

EAST CENTRAL COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

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East Central Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Richard Badrick	President	2004
Steve Gendreau	Vice President	2005
Charles Jargo	Board Member	2003
Sharon Marshall	Board Member	2004
Ray Naeve	Board Member	2005
Board of Education (After September 2003 Election)		
Steve Gendreau	President	2005
Charles Jargo	Vice President	2006
Richard Badrick	Board Member	2004
Sharon Marshall	Board Member	2004
Ray Naeve	Board Member	2005
School Officials		
James House	Superintendent	2004
Sandra Hansen	Business Manager/ Board Secretary	2004
Gruhn Law Firm	Attorney	2004

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
East Central Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the East Central Community School District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

As described in Note 7 to the financial statements, during the year ended June 30, 2004, East Central Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated November 4, 2004, on our consideration of the East Central Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of

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

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 32 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise East Central 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 two years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Another firm previously audited, in accordance with the standards referred to in the second paragraph of this report, the general purpose financial statements for the year ended June 30, 2001, (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson PC

NOLTE, CORNMAN & JOHNSON, P.C.

November 4, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$3,510,201 in fiscal 2003 to \$3,504,846 in fiscal 2004, while General Fund expenditures also decreased from \$3,281,255 in fiscal 2003 to \$3,162,328 in fiscal 2004. This resulted in an increase in the District's fund balance from \$337,295 in fiscal 2003 to \$682,543 in fiscal 2004, which was a 102% increase from the prior year.
- The District has shared classes with Preston Community School District for a number of years. For the 2004 fiscal year, the District began sharing classes with Northeast Community School District.
- The District received various grants during the 2004 fiscal year, including: REAP, Star, and the Dubuque Racing Grant.
- East Central Community School District reduced its Superintendent and elementary principal's positions.

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 East Central Community School District as a whole and present an overall view of the District's finances.

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

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

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

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds.

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

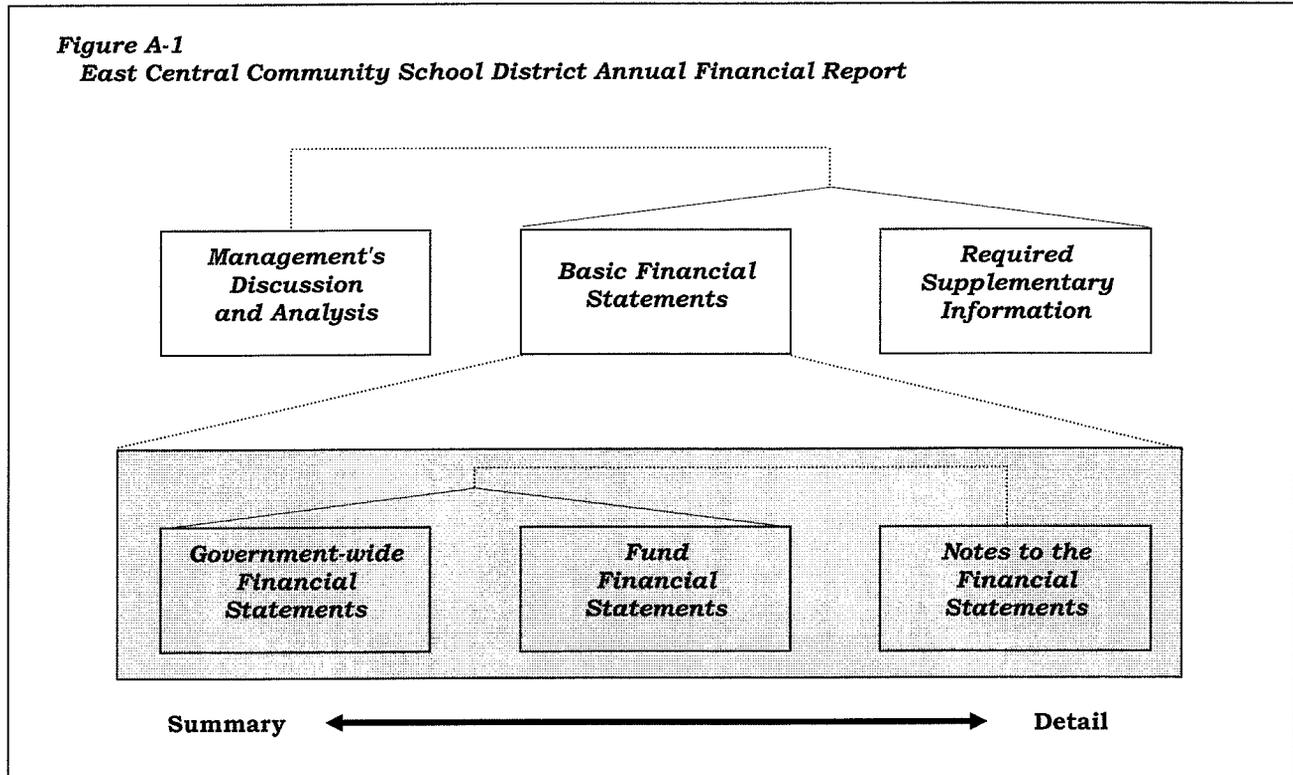


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

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

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the Government-wide statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Current and other assets	\$ 2,631,785	25,157	2,656,942
Capital assets	426,580	12,535	439,115
Total assets	<u>3,058,365</u>	<u>37,692</u>	<u>3,096,057</u>
Other liabilities	<u>1,641,314</u>	1,363	1,642,677
Total liabilities	<u>1,641,314</u>	<u>1,363</u>	<u>1,642,677</u>
Net assets:			
Invested in capital assets, net of related debt	426,580	12,535	439,115
Restricted	289,572	0	289,572
Unrestricted	700,899	23,794	724,693
Total net assets	<u>\$ 1,417,051</u>	<u>36,329</u>	<u>1,453,380</u>

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

Figure A-4
Changes of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Revenues:			
Program revenues:			
Charges for services	\$ 328,882	84,642	413,524
Operating grants and contributions and restricted interest	527,556	61,567	589,123
Capital grants and contributions and restricted interest	19,789	0	19,789
General revenues:			
Property tax	1,311,643	0	1,311,643
Local option sales and service tax	210,995	0	210,995
Unrestricted state grants	1,540,295	0	1,540,295
Unrestricted investment earnings	8,088	220	8,308
Other	2,730	0	2,730
Total revenues	3,949,978	146,429	4,096,407
Program expenses:			
Governmental activities:			
Instructional	2,321,438	0	2,321,438
Support services	970,201	0	970,201
Non-instructional programs	0	135,847	135,847
Other expenses	258,372	0	258,372
Total expenses	3,550,011	135,847	3,685,858
Change in net assets	\$ 399,967	10,582	410,549

Property tax and unrestricted state grants account for 70% of the District's total revenues. The District's expenses primarily relate to instruction and support services, which account for 89% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$3,949,978 and expenses were \$3,550,011.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 2,321,438	1,588,726
Support services	970,201	970,201
Other expenses	258,372	114,857
Totals	\$ 3,550,011	2,673,784

-
- A portion of the cost financed by users of the District's programs was \$328,882.
 - The federal and state government subsidized certain programs with operating grants and contributions totaling \$527,556.
 - The net cost portion of governmental activities was financed with \$1,311,643 in property tax, \$210,995 in local option sales and services tax, \$1,540,295 in unrestricted state grants, unrestricted investment earnings of \$8,088, and \$2,730 from the sale of equipment.

Business-Type Activities

The District's only business-type activity is the School Nutrition Fund. Revenues of the District's business-type activities totaled \$146,429 in 2004. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income. Expenses of the District's business-type activities were \$135,847 in 2004.

INDIVIDUAL FUND ANALYSIS

As previously noted, the East Central 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 \$970,474, an increase of \$503,292 above last years ending fund balances of \$467,182.

Governmental Fund Highlights

- The District's increase in General Fund financial position is the result of a decrease in expenditures, causing the General Fund's balance to increase.

Proprietary Fund Highlights

- School Nutrition Fund net assets increased from \$25,747 at June 30, 2003 to \$36,329 at June 30, 2004, representing an increase of 41%.

BUDGETARY HIGHLIGHTS

The District's receipts were \$45,110 more than budgeted receipts. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$439,115, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See figure A-6) More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$139,410.

The original cost of the District's capital assets was \$3,089,779. Governmental funds account for \$3,072,644, with the remainder of \$17,135 accounted for in the Proprietary School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$1,647,192 at June 30, 2004, compared to \$1,612,374 reported at June 30, 2003.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities	Business-type Activities	Total School District
	2004	2004	2004
Land	\$ 6,827	0	6,827
Buildings	347,838	0	347,838
Improvements other than buildings	36,577	0	36,577
Machinery and equipment	35,338	12,535	47,873
Total	\$ 426,580	12,535	439,115

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:

- State budget cuts continue to be a concern for the District, shifting the majority of funding on property taxes.
- The rising cost of gas, diesel, and natural gas continue to be a concern for the District.
- Declining enrollment is an issue that the District will have to deal with.
- The increase in the cost of salaries, benefits, health costs, and IPERS continue to be a concern for the District.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sandra Hansen, Business Manager, East Central Community School District, 439 Wilson St., P.O. Box 367, Miles, Iowa, 52064.

BASIC FINANCIAL STATEMENTS

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents:			
Other	\$ 1,185,988	22,141	1,208,129
Receivables			
Property tax:			
Delinquent	45,167	0	45,167
Succeeding year	1,280,581	0	1,280,581
Accounts	765	0	765
Due from other governments	119,284	0	119,284
Inventories	0	3,016	3,016
Capital assets, net of accumulated depreciation(Note 3)	426,580	12,535	439,115
TOTAL ASSETS	3,058,365	37,692	3,096,057
LIABILITIES			
Accounts payable	86,453	0	86,453
Salaries and benefits payable	274,280	0	274,280
Deferred revenue:			
Succeeding year property tax	1,280,581	0	1,280,581
Other	0	1,363	1,363
TOTAL LIABILITIES	1,641,314	1,363	1,642,677
NET ASSETS			
Investment in capital assets, net of related debt	426,580	12,535	439,115
Restricted for:			
Teacher Quality	548	0	548
Talented and Gifted	1,093	0	1,093
Capital projects	105,003	0	105,003
Management levy	114,563	0	114,563
Physical plant and equipment levy	12,557	0	12,557
Other special revenue purposes	55,808	0	55,808
Unrestricted	700,899	23,794	724,693
TOTAL NET ASSETS	\$ 1,417,051	36,329	1,453,380

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs				
Governmental activities:				
Instruction:				
Regular instruction	\$ 1,496,137	286,049	388,394	0
Special instruction	525,033	42,833	15,436	0
Other instruction	300,268	0	0	0
	<u>2,321,438</u>	<u>328,882</u>	<u>403,830</u>	<u>0</u>
Support services:				
Student services	94,974	0	0	0
Instructional staff services	107,903	0	0	0
Administration services	311,250	0	0	0
Operation and maintenance of plant services	234,654	0	0	0
Transportation services	221,420	0	0	0
	<u>970,201</u>	<u>0</u>	<u>0</u>	<u>0</u>
Other expenditures:				
Facilities acquisitions	107,064	0	0	19,789
AEA flowthrough	123,726	0	123,726	0
Depreciation (unallocated)*	27,582	0	0	0
	<u>258,372</u>	<u>0</u>	<u>123,726</u>	<u>19,789</u>
Total governmental activities	3,550,011	328,882	527,556	19,789
Business-Type activities:				
Non-instructional programs:				
Nutrition services	135,847	84,642	61,567	0
Total business-type activities	<u>135,847</u>	<u>84,642</u>	<u>61,567</u>	<u>0</u>
Total	<u>\$ 3,685,858</u>	<u>413,524</u>	<u>589,123</u>	<u>19,789</u>

General Revenues:

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

Total general revenues

Changes in net assets

Net assets beginning of year, as restated (Note 7)

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(821,694)	0	(821,694)
(466,764)	0	(466,764)
(300,268)	0	(300,268)
(1,588,726)	0	(1,588,726)
(94,974)	0	(94,974)
(107,903)	0	(107,903)
(311,250)	0	(311,250)
(234,654)	0	(234,654)
(221,420)	0	(221,420)
(970,201)	0	(970,201)
(87,275)	0	(87,275)
0	0	0
(27,582)	0	(27,582)
(114,857)	0	(114,857)
(2,673,784)	0	(2,673,784)
0	10,362	10,362
0	10,362	10,362
(2,673,784)	10,362	(2,663,422)
\$ 1,280,530	0	1,280,530
31,113	0	31,113
210,995	0	210,995
1,540,295	0	1,540,295
8,088	220	8,308
2,730	0	2,730
3,073,751	220	3,073,971
399,967	10,582	410,549
1,017,084	25,747	1,042,831
\$ 1,417,051	36,329	1,453,380

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Other Nonmajor Governmental Funds	Total
ASSETS			
Cash and pooled investments:			
Other	\$ 903,925	262,066	1,165,991
Receivables:			
Property tax:			
Delinquent	40,854	4,313	45,167
Succeeding year	1,251,491	29,090	1,280,581
Accounts	765	0	765
Due from other governments	92,604	26,680	119,284
TOTAL ASSETS	\$ 2,289,639	322,149	2,611,788
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 83,868	2,585	86,453
Salaries and benefits payable	271,737	2,543	274,280
Deferred revenue:			
Succeeding year property tax	1,251,491	29,090	1,280,581
Total liabilities	1,607,096	34,218	1,641,314
Fund balances:			
Reserved for:			
Teacher Quality	548	0	548
Talented and Gifted	1,093	0	1,093
Unreserved:			
Undesignated	680,902	287,931	968,833
Total fund balances	682,543	287,931	970,474
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,289,639	322,149	2,611,788

SEE NOTES TO FINANCIAL STATEMENTS.

EAST CENTRAL 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 (page 16) \$ 970,474

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

Capital assets used in governmental activities are not
financial resources and, therefore, are not report as
assets in in the governmental funds. 426,580

Blending of the Internal Service Funds to be reflected
on an entity-wide basis. 19,997

Net assets of governmental activites (page 13) \$ 1,417,051

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Other Nonmajor Governmental Funds	Total
REVENUES:			
Local sources:			
Local tax	\$ 1,188,357	334,281	1,522,638
Tuition	146,690	0	146,690
Other	101,964	88,225	190,189
Intermediate sources	91	0	91
State sources	1,791,856	107	1,791,963
Federal sources	275,888	19,789	295,677
Total revenues	<u>3,504,846</u>	<u>442,402</u>	<u>3,947,248</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	1,447,790	9,922	1,457,712
Special instruction	525,033	0	525,033
Other instruction	204,038	93,132	297,170
	<u>2,176,861</u>	<u>103,054</u>	<u>2,279,915</u>
Support services:			
Student services	94,724	250	94,974
Instructional staff services	96,906	145	97,051
Administration services	306,276	765	307,041
Operation and maintenance of plant services	199,431	34,565	233,996
Transportation services	164,404	38,515	202,919
	<u>861,741</u>	<u>74,240</u>	<u>935,981</u>
Other expenditures:			
Facilities acquisitions	0	107,064	107,064
AEA flowthrough	123,726	0	123,726
	<u>123,726</u>	<u>107,064</u>	<u>230,790</u>
Total expenditures	<u>3,162,328</u>	<u>284,358</u>	<u>3,446,686</u>
Excess of revenues over expenditures	342,518	158,044	500,562
Other financing sources:			
Sale of equipment	2,730	0	2,730
Total other financing sources	<u>2,730</u>	<u>0</u>	<u>2,730</u>
Net change in fund balances	345,248	158,044	503,292
Fund balance beginning of year	337,295	129,887	467,182
Fund balance end of year	<u>\$ 682,543</u>	<u>287,931</u>	<u>970,474</u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2004

Net change in fund balances - total governmental funds (page 18) \$ 503,292

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

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

Capital outlays	\$ 34,818	
Depreciation expense	<u>(137,982)</u>	(103,164)

Net change in the Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. (161)

Changes in net assets of governmental activities (page 15) \$ 399,967

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business-Type	
	Activities:	
	Enterprise	Governmental
	Fund	Activities:
	School	Internal
	Nutrition	Service
ASSETS		
Cash and pooled investments	\$ 22,141	19,997
Inventories	3,016	0
Capital assets, net of accumulated depreciation	12,535	0
Total assets	<u>37,692</u>	<u>19,997</u>
LIABILITIES		
Deferred Revenue:		
Other	1,363	0
Total liabilities	<u>1,363</u>	<u>0</u>
NET ASSETS		
Invested in capital assets, net of related debt	12,535	0
Unrestricted	23,794	19,997
Total net assets	<u>\$ 36,329</u>	<u>19,997</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business-Type Activities: Enterprise Fund <u>School Nutrition</u>	Governmental Activities: Internal Service <u> </u>
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 84,642	2,450
TOTAL OPERATING REVENUES	<u>84,642</u>	<u>2,450</u>
OPERATING EXPENSES:		
Salaries	50,220	0
Benefits	7,053	2,611
Services	2,566	0
Supplies	74,580	0
Depreciation	1,428	0
TOTAL OPERATING EXPENSES	<u>135,847</u>	<u>2,611</u>
OPERATING LOSS	<u>(51,205)</u>	<u>(161)</u>
NON-OPERATING REVENUES:		
State sources	2,207	0
Federal sources	59,360	0
Interest on investments	220	0
TOTAL NON-OPERATING REVENUES	<u>61,787</u>	<u>0</u>
Change in net assets	10,582	(161)
Net assets beginning of year	<u>25,747</u>	<u>20,158</u>
Net assets end of year	<u>\$ 36,329</u>	<u>19,997</u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	Business-Type Activities:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 86,005	\$ 0
Cash received from miscellaneous operating activities	0	2,450
Cash payments to employees for services	(57,273)	(2,611)
Cash payments to suppliers for goods or services	(63,665)	0
Net cash provided by (used in) operating activities	<u>(34,933)</u>	<u>(161)</u>
Cash flows from non-capital financing activities:		
State grants received	2,207	0
Federal grants received	45,600	0
Net cash provided by non-capital financing activities	<u>47,807</u>	<u>0</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(5,079)	0
Net cash used in capital and related financing activities	<u>(5,079)</u>	<u>0</u>
Cash flows from investing activities:		
Interest on investments	220	0
Net cash provided by investing activities	<u>220</u>	<u>0</u>
Net increase(decrease) in cash and cash equivalents	8,015	(161)
Cash and cash equivalents at beginning of year	<u>14,126</u>	<u>20,158</u>
Cash and cash equivalents at end of year	<u>\$ 22,141</u>	<u>\$ 19,997</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (51,205)	\$ (161)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Commodities consumed	13,760	0
Depreciation	1,428	0
Increase in inventories	(279)	0
Increase in deferred revenue	1,363	0
Net cash used in operating activities	<u>\$ (34,933)</u>	<u>\$ (161)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:		
Current assets:		
Cash and pooled investments	<u>\$ 22,141</u>	<u>\$ 19,997</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2004, the District received Federal commodities valued at \$13,760.

SEE NOTES TO FINANCIAL STATEMENTS.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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

The East Central Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Miles and Sabula, Iowa, and the predominate agricultural territory in Clinton and Jackson 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, East Central Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The East Central Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The District reports the following proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund and the Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the self-funded insurance plan of the District. The Internal Service Fund is charged back to the Governmental Funds and shown combined in the Statement of Net Assets and the Statement of Activities.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

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

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government

commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

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

Asset Class	Amount
Land	\$ 500
Buildings	500
Improvements other than buildings	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	500

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

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

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

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

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

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 at June 30, 2004 were entirely covered by Federal depository insurance, collateralized with securities or letters of credit held by the District or the District's agent in the District's name, or by multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$30,248 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

(3) Capital Assets

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

	Balance Beginning of Year, as restated (Note 7)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	6,827	0	0	6,827
Total capital assets not being depreciated	6,827	0	0	6,827
Capital assets being depreciated:				
Buildings	1,044,683	0	0	1,044,683
Improvements other than buildings	373,942	0	0	373,942
Machinery and equipment	1,612,374	34,818	0	1,647,192
Total capital assets being depreciated	3,030,999	34,818	0	3,065,817
Less accumulated depreciation for:				
Buildings	678,030	18,815	0	696,845
Improvements other than buildings	328,598	8,767	0	337,365
Machinery and equipment	1,501,454	110,400	0	1,611,854
Total accumulated depreciation	2,508,082	137,982	0	2,646,064
Total capital assets being depreciated, net	522,917	(103,164)	0	419,753
Governmental activities capital assets, net	\$ 529,744	(103,164)	0	426,580
Business-type activities:				
Machinery and equipment	\$ 12,056	5,079	0	17,135
Less accumulated depreciation	3,172	1,428	0	4,600
Business-type activities capital assets, net	\$ 8,884	3,651	0	12,535

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 73,082
Other		3,098
Support services:		
Instructional staff		10,852
Administration		4,209
Operation and maintenance of plant		658
Transportation		18,501
		110,400
Unallocated depreciation		27,582
Total governmental activities depreciation expense		\$ 137,982
Business-type activities:		
Food services		\$ 1,428
Total business-type activities depreciation expense		\$ 1,428

(4) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$111,385, \$116,529, \$120,392, respectively, equal to the required contributions for each year.

(5) Risk Management

East Central 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.

(6) 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 \$123,726 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.

(7) Accounting Change and Restatements

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

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

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

Beginning capital assets for governmental activities of \$2,753,976 were restated to \$3,037,826. The restatement includes assets

that were previously not reported.

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

	Fund		
	General	Other Nonmajor Governmental Funds	Total
Net assets, June 30, 2003, as previously reported	\$ 337,295	129,887	467,182
GASB Interpretation 6 adjustments	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	\$ 337,295	129,887	467,182
GASB 34 adjustments:			
Capital assets, net of accumulated depreciation of \$2,508,082			529,744
Blending of internal service fund			20,158
Net assets, July 1, 2003, as restated			\$ 1,017,084

REQUIRED SUPPLEMENTAL INFORMATION

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

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 1,859,517	84,862
Intermediate sources	91	0
State sources	1,791,963	2,207
Federal sources	295,677	59,360
Total revenues	<u>3,947,248</u>	<u>146,429</u>
Disbursements:		
Instruction	2,279,915	0
Support services	935,981	0
Non-instructional programs	0	135,847
Other expenditures	230,790	0
Total expenditures	<u>3,446,686</u>	<u>135,847</u>
Excess of receipts over disbursements	500,562	10,582
Other financing sources, net	<u>2,730</u>	<u>0</u>
Excess of receipts over disbursements	503,292	10,582
Balance beginning of year	<u>467,182</u>	<u>25,747</u>
Balance end of year	<u>\$ 970,474</u>	<u>36,329</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
1,944,379	1,728,271	1,728,271	216,108
91	2,000	2,000	(1,909)
1,794,170	2,016,229	2,016,229	(222,059)
355,037	302,067	302,067	52,970
<u>4,093,677</u>	<u>4,048,567</u>	<u>4,048,567</u>	<u>45,110</u>
2,279,915	2,306,927	2,306,927	27,012
935,981	1,060,353	1,060,353	124,372
135,847	277,100	277,100	141,253
230,790	311,485	311,485	80,695
<u>3,582,533</u>	<u>3,955,865</u>	<u>3,955,865</u>	<u>373,332</u>
511,144	92,702	92,702	418,442
2,730	1,500	1,500	1,230
513,874	94,202	94,202	419,672
492,929	402,445	402,445	90,484
<u>1,006,803</u>	<u>496,647</u>	<u>496,647</u>	<u>510,156</u>

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

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

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

OTHER SUPPLEMENTAL INFORMATION

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

	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue	Capital Projects	Total Nonmajor Governmental Funds
ASSETS							
Cash and pooled investments	\$ 112,810	33,972	11,468	22,184	180,434	81,632	262,066
Receivables:							
Property tax:							
Current year delinquent	3,224	0	1,089	0	4,313	0	4,313
Succeeding year	0	0	29,090	0	29,090	0	29,090
Due from other governments	0	0	0	0	0	26,680	26,680
TOTAL ASSETS	\$ 116,034	33,972	41,647	22,184	213,837	108,312	322,149
LIABILITIES AND FUND EQUITY							
Liabilities:							
Accounts payable	\$ 1,471	348	0	0	1,819	766	2,585
Salaries and benefits payable	0	0	0	0	0	2,543	2,543
Deferred revenue:							
Succeeding year property tax	0	0	29,090	0	29,090	0	29,090
Total Liabilities	1,471	348	29,090	0	30,909	3,309	34,218
Fund equity:							
Fund balances:							
Unreserved:							
Undesignated	114,563	33,624	12,557	22,184	182,928	105,003	287,931
Total fund balances	114,563	33,624	12,557	22,184	182,928	105,003	287,931
TOTAL LIABILITIES AND FUND EQUITY	\$ 116,034	33,972	41,647	22,184	213,837	108,312	322,149

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2004

	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue	Capital Projects	Total Nonmajor Governmental Funds
REVENUES:							
Local sources:							
Local tax	\$ 92,173	0	31,113	0	123,286	210,995	334,281
Other	0	87,714	0	511	88,225	0	88,225
State sources	74	0	33	0	107	0	107
Federal sources	0	0	19,789	0	19,789	0	19,789
TOTAL REVENUES	92,247	87,714	50,935	511	231,407	210,995	442,402
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	5,658	0	4,264	0	9,922	0	9,922
Other instruction	2,953	85,406	3,569	1,204	93,132	0	93,132
Support services:							
Student support services	250	0	0	0	250	0	250
Instructional staff	145	0	0	0	145	0	145
Administration services	765	0	0	0	765	0	765
Operation and maintenance of plant services	34,565	0	0	0	34,565	0	34,565
Student transportation	11,777	0	26,738	0	38,515	0	38,515
Other expenditures:							
Facilities acquisitions	0	0	0	0	0	107,064	107,064
TOTAL EXPENDITURES	56,113	85,406	34,571	1,204	177,294	107,064	284,358
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	36,134	2,308	16,364	(693)	54,113	103,931	158,044
FUND BALANCE BEGINNING OF YEAR	78,429	31,316	(3,807)	22,877	128,815	1,072	129,887
FUND BALANCE END OF YEAR	\$ 114,563	33,624	12,557	22,184	182,928	105,003	287,931

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2004

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Athletic	\$ 2,426	51,022	48,397	5,051
Girls BB Camp	243	3,123	2,985	381
FB Camp	512	1,142	1,524	130
SB Camp	97	0	0	97
VB Camp	912	1,945	2,309	548
Concession	0	10,277	10,277	0
Miscellaneous	11,890	4,716	3,497	13,109
Project Grad.	868	4,382	3,986	1,264
Speech & Drama	1,532	647	751	1,428
Student Council	783	373	558	598
Student of the Month	296	0	164	132
Student Pictures	0	481	481	0
State Tournament	1,049	787	262	1,574
9th Grade	0	1,974	1,227	747
10th Grade	1,688	0	100	1,588
11th Grade	2,122	8,981	7,011	4,092
12th Grade	4,813	0	4,064	749
German	380	0	0	380
Stand Chapter	526	0	300	226
Career Day	261	0	0	261
Middle School	918	3,631	3,280	1,269
Intrafund Transfers	0	(5,767)	(5,767)	0
Total	\$ 31,316	87,714	85,406	33,624

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS
 EXPENDABLE TRUST FUNDS
 YEAR ENDED JUNE 30, 2004

Expendable Trust Funds	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Wosoba Scholarship	\$ 6,701	159	101	6,759
Nelson Scholarship	5,631	155	407	5,379
Wilcke Scholarship	2,851	51	70	2,832
Keil Scholarship	314	7	2	319
Treloar Scholarship	3,393	60	219	3,234
Wiese Scholarship	1,987	57	405	1,639
Gray Scholarship	2,000	22	0	2,022
Total	\$ 22,877	511	1,204	22,184

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 1,522,638	1,403,774	1,144,595	1,076,250
Tuition	146,690	153,254	93,301	101,849
Other	190,189	157,088	170,769	232,245
Intermediate sources	91	85	0	6,353
State sources	1,791,963	1,813,811	1,889,108	1,872,872
Federal sources	295,677	279,234	202,725	82,888
Total	<u>\$ 3,947,248</u>	<u>3,807,246</u>	<u>3,500,498</u>	<u>3,372,457</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 1,457,712	1,350,625	1,374,728	1,350,237
Special instruction	525,033	504,593	485,733	470,914
Other instruction	297,170	393,278	418,866	418,013
Support services:				
Student services	94,974	88,163	92,719	113,730
Instructional staff services	97,051	146,858	152,016	147,824
Administration services	307,041	360,919	384,757	396,806
Operation and maintenance of plant services	233,996	225,141	249,609	265,113
Transportation services	202,919	177,285	183,303	195,270
Non-instructional programs	0	87,062	76,896	40,905
Other expenditures:				
Facilities acquisitions	107,064	149,380	62,993	57,293
AEA flow-through	123,726	132,244	133,434	134,752
Total	<u>\$ 3,446,686</u>	<u>3,615,548</u>	<u>3,615,054</u>	<u>3,590,857</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

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

To the Board of Education of the
East Central Community School District:

We have audited the financial statements of East Central Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated November 4, 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 Central Community School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

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

Internal Control Over Financial Reporting

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

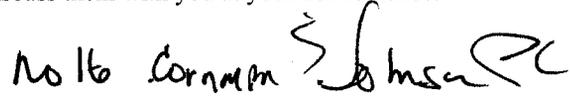
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected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

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

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of East Central Community School District and other parties to whom East Central 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 East Central 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.

Handwritten signature in black ink, appearing to read "Nolte Cornman & Johnson PC".

NOLTE, CORNMAN & JOHNSON, P.C.

November 4, 2004

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

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

REPORTABLE CONDITIONS:

- I-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

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

Conclusion - Response accepted.

- I-B-04 District and Regional Rents – We noted during our audit that the district receives money for use of facilities when hosting district and regional events.

Recommendation – Chapter 297.9 of the Code of Iowa requires rent to be receipted into the General Fund. The district should receipt rent collected for facility usage into the General Fund.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

- I-C-04 Gate Admissions – The gate admissions were not reconciled to pre-numbered tickets sold.

Recommendation – The district should establish reconciliation procedures for gate admissions. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the admissions to the number of tickets issued.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

- I-D-04 Student Activity Fund – We noted during our audit that the Student Activity Fund included an interest account. We also noted during our audit that the District wrote checks to individual students in the Student Activity Fund. According to the Uniform Accounting Manual for the Department of Education, no funds from a student organization may be distributed to individual students.

Recommendation – The interest earned each year should be allocated at least on an annual basis to the individual activity accounts. The District should review procedures in place to ensure no checks are written to individual students.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

I-E-04 Appraisal Fee – We noted during the audit that the fixed assets appraisal cost of \$2,500 was paid for out of the Management Fund. This expenditure would be more appropriate in the General Fund.

Recommendation – The District should transfer \$2,500 from the General Fund to the Management Fund to pay for the fixed assets appraisal.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

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

Part II: Other Findings Related to Statutory Reporting

- II-A-04 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- II-B-04 Certified Budget - District disbursements for the year ended June 30, 2004 did not exceed the certified budget amounts.
- II-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-D-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-E-04 Business Transactions – Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Richard Badrick, Board Member Owner Badrick Service & Sales	Repairs & Parts	\$1,746

In accordance with 279.7A of the Code of Iowa, the above transaction with the Board Member does not appear to represent a conflict of interest.

- II-F-04 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-H-04 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-I-04 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-J-04 Certified Annual Report - The Certified Annual Report was not filed with the Department of Education timely, however we noted no significant deficiencies in the amounts reported.

Recommendation – The District should submit the Certified Annual Report in a timely manner.

Response – We will comply with this recommendation.

Conclusion – Response accepted.