The District charges fees to help it cover the costs of certain services it provides. The District's food service program would be 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 funds statements provide a

detailed short-term view that helps the reader 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 and Special Revenue Funds that consist of Activity, Management, Physical Plant and Equipment Levy, and Capital Projects funds.

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, is the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

Financial Analysis of the District as a Whole

Net assets. The District's combined net assets were \$4,393,598 on June 30, 2004. (see *Figure A-3*)

<i>Figure A-3</i>			
Condensed Statement of Net Assets			
	Governmental Activities 2004	Business-type Activities 2004	Total District 2004
Current and other assets	\$ 4,274,537	\$ 31,789	\$ 4,306,326
Capital assets	3,017,306	20,909	3,038,215
Total assets	7,291,843	52,698	7,344,541
Long-term liabilities	630,167	-	630,167
Other liabilities	2,319,054	1,722	2,320,776
Total liabilities	2,949,221	1,722	2,950,943
Net assets:			
Invested in capital assets, net of related debt	2,778,013	20,909	2,798,922
Restricted	238,892	0	238,892
Unrestricted	1,325,717	30,067	1,355,784
Total net assets	\$ 4,342,622	\$ 50,976	\$ 4,393,598

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used.

Unrestricted net assets are 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.

As stated previously this is the first year that requires all activities to be reported on a full accrual basis, a comprehensive comparison to the prior year is not possible. The Condensed Statement of Net Assets is a new reporting format for this district in the fiscal year ending June 30, 2004 and therefore comparison to prior year data is not available. In subsequent years comparison to prior year data will be provided for all key financial information.

Changes in net assets. Fiscal year 2003-2004 marks the initial District implementation of the GASB-34 financial reporting model. As a result, prior year comparisons are not available but will be provided in all subsequent years. *Figure A-4* reflects only totals from the current fiscal year ending June 30, 2004.

Governmental Activities –

Referring to *Figure A-4*, revenues for the District’s governmental activities were \$5,121,578 for fiscal year 2004. Total governmental expenditures were \$4,986,852.

In a difficult budget year, the District trimmed expenses to match available revenues while still covering one-time expenditures for furnishing various areas completed by the Vision Iowa Grant project.

Figure A-4

Changes in Net Assets

	Governmental Activities	Business-type Activities	Total District
	2004	2004	2004
Revenues			
Program Revenues:			
Charges for Service	\$ 429,224	\$ 130,229	\$ 559,453
Operating Grants & Contributions	536,837	93,351	630,188
Capital Grants & Contributions	-	-	-
General Revenues:			
Property taxes & other taxes	2,119,871	-	2,119,871
Unrestricted State Grants	1,934,259	-	1,934,259
Unrestricted Investment Earnings	32,933	-	32,933
Other Revenue	68,454	-	68,454
Total Revenues	\$ 5,121,578	\$ 223,580	\$ 5,345,158
Expenses			
Instruction	3,403,514	-	3,403,514
Support services	1,301,781	-	1,301,781
Non-instructional Programs	65	219,105	219,170
Other Expenses	281,492	-	281,492
Total Expenses	\$ 4,986,852	\$ 219,105	\$ 5,205,957
Transfers	-	-	-
Change in Net Assets	\$ 134,726	\$ 4,475	\$ 139,201

<i>Figure A-5</i>		
Total and Net Cost of Governmental Activities		
	Total Cost of Service 2004	Net Cost of Services 2004
Instruction	\$ 3,403,514	\$ 2,710,208
Support Services	1,301,781	1,205,942
Non-instructional Programs	65	65
Other Expenses	281,492	104,576
Totals	\$ 4,986,852	\$ 4,020,791

Figure A-5 presents the cost of the District’s major governmental activities: instruction, support services, non-instruction programs and other expenses. The table shows each activity’s net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District’s taxpayers by each of these functions. (As with *Figure A-4*, a two-year comparison with the prior fiscal year is not possible under the new GASB 34 format. In the future a two-year comparison will be provided.)

The cost of all governmental activities this was \$4,986,852.

Some of the cost was financed by the users of the District’s programs (\$429,224).

The federal and state governments and private contributors subsidized certain programs with grants and contributions (\$536,837).

Most of the district’s costs (\$4,020,791), however, were financed by District and state taxpayers.

This portion of governmental activities was financed with \$2,119,871 in property and other taxes, \$1,934,259 in unrestricted state aid (based in large part on the statewide education aid formula), investment earnings and miscellaneous revenues.

Business-Type Activities -

The District’s business-type activities included the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements, and investment income. The District’s business-type activities show a slight increase in net assets with revenues exceeding expenses \$4,475 (refer to *Figure A-4*). The Board of Education did not increase school meal prices for fiscal year 2004.

Financial Analysis of the District’s Funds

As previously noted, the East Buchanan 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 the District completed the year, its governmental funds reported combined fund balances of \$1,747,784, which is 14.5% less than last year’s ending fund balances of \$2,044,156. A summary financial analysis of each individual District Fund follows:

Governmental Fund Highlights

Overall the District's Governmental Fund combined fund balances decreased in fiscal year 2004 from the previous year. A closer look at each individual Governmental Fund reveals the following:

- The **General Fund** cash balance has declined \$230,378 from fiscal year 2003 to fiscal year 2004. A contributing factor was the first year of a negotiated change in the procedure and manner used to provide health insurance coverage to district employees. This change resulted in a 7.97% settlement agreement implemented in fiscal year 2004. It is anticipated that this change in procedure will save the district monies and time in future employee contract negotiation endeavors. Additional fund balance was eroded by spending Instructional Support Levy monies to cover the one-time expenditures for furnishing of new areas including the K-12 media center and administrative and board room that were constructed and/or remodeled with the Vision Iowa Grant. Additional one-time expenditures included the purchase of computers for the new computer lab, middle school lockers, and additional tile and carpet throughout the Winthrop facility. Overtime labor for closing the site in Quasqueton and preparation to open school on time at the Winthrop site in the fall of FY04 was also a one-time expenditure. The district increased the elementary vocal music position from a .8 FTE to a 1 FTE in fiscal year 2004. General Fund monies were also used for the purchase of a new school bus.
- The **Management Fund** balance increased \$25,615 over the previous fiscal year. The increase was partially the result of a decrease in the district's Workman's Compensation liability and the increase in property taxes in fiscal year 2004 to compensate for the additional costs of the early retirement program offered by the district.
- The regular and voted **Physical Plant and Equipment Levy (PPEL/VPPEL) Fund** balance increased \$7,226 from the previous fiscal year. Monies were expended for items approved in a Fire Life Safety Grant received from the state that will not be reimbursed to the district until the project is completed. Voted Physical Plant and Equipment Levy monies were used for the second payment on a three-year capital loan note used for the district's share of matching funds for the Vision Iowa Grant received in fiscal year 2001.
- The **Capital Projects Fund** balance decreased \$86,738 during fiscal year 2004. A contributing factor for the reduction in fund balance was the completion of the Vision Iowa Grant building project. Fiscal year 2004 was also the first year the district received monies for the Local Option Sales Tax approved in fiscal 2003. The Local Option Sales Tax will provide funding for capital projects over a ten-year period.
- The **"Other" Governmental Funds** balance (the Activity and Debt Service Funds), has decreased over the previous fiscal year by \$12,097 in the Activity Fund. The district has no bonded indebtedness and therefore [is not accumulating any monies in the Debt Service Fund.](#)

Business-Type Fund Highlights

- The **Food and Nutrition Fund** is the District's only fund categorized as a Business-Type Fund. The School Nutrition Fund net assets increased from \$46,501 at June 30, 2003 to \$50,976 at June 30, 2004, representing an increase of 9.6%. The increase was largely due to an increase in ala carte sales. Continued vigilance of the program's aging equipment is becoming increasingly important. Meal prices may have to be increased in the near future in order to provide the necessary funding to replace out-dated equipment. The goal of the district is to provided a quality nutritional program at the lowest participant cost possible for its students.

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. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the modified accrual basis.

During FY04, total revenues were below expectations held when the FY04 budget was assembled in February, 2003. Ultimately, budgeted amounts exceeded actual revenue by \$132,441. This was due to a variety of factors that could not have been anticipated when a budget estimate was assembled. For example, in November, 2004, the Governor announced a 2.5% across the board cut. Also, open enrollment income had been overestimated and rates on invested monies again declined during FY04.

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 spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

Capital Asset and Debt Administration

Capital Assets

By the end of 2004, the District had invested net of depreciation, \$3,038,215 in a broad range of assets, including school buildings, athletic facilities, [transportation equipment](#) and computer and audio-visual equipment. (See *Figure A-6*) This amount represents a net increase of \$395,375 or 14.96% from last year.

Excluding depreciation, the District has \$4,754,410 in capital assets. Governmental funds account for \$4,703,111, with the remainder, \$51,299, in the Food and Nutrition Fund, (Business-Type Fund). (More detailed information about capital assets can be found in Note 5 to the financial statements.)

The biggest change in comparing fiscal year 2004 with the previous year is in the buildings and improvements category. The significant increase in buildings and improvements is due to completion of construction provided by a \$1,000,000 Vision Iowa Grant and matching funds from the Voted Physical Plant and Equipment Levy.

The district closed the K-2 facility in Quasqueton on June 30, 2003 moving all students to a centralized site the following fall. New construction and extensive remodeling were completed during FY03 and the summer of FY04 for this to happen.

Figure A-6

Capital Assets, Net of Depreciation	Governmental Activities		Business-type Activities		Total District		Total Change
	2003	2004	2003	2004	2003	2004	2003-2004
	Land	\$ 48,355	48,355	\$ -	-	\$ 48,355	48,355
Construction in progress	1,860,814	-	-	-	1,860,814	-	-100.00%
Buildings	544,200	2,699,060	-	-	544,200	2,699,060	395.97%
Equipment, furniture and other improvements	163,585	269,891	25,886	20,909	189,471	290,800	53.48%
Totals	\$ 2,616,954	3,017,306	\$ 25,886	20,909	\$ 2,642,840	3,038,215	14.96%

The new and remodeled areas made possible by a \$1,000,000 Vision Iowa Grant and matching funds provided by the Voted Physical Plant and Equipment Levy included the following:

- Construction of a K-12 media center with an open access computer lab and elementary restroom facilities attached to the east side of the current building.
- Construction of a multi-purpose room attached to the high school gymnasium.
- Extensive remodeling to the lower level of the elementary building.
- Extensive remodeling to the middle school building including widening of hallways, lowering ceilings, new lighting, tile, carpeting, and new lockers.
- Remodel and update middle school science classroom and lab area.
- Installation of an elevator and three ramps thus making all levels of the current building handicapped accessible.
- Relocation and remodeling of the central administration offices.

Long-Term Debt

At year-end the District had \$180,000 payable on a Capital Projects Loan in the PPEL Fund that provided part of the District's share of matching funds for the Vision Iowa Grant. The final loan payment will be made during FY05.

Additional information about long-term debt is available in Note 5 to the financial statements.

Factors Bearing on the District's Future

The District is projected to remain in good financial health into the near future. Budgeting practices such as making sure disbursements do not exceed receipts, even during challenging years like FY04, combined with a solid foundation of cash balance and unspent balance, allow the District to provide the resources needed for excellent student achievement while still keeping the tax burden reasonable. However, costs outside of the Board's control such as continual increases in health insurance and utility costs are worrisome, and employee contract settlements will also have an effect on the District's financial viability.

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

With salaries and benefits making up the majority of General Fund expenditures, settlements with any employee group, exceeding the rate of growth of state funding will have an adverse impact upon the District's General Fund budget.

The national recession that has adversely impacted the State of Iowa's budget has translated into reduced levels of state aid funding for education. Future increases in state aid to schools, (allowable growth) will be predicated upon the condition of the national economy.

District certified enrollment declined in FY04 by 5.9 students, or 1.1% to 591. Under Iowa's school funding formula, District funding is highly dependant upon District enrollments. Future enrollment stability is a critical element in maintaining a sound financial foundation.

Both the Instructional Support Levy and Voted Physical Plant and Equipment Levy will expire on June 30, 2005. Patrons will be asked to approve the renewal of these two levies in the fall of fiscal year 2005 to provide continued financial stability to the District.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report of need additional financial information, contact Carol Moroney, Business Manager, East Buchanan Community School District, 414 5th Street North, Winthrop, Iowa 50682

BASIC FINANCIAL STATEMENTS

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents:			
ISCAP	256,382	-	256,382
Other	1,999,034	24,074	2,023,108
Receivables:			
Property tax:			
Delinquent	19,508	-	19,508
Succeeding year	1,731,425	-	1,731,425
Accounts	-	3,441	3,441
Due from other governments	268,188	-	268,188
Inventories	-	4,274	4,274
Capital assets, net of accumulated depreciation	<u>3,017,306</u>	<u>20,909</u>	<u>3,038,215</u>
Total assets	<u>7,291,843</u>	<u>52,698</u>	<u>7,344,541</u>
Liabilities			
Accounts payable	20,043	-	20,043
Salaries and benefits payable	304,072	-	304,072
Accrued interest payable	4,977	-	4,977
Deferred revenue:			
Succeeding year property tax	1,731,425	-	1,731,425
Other	-	1,722	1,722
ISCAP warrants payable	255,000	-	255,000
ISCAP premium	3,537	-	3,537
Long-term liabilities:			
Portion due within one year:			
Capital loan notes	180,000	-	180,000
Capital leases	38,625	-	38,625
Early retirement	104,469	-	104,469
Portion due after one year:			
Capital leases	20,668	-	20,668
Early retirement	<u>286,405</u>	<u>-</u>	<u>286,405</u>
Total liabilities	<u>2,949,221</u>	<u>1,722</u>	<u>2,950,943</u>

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Net assets			
Invested in capital assets, net of related debt	2,778,013	20,909	2,798,922
Restricted for:			
Iowa early intervention block grant	7,901	-	7,901
Physical plant and equipment levy	59,022	-	59,022
Other special revenue purposes	52,351	-	52,351
Local option sales tax capital projects	119,618	-	119,618
Unrestricted	<u>1,325,717</u>	<u>30,067</u>	<u>1,355,784</u>
Total net assets	<u><u>4,342,622</u></u>	<u><u>50,976</u></u>	<u><u>4,393,598</u></u>

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
Governmental activities:				
Instruction:				
Regular instruction	2,208,099	97,745	234,262	-
Special instruction	757,733	-	116,678	-
Other instruction	437,682	237,739	6,882	-
	<u>3,403,514</u>	<u>335,484</u>	<u>357,822</u>	<u>-</u>
Support services:				
Student services	78,703	-	1,190	-
Instructional staff services	62,154	-	-	-
Administration services	548,540	-	-	-
Operation and maintenance of plant services	340,930	53,372	-	-
Transportation services	271,454	40,368	909	-
	<u>1,301,781</u>	<u>93,740</u>	<u>2,099</u>	<u>-</u>
Non-instructional programs	<u>65</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Long-term debt interest	14,381	-	-	-
AEA flowthrough	176,916	-	176,916	-
Depreciation (unallocated)*	90,195	-	-	-
	<u>281,492</u>	<u>-</u>	<u>176,916</u>	<u>-</u>
Total governmental activities	4,986,852	429,224	536,837	-
Business type activities				
Non-instructional programs:				
Food service operations	219,105	130,229	93,351	-
Total	<u>5,205,957</u>	<u>559,453</u>	<u>630,188</u>	<u>-</u>
General Revenues:				
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, as restated

Net assets end of year

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

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
(1,876,092)	-	(1,876,092)
(641,055)	-	(641,055)
(193,061)	-	(193,061)
<u>(2,710,208)</u>	<u>-</u>	<u>(2,710,208)</u>
(77,513)	-	(77,513)
(62,154)	-	(62,154)
(548,540)	-	(548,540)
(287,558)	-	(287,558)
(230,177)	-	(230,177)
<u>(1,205,942)</u>	<u>-</u>	<u>(1,205,942)</u>
(65)	-	(65)
(14,381)	-	(14,381)
-	-	-
(90,195)	-	(90,195)
<u>(104,576)</u>	<u>-</u>	<u>(104,576)</u>
(4,020,791)	-	(4,020,791)
-	4,475	4,475
<u>(4,020,791)</u>	<u>4,475</u>	<u>(4,016,316)</u>
1,518,613	-	1,518,613
235,494	-	235,494
183,371	-	183,371
182,393	-	182,393
1,934,259	-	1,934,259
32,933	-	32,933
68,454	-	68,454
<u>4,155,517</u>	<u>-</u>	<u>4,155,517</u>
134,726	4,475	139,201
<u>4,207,896</u>	<u>46,501</u>	<u>4,254,397</u>
<u>4,342,622</u>	<u>50,976</u>	<u>4,393,598</u>

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2004

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Assets			
Cash and pooled investments:			
ISCAP	256,382	-	256,382
Other	1,702,445	296,589	1,999,034
Receivables:			
Property tax:			
Delinquent	14,943	4,565	19,508
Succeeding year	1,353,177	378,248	1,731,425
Due from other governments	236,454	31,734	268,188
	<u>3,563,401</u>	<u>711,136</u>	<u>4,274,537</u>
Total assets			
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	-	20,043	20,043
Salaries and benefits payable	304,072	-	304,072
ISCAP warrants payable	255,000	-	255,000
ISCAP premium	3,537	-	3,537
Deferred revenue:			
Succeeding year property tax	1,353,177	378,248	1,731,425
Other	212,676	-	212,676
Total liabilities	<u>2,128,462</u>	<u>398,291</u>	<u>2,526,753</u>
Fund balances:			
Reserved for:			
Iowa early intervention block grant	7,901	-	7,901
Unreserved:			
Designated	950,000	-	950,000
Undesignated	477,038	312,845	789,883
Total fund balances	<u>1,434,939</u>	<u>312,845</u>	<u>1,747,784</u>
	<u>3,563,401</u>	<u>711,136</u>	<u>4,274,537</u>
Total liabilities and fund balances			

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

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

June 30, 2004

Total fund balances of governmental funds (Exhibit C)	1,747,784
 <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.	3,017,306
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	212,676
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	(4,977)
Long-term liabilities, including capital loan notes payable, capital leases payable and early retirement benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(630,167)</u>
Net assets of governmental activities (Exhibit A)	<u><u>4,342,622</u></u>

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	1,546,998	591,655	2,138,653
Tuition	61,589	-	61,589
Other	159,572	283,754	443,326
State sources	2,271,653	779	2,272,432
Federal sources	198,664	-	198,664
Total revenues	<u>4,238,476</u>	<u>876,188</u>	<u>5,114,664</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	2,084,619	93,570	2,178,189
Special instruction	757,733	-	757,733
Other instruction	185,841	248,150	433,991
	<u>3,028,193</u>	<u>341,720</u>	<u>3,369,913</u>
Support services:			
Student services	78,703	-	78,703
Instructional staff services	81,494	-	81,494
Administration services	532,957	23,583	556,540
Operation and maintenance of plant services	345,652	15,527	361,179
Transportation services	289,640	15,883	305,523
	<u>1,328,446</u>	<u>54,993</u>	<u>1,383,439</u>
Non-instructional programs	65	-	65
Other expenditures:			
Facilities acquisition	-	377,044	377,044
Long-term debt:			
Principal	-	217,777	217,777
Interest and fiscal charges	-	11,225	11,225
AEA flowthrough	176,916	-	176,916
	<u>176,916</u>	<u>606,046</u>	<u>782,962</u>
Total expenditures	<u>4,533,620</u>	<u>1,002,759</u>	<u>5,536,379</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(295,144)</u>	<u>(126,571)</u>	<u>(421,715)</u>
Other financing sources (uses):			
Compensation for loss of fixed assets	4,488	17,800	22,288
Proceeds from capital leases	102,070	-	102,070
Sales of materials and equipment	985	-	985
Operating transfers in	-	337,953	337,953
Operating transfers out	(42,777)	(295,176)	(337,953)
Total other financing sources (uses)	<u>64,766</u>	<u>60,577</u>	<u>125,343</u>
Net change in fund balances	(230,378)	(65,994)	(296,372)
Fund balances beginning of year, as restated	<u>1,665,317</u>	<u>378,839</u>	<u>2,044,156</u>
Fund balances end of year	<u><u>1,434,939</u></u>	<u><u>312,845</u></u>	<u><u>1,747,784</u></u>

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		(296,372)
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
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	538,003	
Depreciation expense	<u>(137,651)</u>	400,352
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.		
		(16,359)
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
		217,777
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.		
		(3,156)
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		(65,446)
Proceeds from issuing long-term liabilities are included in the governmental funds but increase long-term liabilities in the Statement of Net Assets.		
		<u>(102,070)</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>134,726</u></u>

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2004

	Nonmajor School Nutrition
	<u> </u>
	\$
Assets	
Cash and cash equivalents	24,074
Accounts receivable	3,441
Inventories	4,274
Capital assets, net of accumulated depreciation	<u>20,909</u>
Total assets	52,698
Liabilities	
Deferred revenue	<u>1,722</u>
Net assets	
Invested in capital assets, net of related debt	20,909
Unrestricted	<u>30,067</u>
Total net assets	<u><u>50,976</u></u>

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	Nonmajor School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>130,229</u>
Operating expenses:	
Non-instructional programs:	
Salaries	73,432
Benefits	28,218
Supplies	112,478
Depreciation	<u>4,977</u>
	<u>219,105</u>
Operating gain (loss)	<u>(88,876)</u>
Non-operating revenue:	
State sources	3,367
Federal sources	<u>89,984</u>
Total non-operating revenue	<u>93,351</u>
Change in net assets	4,475
Net assets beginning of year	<u>46,501</u>
Net assets end of year	<u><u>50,976</u></u>

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2004

	Nonmajor School Nutrition <u> </u> \$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	129,549
Cash payments to employees for services	(117,816)
Cash payments to suppliers for goods or services	<u>(96,591)</u>
Net cash used by operating activities	<u>(84,858)</u>
Cash flows from non-capital financing activities:	
State grants received	3,367
Federal grants received	<u>73,223</u>
Net cash provided by non-capital financing activities	<u>76,590</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(8,268)
Cash and cash equivalents at beginning of year	<u>32,342</u>
Cash and cash equivalents at end of year	<u><u>24,074</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(88,876)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	16,761
Depreciation	4,977
Decrease (increase) in inventories	(873)
Decrease (increase) in accounts receivable	(1,132)
(Decrease) increase in salaries and benefits payable	(16,167)
(Decrease) increase in deferred revenue	<u>452</u>
Net cash used in operating activities	<u><u>(84,858)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$16,761 of federal commodities.

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2004

1. Summary of Significant Accounting Policies

East Buchanan 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 Winthrop, Aurora and Quasquerton, Iowa and the predominately agricultural territory in a portion of Buchanan 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, East Buchanan 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 East Buchanan 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 instruction, support and other costs.

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

C. Measurement Focus and Basis of Accounting

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, 2002 assessed property valuations; is for the tax accrual period July 1, 2003, through June 30, 2004, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

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

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

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

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	30-45 years
Improvements other than buildings	20 years
Furniture and equipment	5-20 years

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

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

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

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

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

2. Cash and Pooled Investments

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

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

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

3. Interfund Transfers

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

Transfer to	Transfer from	Amount
		\$
Special Revenue: Physical Plant and Equipment Levy Fund	Capital Projects Fund	42,758
Debt Service Fund	Special Revenue: Physical Plant and Equipment Levy Fund	252,418
Debt Service Fund	General Fund	42,777

This transfer moved revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

4. Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of [June 30, 2004](#), is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
			\$	\$	\$	\$
2004-05A	6/30/04	6/30/05	<u>256,382</u>	<u>-</u>	<u>255,000</u>	<u>-</u>

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

<u>Balance Beginning of Year</u>	<u>Advances Received</u>	<u>Advances Repaid</u>	<u>Balance End of Year</u>
\$	\$	\$	\$
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
	%	%
2004-05A	3.000	2.463

5. Capital Assets

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

	Balance Beginning of Year, as Restated	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	1,860,814	377,044	2,237,858	-
Land	48,355	-	-	48,355
Total capital assets not being depr.	<u>1,909,169</u>	<u>377,044</u>	<u>2,237,858</u>	<u>48,355</u>
Capital assets being depreciated:				
Buildings	1,382,654	2,237,858	-	3,620,512
Improvements other than buildings	132,085	17,265	-	149,350
Furniture and equipment	824,070	143,694	82,870	884,894
Total capital assets being deprec.	<u>2,338,809</u>	<u>2,398,817</u>	<u>82,870</u>	<u>4,654,756</u>
Less accumulated depreciation for:				
Buildings	838,454	82,998	-	921,452
Improvements other than buildings	82,377	7,197	-	89,574
Furniture and equipment	710,193	47,456	82,870	674,779
Total accumulated depreciation	<u>1,631,024</u>	<u>137,651</u>	<u>82,870</u>	<u>1,685,805</u>
Total capital assets being depreciated, net	<u>707,785</u>	<u>2,261,166</u>	<u>-</u>	<u>2,968,951</u>
Governmental activities capital assets, net	<u>2,616,954</u>	<u>2,638,210</u>	<u>2,237,858</u>	<u>3,017,306</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	51,299	-	-	51,299
Less accumulated depreciation	25,413	4,977	-	30,390
Business type activities capital assets, net	<u>25,886</u>	<u>(4,977)</u>	<u>-</u>	<u>20,909</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	10,757
Other	3,691
Support Services:	
Instructional staff services	1,018

Administration services	2,000
Operation and maintenance of plant services	2,016
Transportation	27,974
	<u>47,456</u>
Unallocated depreciation	<u>90,195</u>
Total depreciation expense – governmental activities	<u><u>137,651</u></u>
Business type activities:	
Food services	<u><u>4,977</u></u>

6. Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Capital leases	-	102,070	42,777	59,293	38,625
Capital loan notes	355,000	-	175,000	180,000	180,000
Early retirement	325,428	152,016	86,570	390,874	104,469
Total	<u>680,428</u>	<u>254,086</u>	<u>304,347</u>	<u>630,167</u>	<u>323,094</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age [fifty-five](#) and must have completed [fifteen](#) years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement expenditures for the year ended June 30, [2004](#) totaled [\\$86,570](#)

Capital Loan Notes

The District issued [\\$525,000](#) of capital loan notes during the year ended [June 30, 2002](#). These notes and the interest will be paid from the Special Revenue, Physical Plant and Equipment Levy Fund. Details of the capital loan notes are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2005	3.25	<u>180,000</u>	<u>5,850</u>	<u>185,850</u>

During the year ended June 30, [2004](#) the District made principal and interest payments totaling [\\$185,295](#) under the note agreements.

Capital Leases

The District has leased [computers and a bus](#) under capital leases. The following is a schedule of future minimum lease payments under the capital lease, together with the net present value of the minimum lease payments as of June 30, [2004](#).

	<u>Year Ending June 30,</u>	<u>Amount</u>
		\$
	2005	42,776
	2006	21,590
Minimum Lease Payments		64,366
Less Amount Representing Interest		5,073
Present Value of Minimum Lease Payments		<u>59,293</u>

7. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$130,369, \$125,399, and \$125,663 respectively, equal to the required contributions for each year.

8. Risk Management

East Buchanan 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 \$176,916 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

10. Accounting Change and Restatement

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

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

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

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

	Funds		
	General	Nonmajor	Total
	\$	\$	\$
Net assets, June 30, 2003, as previously reported	1,665,317	360,327	2,025,644
GASB Interpretation 6 adjustments	-	18,512	18,512
Net assets, July 1, 2003, as restated for Governmental funds	<u>1,665,317</u>	<u>378,839</u>	2,044,156
GASB 34 adjustments:			
Capital assets net of accumulated depreciation of \$1,631,024			2,616,954
Net assets and liabilities of Internal Service Fund			
Long-term liabilities:			
Capital loan notes		355,000	
Early retirement		<u>325,428</u>	(680,428)
Accrued interest payable			(1,821)
Deferred revenue			<u>229,035</u>
Net assets, July 1, 2003, as restated			<u>4,207,896</u>

REQUIRED SUPPLEMENTARY INFORMATION

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures, and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Revenues:						
Local sources	2,643,568	130,229	2,773,797	2,619,382	2,619,382	154,415
State sources	2,272,432	3,367	2,275,799	2,572,303	2,572,303	(296,504)
Federal sources	198,664	89,984	288,648	279,000	279,000	9,648
Total revenues	<u>5,114,664</u>	<u>223,580</u>	<u>5,338,244</u>	<u>5,470,685</u>	<u>5,470,685</u>	<u>(132,441)</u>
Expenditures:						
Instruction	3,369,913	-	3,369,913	3,780,000	3,780,000	410,087
Support services	1,383,439	-	1,383,439	1,402,000	1,402,000	18,561
Non-instructional programs	65	219,105	219,170	261,000	261,000	41,830
Other expenditures	782,962	-	782,962	1,029,621	1,029,621	246,659
Total expenditures	<u>5,536,379</u>	<u>219,105</u>	<u>5,755,484</u>	<u>6,472,621</u>	<u>6,472,621</u>	<u>717,137</u>
Excess (deficiency) of revenues over (under) expenditures	(421,715)	4,475	(417,240)	(1,001,936)	(1,001,936)	584,696
Other financing sources (uses) net	<u>125,343</u>	<u>-</u>	<u>125,343</u>	<u>3,000</u>	<u>3,000</u>	<u>122,343</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	(296,372)	4,475	(291,897)	(998,936)	(998,936)	707,039
Balance beginning of year	<u>2,044,156</u>	<u>46,501</u>	<u>2,090,657</u>	<u>2,106,890</u>	<u>2,106,890</u>	<u>(16,233)</u>
Balance end of year	<u><u>1,747,784</u></u>	<u><u>50,976</u></u>	<u><u>1,798,760</u></u>	<u><u>1,107,954</u></u>	<u><u>1,107,954</u></u>	<u><u>690,806</u></u>

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2004

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

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

OTHER SUPPLEMENTARY INFORMATION

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2004

Assets	Special Revenue Funds				
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	Capital Projects	Total
	\$	\$	\$	\$	\$
Cash and pooled investments	79,930	54,251	56,381	106,027	296,589
Receivables:					
Property tax:					
Delinquent	1,924	-	2,641	-	4,565
Succeeding year	150,000	-	228,248	-	378,248
Due from other governments	-	-	-	31,734	31,734
Total assets	231,854	54,251	287,270	137,761	711,136
Liabilities & Fund Balances					
Liabilities:					
Accounts payable	-	1,900	-	18,143	20,043
Deferred revenue:					
Succeeding year property tax	150,000	-	228,248	-	378,248
Total liabilities	150,000	1,900	228,248	18,143	398,291
Fund balances:					
Unreserved fund balance	81,854	52,351	59,022	119,618	312,845
Total liabilities and fund balances	231,854	54,251	287,270	137,761	711,136

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	Special Revenue Funds					Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	Capital Projects	Debt Service	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	173,448	-	235,814	182,393	-	591,655
Other	397	236,053	1,361	45,943	-	283,754
State sources	333	-	446	-	-	779
Total revenues	<u>174,178</u>	<u>236,053</u>	<u>237,621</u>	<u>228,336</u>	<u>-</u>	<u>876,188</u>
Expenditures:						
Current:						
Instruction:						
Regular instruction	93,570	-	-	-	-	93,570
Other instruction	-	248,150	-	-	-	248,150
Support services:						
Administration services	23,583	-	-	-	-	23,583
Operation and maintenance of plant services	15,527	-	-	-	-	15,527
Transportation services	15,883	-	-	-	-	15,883
Other expenditures:						
Facilities acquisition	-	-	38,535	338,509	-	377,044
Long-term debt:						
Principal	-	-	-	-	217,777	217,777
Interest and fiscal charges	-	-	-	-	11,225	11,225
Total expenditures	<u>148,563</u>	<u>248,150</u>	<u>38,535</u>	<u>338,509</u>	<u>229,002</u>	<u>1,002,759</u>
Excess (deficiency) of revenues over (under) expenditures	<u>25,615</u>	<u>(12,097)</u>	<u>199,086</u>	<u>(110,173)</u>	<u>(229,002)</u>	<u>(126,571)</u>
Other financing sources (uses):						
Compensation for loss of fixed assets	-	-	17,800	-	-	17,800
Operating transfers in	-	-	42,758	66,193	229,002	337,953
Operating transfers out	-	-	(252,418)	(42,758)	-	(295,176)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(191,860)</u>	<u>23,435</u>	<u>229,002</u>	<u>60,577</u>
Net change in fund balances	25,615	(12,097)	7,226	(86,738)	-	(65,994)
Fund balances beginning of year, as restated	<u>56,239</u>	<u>64,448</u>	<u>51,796</u>	<u>206,356</u>	<u>-</u>	<u>378,839</u>
Fund balances end of year	<u>81,854</u>	<u>52,351</u>	<u>59,022</u>	<u>119,618</u>	<u>-</u>	<u>312,845</u>

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance	Revenues	Expenditures	Intra-Fund Transfers	Balance
	Beginning of Year				End of Year
	\$	\$	\$	\$	\$
Athletics	22,869	91,050	94,918	380	19,381
Annual	1,241	7,554	7,859	16	952
Breakfast club	45	-	-	-	45
Drama/speech	989	1,161	2,377	303	76
FBLA	6,263	12,566	14,977	13	3,865
Feed store	409	1,088	1,439	(13)	45
Shop club	(334)	2,950	3,060	444	-
Library club	2,658	6,274	6,426	-	2,506
Marketing	26	-	-	-	26
Music	480	2,166	1,816	(174)	656
Newspaper	434	387	865	44	-
Pep band	1,338	2,272	2,232	-	1,378
Color guard	-	49	-	-	49
Physics club	379	-	-	-	379
Spanish club	598	863	585	-	876
Speech	749	1,025	573	(738)	463
Elementary student council	3,177	8,020	9,680	(100)	1,417
Camp Wapsie Y	2,707	4,245	6,214	738	1,476
Softball fund raiser	2,561	7,036	2,036	(435)	7,126
Volleyball fund raiser	1,626	2,148	3,478	-	296
Girls basketball fund raiser	132	2,418	2,257	(14)	279
Girls track fund raiser	93	1,217	1,144	-	166
Boys basketball fund raiser	773	2,486	2,582	-	677
MS girls BB	-	317	314	-	3
Golf	1,120	1,000	1,074	-	1,046
Wrestling fund raiser	100	-	-	-	100
MS boys baseball	200	-	-	-	200
Music trip fund raiser	10,087	42,112	51,396	180	983
Sound system fund raiser	-	-	-	433	433
Class of 2004	1,360	4,035	5,787	392	-
Class of 2005	1,513	14,685	14,198	750	2,750
Class of 2006	390	1,286	173	(750)	753
Class of 2007	-	30	-	-	30
Interest	-	1,313	-	(1,313)	-
Advanced placement	147	3,037	3,047	-	137
National Honor Society	480	242	684	-	38
NHS care project	-	1,745	1,603	(140)	2
Self contained special educ.	22	-	-	-	22
Middle school student council	1,876	2,243	3,241	-	878
Student commons	1,737	1,238	1,867	-	1,108
HS student council	5,080	5,066	7,312	(16)	2,818
Technology	482	387	53	-	816
Student Ins.	-	607	607	-	-
Beginning accruals	(9,359)	(265)	(9,624)	-	-
Ending accruals	-	-	1,900	-	(1,900)
Total	64,448	236,053	248,150	-	52,351

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2004	2003	2002	2001
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,138,653	1,808,640	1,839,603	1,573,833
Tuition	61,589	75,110	62,438	44,203
Other	400,568	379,569	382,045	404,707
State sources	2,272,432	2,477,700	3,396,355	2,502,196
Federal sources	241,422	112,849	135,629	131,026
Total revenues	5,114,664	4,853,868	5,816,070	4,655,965
Expenditures:				
Instruction:				
Regular instruction	2,178,189	2,001,035	1,998,940	1,774,229
Special instruction	757,733	847,381	787,391	723,437
Other instruction	433,991	320,867	322,372	346,423
Support services:				
Student services	78,703	73,333	91,748	89,059
Instructional staff services	81,494	84,712	35,637	34,476
Administration services	556,540	501,781	450,399	598,127
Operation and maintenance of plant services	361,179	352,174	328,299	404,912
Transportation services	305,523	187,452	265,417	232,655
Central support services			6,242	4,732
Non-instructional programs	65	1,040	264	19,800
Other expenditures:				
Facilities acquisition	377,044	1,674,132	63,742	73,907
Long-term debt:				
Principal	217,777	179,300	-	21,551
Interest and other charges	11,225	15,003	-	1,142
AEA flowthrough	176,916	190,422	187,486	194,718
Total expenditures	5,536,379	6,428,632	4,537,937	4,519,168

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

To the Board of Education of the
[East Buchanan](#) Community School District:

We have audited the financial statements of the [East Buchanan](#) Community School District as of and for the year ended June 30, [2004](#), and have issued our report thereon dated [October 19, 2004](#). We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether [East Buchanan](#) Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. [However, we noted certain immaterial instances of noncompliance that are described in Part II of the accompanying Schedule of Findings.](#)

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

Internal Control over Financial Reporting

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

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

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of [East Buchanan](#) 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

[October 19, 2004](#)

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

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

Recommendation: We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures and investigate methods to 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.

04-I-B School Expenditure Supporting Documentation and Board Approval: We noted the following items during our testing of District expenditures:

General Fund – We tested eleven credit card payments. One payment for \$405, was not supported by detailed invoices or receipts.

General Fund – Electronic payments for payroll taxes were not on the lists of bills approved by the board.

Recommendation: All District payments should be supported by detailed invoices, receipts, contracts or other documents prepared by or signed by entities outside of the District. These documents should specify exactly what the District is paying for and the amount to be paid.

The District should also review its procedures for preparing the lists of bills for board approval. Chapter 179.29 of the Code of Iowa provides that “the Board shall audit all just claims against the corporation and no order shall be drawn upon the treasury until the claim therefore has been audited and allowed.” Chapter 279.30 of the Code of Iowa allows payment of specific items, such as utilities, postage and printing, without prior Board approval. The Board may approve a resolution designating certain other disbursements that may be paid prior to a Board Meeting with the approval of the Board President. Except as expressly permitted, no checks should be prepared for claims that have not been properly audited and allowed. Any payments made prior to board approval as allowed should be approved by the board at the next meeting.

District Response: We are in the process of reviewing and changing our current procedures.

Conclusion: Response accepted.

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

- 04-II-A Official Depositories: Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.
- 04-II-B Certified Budget: Disbursements for the year ended June 30, 2004, did not exceed the amounts budgeted.
- 04-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.
- 04-II-D Travel Expenses: No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- 04-II-E Business Transactions: We noted no transactions between the District and District officials or employees.
- 04-II-F Bond Coverage: Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of bond coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 04-II-G Board Minutes: Except as explained in comment 04-I-B, we noted no transactions requiring Board approval that had not been approved by the Board.
- 04-II-H Certified Enrollment: We noted no variances in the basic enrollment data certified to the Department of Education.
- 04-II-I Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- 04-II-J Certified Annual Report (CAR): The CAR was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.