

EAST MARSHALL COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

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East Marshall Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Steve Ryan	President	2003
Mike Strawn	Board Member	2003
David Scott	Board Member	2004
Tim Bennett	Board Member	2005
Julie McMeekin	Board Member (Resigned)	2005
Connie Allen	Board Member (Appointed)	2003
Board of Education (After September 2003 Election)		
Mike Strawn	President	2006
Tim Bennett	Vice President	2005
David Scott	Board Member	2004
Connie Allen	Board Member	2005
Leroy Kivett	Board Member	2006
School Officials		
Dr. Alan Meyer	Superintendent	2004
Nancy Burchland	Business Manager/ Board Secretary	2004
Ahlers Law Office	Attorney	2004
Cartwright, Druker, And Ryden	Attorney	2004

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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
East Marshall 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 Marshall 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 Marshall 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 9 to the financial statements, during the year ended June 30, 2004, East Marshall 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 October 21, 2004 on our consideration of the East Marshall Community School District's internal control over financial reporting and our tests of its compliance with certain

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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 36 through 38 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 Marshall 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 three years ended June 30, 2003 (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, P.C.

October 21, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

East Marshall 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 increased from \$6,089,304 in fiscal 2003 to \$6,440,906 in fiscal 2004, while General Fund expenditures increased from \$6,226,430 in fiscal 2003 to \$6,397,712 in fiscal 2004. This resulted in an increase in the District's General Fund balance from \$249,849 in fiscal 2003 to a balance of \$293,043 in fiscal 2004, a 17% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in property tax and federal grant revenue in fiscal 2004. Fiscal 2004 was also the first year the district received Income Surtax from the Instructional Support Level, initially levied in fiscal year 2003. State revenues declined due in part to a 2.5% across the board cut in state revenue. The increase in expenditures was due primarily to a increase in the negotiated salary and benefits and tuition paid for student attending on other school districts.
- A decline in interest rates during the past fiscal year, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone to decrease from \$47,317 in fiscal year 2003 to \$28,811 in fiscal year 2004.

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

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

Notes to the 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 funds.

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

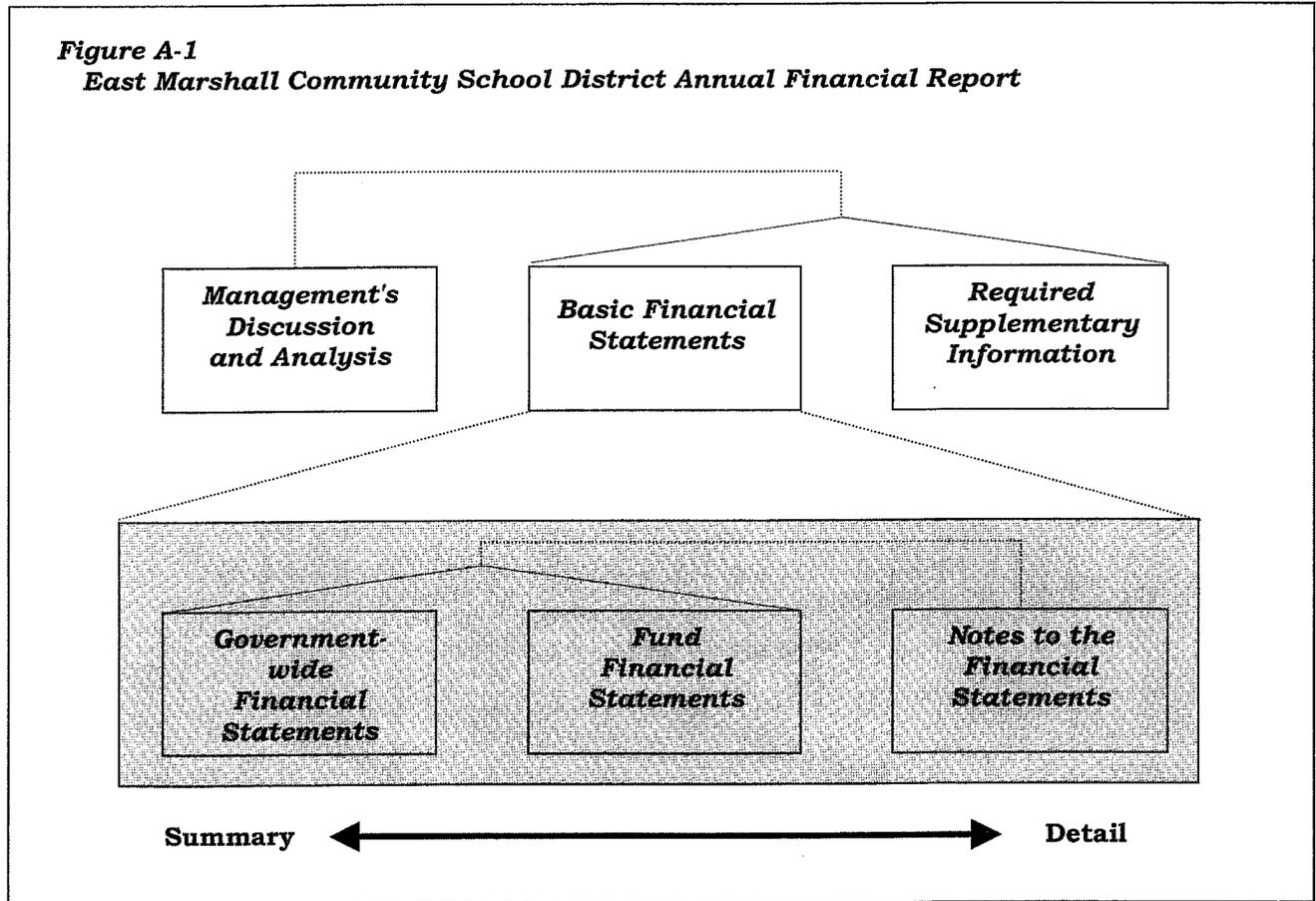


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
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 revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • 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 resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, 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 during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

Fund Financial Statements

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

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

The District has three 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 fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

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

The required financial statements for the 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 financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

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

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Private-Purpose Trust fund.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Funds - These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include the statement of fiduciary net assets and the statement of changes in fiduciary net assets.

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	\$ 5,230,062	112,045	5,342,107
Capital assets	2,472,098	24,130	2,496,228
Total assets	<u>7,702,160</u>	<u>136,175</u>	<u>7,838,335</u>
Long-term obligations	419,582	0	419,582
Other liabilities	4,309,689	30,837	4,340,526
Total liabilities	<u>4,729,271</u>	<u>30,837</u>	<u>4,760,108</u>
Net assets:			
Invested in capital assets, net of related debt	2,472,098	24,130	2,496,228
Restricted	320,114	0	320,114
Unrestricted	180,677	81,208	261,885
Total net assets	<u>\$ 2,972,889</u>	<u>105,338</u>	<u>3,078,227</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	\$ 918,419	151,694	1,070,113
Operating grants and contributions and restricted interest	668,752	136,847	805,599
General revenues:			
Local tax	3,041,670	0	3,041,670
Unrestricted state grants	2,574,805	0	2,574,805
Other	32,659	976	33,635
Total revenues	<u>7,236,305</u>	<u>289,517</u>	<u>7,525,822</u>
Program expenses:			
Governmental activities:			
Instructional	4,217,610	0	4,217,610
Support services	2,340,476	0	2,340,476
Non-instructional programs	8,892	303,397	312,289
Other expenses	465,866	0	465,866
Total expenses	<u>7,032,844</u>	<u>303,397</u>	<u>7,336,241</u>
Changes in net assets	203,461	(13,880)	189,581
Net assets beginning of year	<u>2,769,428</u>	<u>119,218</u>	<u>2,888,646</u>
Net assets end of year	<u>\$ 2,972,889</u>	<u>105,338</u>	<u>3,078,227</u>

Property tax and unrestricted state grants account for 75% of the total revenue. 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 \$7,236,305 and expenses were \$7,032,844. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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 Cost of Services	Net Cost of Services
Instruction	\$ 4,217,610	2,872,069
Support services	2,340,476	2,320,284
Non-instruction	8,892	8,892
Other expenses	465,866	244,428
Totals	<u>\$ 7,032,844</u>	<u>5,445,673</u>

- The cost financed by users of the District's programs was \$918,419.

-
- Federal and state governments subsidized certain programs with grants and contributions totaling \$668,752.
 - The net cost of governmental activities was financed with \$3,041,670 in local tax, \$2,574,805 in unrestricted state grants, and \$32,659 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$289,517 and expenses were \$303,397. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$653,745, above last year's ending fund balances of \$649,114. However, the primary reason for the increase was the controlled spending in the General Fund.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. Increase in grants resulted in an increase in revenues. However, the increase in revenues was more than the District's increase in General Fund expenditures ensuring the increase in the financial position of the District.
- The Management fund balance decreased from \$52,393 in 2003, to \$50,727 in 2004, due to the increase in expenditures.
- The Physical Plant and Equipment Levy (PPEL) and Public Equipment Recreation Levy (PERL) combined fund balance decreased from \$240,437 to \$185,840, due to an increase in expenditures in the PPEL Fund.
- The Student Activity and Expendable Trust combined fund balance increased from \$106,435 in 2003, to \$117,743 in 2004, due to a decrease in expenditures in both funds.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$119,218 at June 30, 2003 to \$105,338 at June 30, 2004, representing a decrease of approximately 12%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$289,300 less than budgeted revenues, a variance of 4%. The most significant variance resulted from the District receiving less in local sources than originally anticipated.

Total expenditures were less than budgeted, 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 \$2.5 million, 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) This amount represents a net decrease of 1.4 % from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$234,458.

The original cost of the District's capital assets was \$6,164,060. Governmental funds account for \$6,032,912 with the remainder of \$131,148 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$391,387 at June 30, 2004, compared to \$338,724 reported at June 30, 2003. This increase resulted from purchases made during the current year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business-type	Total
	Activities		Activities	School District
	2004		2004	2004
Land	\$	110,574	0	110,574
Buildings		1,890,636	0	1,890,636
Improvements other than buildings		103,331	0	103,331
Machinery and equipment		367,557	24,130	391,687
Total	\$	2,472,098	24,130	2,496,228

Long-Term Debt

At June 30, 2004, the District had long-term debt outstanding of \$419,582 in early retirement and compensated absences. This represents an increase of approximately 7.8% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding early retirement payable of \$387,475 at June 30, 2004.

The District also had total outstanding compensated absences payable of \$32,107 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change	
	2004	2003		
Early retirement	\$	387,475	371,257	4.4%
Compensated absences		32,107	18,142	77.0%
Total	\$	419,582	389,399	7.8%

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:

- Marshall and Tama Counties passed the implementation of a one cent local option sales tax for a period of ten years beginning July 1, 2004. The estimates received from the Iowa Department of Revenue indicate monthly payments totaling \$10,017 from Tama County, and \$311,122 from Marshall County. Estimates for Jasper County were \$10,511. The District filed a Revenue Purpose Statement that allows the District to use these funds for the payment or retirement of outstanding bonds, for construction, repair, remodeling or purchase of schoolhouses; and for any authorized purchase from the Physical Plant and Equipment Levy fund. A Facilities Study Committee has been formed to determine how these funds should be used.
- The voters of the District approved a renewal of the Physical Plant and Equipment Levy at the current level of sixty-seven cents per thousand for a period of ten years beginning July 1, 2005.
- Although the District has experienced declining budget enrollment for the past four years, classroom enrollment has held steady for the past two years due to increased net open enrollment students.
- Since fiscal year 2003, the District has fallen under the budget guarantee legislation that guaranteed the current year total regular program district cost would be at least equal to the prior year regular program district cost. Beginning in FY05 the legislation changed to a budget adjustment of the greater of 101% of regular program district cost or 90% of the difference between FO04 total regular program cost minus FY05 regular program district cost. In FY06 this adjustment will continue to scale down to 80% of the difference between the total regular program cost and the base year or 101% of the total regular district cost.
- In preparation for negative new money, increasing salaries, rising health insurance costs and declining enrollment, staff was reduced for the 2004-05 school year. Reductions included 1.5 media specialists, 2 elementary classroom aides, 2 elementary teachers, .5 PE teachers, and on high school assistant coach.
- Property Tax valuations decreased from \$161,462,534 for fiscal year 2004 to \$148,151,234 for fiscal year 2005, an 8% reduction, due to reduced agriculture valuations. In the General Fund, the reduced valuation does not decrease revenues but increases the property tax rate needed to fund combined district cost. The PPEL and PERL levies, fixed dollar levies, will generate fewer dollars because of the reduction.

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 Nancy Burchland, District Business Manager, East Marshall Community School District, 225 South Elm Street, Gilman, Iowa, 50106.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments			
ISCAP (Note 3)	\$ 960,812	0	960,812
Other	1,284,414	95,496	1,379,910
Receivables:			
Property tax:			
Delinquent	47,161	0	47,161
Succeeding year	2,521,355	0	2,521,355
Income surtax	263,457	0	263,457
Accounts	1,813	0	1,813
Due from other governments	151,050	0	151,050
Inventories	0	16,549	16,549
Capital assets, net of accumulated depreciation (Note 4)	2,472,098	24,130	2,496,228
TOTAL ASSETS	7,702,160	136,175	7,838,335
LIABILITIES			
Accounts payable	126,472	1,821	128,293
Salaries and benefits payable	692,862	24,800	717,662
ISCAP warrants payable (Note 3)	969,000	0	969,000
Deferred revenue:			
Succeeding year property tax	2,521,355	0	2,521,355
Other	0	4,216	4,216
Long-term liabilities (Note 5):			
Portion due within one year:			
Early retirement	63,439	0	63,439
Compensated absences	32,107	0	32,107
Portion due after one year:			
Early retirement	324,036	0	324,036
TOTAL LIABILITIES	4,729,271	30,837	4,760,108
NET ASSETS			
Investment in capital assets, net of related debt	2,472,098	24,130	2,496,228
Restricted for:			
Talented and gifted	9,936	0	9,936
Teacher quality	203	0	203
Capital projects	6,392	0	6,392
Physical plant & equipment levy	175,784	0	175,784
Playground equipment replacement levy	10,056	0	10,056
Other special revenue purposes	117,743	0	117,743
Unrestricted	180,677	81,208	261,885
TOTAL NET ASSETS	\$ 2,972,889	105,338	3,078,227

SEE NOTES TO FINANCIAL STATEMENTS.

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

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Governmental activities:			
Instruction:			
Regular instruction	\$ 2,665,533	505,684	446,582
Special instruction	946,698	150,186	0
Other instruction	605,379	243,089	0
	<u>4,217,610</u>	<u>898,959</u>	<u>446,582</u>
Support services:			
Student services	237,836	0	0
Instructional staff services	257,506	0	0
Administration services	672,733	0	0
Operation and maintenance of plant services	676,242	0	0
Transportation services	494,763	19,460	732
Central services	1,396	0	0
	<u>2,340,476</u>	<u>19,460</u>	<u>732</u>
Non-instruction services:			
Food service	3,364	0	0
Community service and education operations	5,528	0	0
	<u>8,892</u>	<u>0</u>	<u>0</u>
Other expenditures:			
Facilities acquisitions	156,383	0	0
AEA flowthrough	221,438	0	221,438
Depreciation(unallocated)*	88,045	0	0
	<u>465,866</u>	<u>0</u>	<u>221,438</u>
Total governmental activities	7,032,844	918,419	668,752
Business-Type activities:			
Non-instructional programs:			
Nutrition services	303,397	151,694	136,847
Total business-type activities	303,397	151,694	136,847
Total	\$ 7,336,241	1,070,113	805,599

General Revenues:

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

Total general revenues

Changes in net assets

Net assets beginning of year, as restated(Note 9)

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
(1,713,267)	0	(1,713,267)
(796,512)	0	(796,512)
(362,290)	0	(362,290)
(2,872,069)	0	(2,872,069)
(237,836)	0	(237,836)
(257,506)	0	(257,506)
(672,733)	0	(672,733)
(676,242)	0	(676,242)
(474,571)	0	(474,571)
(1,396)	0	(1,396)
(2,320,284)	0	(2,320,284)
(3,364)	0	(3,364)
(5,528)	0	(5,528)
(8,892)	0	(8,892)
(156,383)	0	(156,383)
0	0	0
(88,045)	0	(88,045)
(244,428)	0	(244,428)
(5,445,673)	0	(5,445,673)
0	(14,856)	(14,856)
0	(14,856)	(14,856)
(5,445,673)	(14,856)	(5,460,529)
\$ 2,874,544	0	2,874,544
160,737	0	160,737
6,389	0	6,389
2,574,805	0	2,574,805
32,659	976	33,635
5,649,134	976	5,650,110
203,461	(13,880)	189,581
2,769,428	119,218	2,888,646
\$ 2,972,889	105,338	3,078,227

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

	General	Other Governmental Funds	Total
ASSETS			
Cash and pooled investments			
ISCAP(Note 3)	\$ 960,812	0	960,812
Other	907,657	373,586	1,281,243
Receivables:			
Property tax			
Delinquent	38,892	8,269	47,161
Succeeding year	2,158,091	363,264	2,521,355
Income surtax	263,457	0	263,457
Accounts	1,754	59	1,813
Due from other governments	151,050	0	151,050
TOTAL ASSETS	\$ 4,481,713	745,178	5,226,891
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 105,260	21,212	126,472
Salaries and benefits payable	692,862	0	692,862
ISCAP warrants payable(Note 3)	969,000	0	969,000
Deferred revenue:			
Succeeding year property tax	2,158,091	363,264	2,521,355
Income surtax	263,457	0	263,457
Total liabilities	4,188,670	384,476	4,573,146
Fund balances:			
Reserved for:			
Talanted and gifted	9,936	0	9,936
Teacher quality	203	0	203
Unreserved:			
Undesignated	282,904	360,702	643,606
Total fund balances	293,043	360,702	653,745
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,481,713	745,178	5,226,891

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL 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)	\$	653,745
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		2,472,098
Blending of the Internal Service Funds to be reflected on an entity-wide basis.		3,171
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		263,457
Long-term liabilities, including compensated absences and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(419,582)
		<hr style="width: 100%;"/>
Net assets of governmental activities (page 13)	\$	2,972,889
		<hr style="width: 100%;"/>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Other Governmental Funds	Total
REVENUES:			
Local sources:			
Local tax	\$ 2,440,810	331,014	2,771,824
LOSST	0	6,389	6,389
Tuition	655,870	0	655,870
Other	100,940	194,268	295,208
State sources	3,052,707	271	3,052,978
Federal sources	190,579	0	190,579
Total revenues	6,440,906	531,942	6,972,848
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	2,646,160	58,410	2,704,570
Special instruction	946,698	0	946,698
Other instruction	361,314	247,442	608,756
	3,954,172	305,852	4,260,024
Support services:			
Student services	239,085	310	239,395
Instructional staff services	246,189	10,317	256,506
Administration services	654,154	20,039	674,193
Operation and maintenance of plant services	616,408	48,268	664,676
Transportation services	450,537	20,016	470,553
Central services	1,396	0	1,396
	2,207,769	98,950	2,306,719
Non-instructional:			
Food service	0	3,364	3,364
Community service and education operations	14,333	5,956	20,289
	14,333	9,320	23,653
Other expenditures:			
Facilities acquisitions	0	156,383	156,383
AEA flowthrough	221,438	0	221,438
	221,438	156,383	377,821
Total expenditures	6,397,712	570,505	6,968,217
Net change in fund balances	43,194	(38,563)	4,631
Fund balance beginning of year	249,849	399,265	649,114
Fund balance end of year	\$ 293,043	360,702	653,745

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL 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 (page 18) \$ 4,631

*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	\$ 197,026	
Depreciation expense	(231,005)	(33,979)

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 fund.

Compensated absences	13,965	
Early retirement	16,218	(30,183)

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. (465)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 263,457

Changes in net assets of governmental activities (page 15) \$ 203,461

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL 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 Fund
ASSETS		
Cash and cash equivalents	\$ 95,496	3,171
Inventories	16,549	0
Capital assets, net of accumulated depreciation	24,130	0
TOTAL ASSETS	136,175	3,171
LIABILITIES		
Accounts payable	1,821	0
Salaries and benefits payable	24,800	0
Deferred revenues	4,216	0
TOTAL LIABILITES	30,837	0
NET ASSETS		
Invested in capital assets, net of related debt	24,130	0
Unrestricted	81,208	3,171
TOTAL NET ASSETS	\$ 105,338	3,171

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL 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	Governmental Activities:
	School	Internal
	Nutrition	Service Fund
OPERATING REVENUE:		
Local sources:		
Other local sources:		
Sale of lunches and breakfasts:		
Students	\$ 119,062	0
Adults	19,660	0
A la carte	12,560	0
Miscellaneous	412	39,232
TOTAL OPERATING REVENUES	151,694	39,232
OPERATING EXPENSES:		
Salaries	133,437	0
Benefits	27,571	39,697
Services	114	0
Supplies	138,822	0
Depreciation	3,453	0
TOTAL OPERATING EXPENSES	303,397	39,697
OPERATING LOSS	(151,703)	(465)
NON-OPERATING REVENUES:		
Interest	976	0
State sources	4,852	0
Federal sources	131,995	0
TOTAL NON-OPERATING REVENUES	137,823	0
Net loss	(13,880)	(465)
Net assets at beginning of year, as restated(Note 9)	119,218	3,636
Net assets end of year	\$ 105,338	3,171

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business-Type	
	Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 152,489	0
Cash received from miscellaneous operating activities	412	39,232
Cash payments to employees for services	(162,030)	(39,697)
Cash payments to suppliers for goods or services	(107,937)	0
Net cash used in operating activities	(117,066)	(465)
Cash flows from non-capital financing activities:		
State grants received	4,852	0
Federal grants received	113,926	0
Net cash provided by non-capital financing activities	118,778	0
Cash flows from investing activities:		
Interest on investments	976	0
Net cash provided by investing activities	976	0
Cash flows from capital financing activities:		
Purchase of assets	(2,350)	0
Net cash used by financing activities	(2,350)	0
Net increase(decrease) in cash and cash equivalents	338	(465)
Cash and cash equivalents at beginning of year	95,158	3,636
Cash and cash equivalents at end of year	\$ 95,496	3,171
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (151,703)	(465)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Commodities consumed	18,069	0
Depreciation	3,453	0
Decrease in inventories	11,910	0
Decrease in accounts receivable	14	0
Increase in accounts payable	1,020	0
Decrease in salaries and benefits payable	(1,022)	0
Increase in deferred revenue	1,193	0
Net cash used in operating activities	\$ (117,066)	(465)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:		
Current assets:		
Cash and pooled investments	\$ 95,496	3,171
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
During the year ended June 30, 2004, the District received Federal commodities valued at \$18,069.		
SEE NOTES TO FINANCIAL STATEMENTS.		

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2004

	Private Purpose Trust	
	Scholarship	Agency
ASSETS		
Cash and pooled investments	\$ 36,823	215
LIABILITIES		
Due to other groups	0	215
NET ASSETS		
Reserved for scholarships	\$ 36,823	0

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2004

	<u>Total Private- Purpose Trust</u>
ADDITIONS:	
Local sources:	
Interest income	\$ 1,462
DEDUCTIONS:	
Support services:	
Scholarship awarded	<u>1,446</u>
Change in net assets	16
Net assets beginning of year	<u>36,807</u>
Net assets end of year	<u>\$ 36,823</u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

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

The East Marshall 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 Le Grand, Gilman, Laurel and Ferguson, Iowa, and the predominate agricultural territory in Marshall, Tama, Poweshiek and Jasper 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 Marshall 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 Marshall 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 Marshall, Tama, Poweshiek and Jasper County Assessors' Conference Board.

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

The District also reports a fiduciary fund which focus on net assets and changes in net assets. The District's fiduciary fund is as follows:

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

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

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" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

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

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

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

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

The District maintains its financial records on the 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	\$ 1
Buildings	1,000
Improvements other than buildings	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

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

Asset Class	Estimated Useful Live (In Years)
Buildings	20-50 years
Improvements other than buildings	20 years
Machinery and equipment	5-12 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.

Compensated absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, no expenditures exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

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

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

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$393,116 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) 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. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2004 is as follows:

Series	Warrant Date	Final Warrant Maturity	Accrued Interest Investments Receivable	Warrants Payable	Accrued Interest Payable
2004-05A	6/30/04	6/30/05	\$ 960,812	0 969,000	0

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. No ISCAP advance activity was noted for the year ended June 30, 2004.

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

Series	Interest Rates on Warrants	Interest Rates on Investments
2003-04A	2.000%	1.050%
2004-05A	3.000%	2.463%

(4) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 131,564	2,350	2,766	131,148
Less accumulated depreciation	106,331	3,453	2,766	107,018
Business-type activities capital assets, net	\$ 25,233	(1,103)	0	24,130

	Balance Beginning of Year, as restated (Note 9)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 110,574	0	0	110,574
Total capital assets not being depreciated	110,574	0	0	110,574
Capital assets being depreciated:				
Buildings	3,800,591	0	0	3,800,591
Land improvements	243,819	0	0	243,819
Machinery and equipment	1,711,036	197,026	30,134	1,877,928
Total capital assets being depreciated	5,755,446	197,026	30,134	5,922,338
Less accumulated depreciation for:				
Buildings	1,834,101	75,854	0	1,909,955
Land improvements	128,297	12,191	0	140,488
Machinery and equipment	1,397,545	142,960	30,134	1,510,371
Total accumulated depreciation	3,359,943	231,005	30,134	3,560,814
Total capital assets being depreciated, net	2,395,503	(33,979)	0	2,361,524
Governmental activities capital assets, net \$	2,506,077	(33,979)	0	2,472,098

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 65,425
Other		1,801
Support services:		
Instructional staff services		1,000
Operation and maintenance of plant services		8,021
Transportation		66,713
		142,960
Unallocated depreciation		88,045
Total governmental activities depreciation expense		\$ 231,005
Business-type activities:		
Food services		\$ 3,453

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Early retirement	\$ 371,257	97,603	81,385	387,475	63,439
Compensated absences	18,142	32,107	18,142	32,107	32,107
Total	\$ 389,399	129,710	99,527	419,582	95,546

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. The early retirement incentive is equal to 50% of the employee's base salary calculated by using the current year regular salary schedule, less any other additional pay and subject to a maximum of \$20,000 per individual. Early retirement benefits paid during the year ended June 30, 2004 totaled \$81,385.

(6) 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 \$230,602, \$,230,252 and \$228,718 respectively, equal to the required contributions for each year.

(7) Risk Management

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

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

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$554,947.

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

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be

reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the District's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

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

East Marshall 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.

(8) 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 \$221,438 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.

(9) Accounting Change and Restatements

Governmental Accounting Standards Board 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 Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No.38, Certain Financial Statement Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended June 30, 2004. The statement 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:

REQUIRED SUPPLEMENTAL INFORMATION

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

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Revenues:		
Local sources	\$ 3,729,291	152,670
State sources	3,052,978	4,852
Federal sources	190,579	131,995
Total revenues	6,972,848	289,517
Expenditures:		
Instruction	4,260,024	0
Support services	2,306,719	0
Non-instructional programs	23,653	303,397
Other expenditures	377,821	0
Total expenditures	6,968,217	303,397
Excess(deficiency) of revenues over(under) expenditures	4,631	(13,880)
Balance beginning of year	649,114	119,218
Balance end of year	\$ 653,745	105,338

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
3,881,961	4,165,834	4,165,834	(283,873)
3,057,830	3,110,146	3,110,146	(52,316)
322,574	275,685	275,685	46,889
<u>7,262,365</u>	<u>7,551,665</u>	<u>7,551,665</u>	<u>(289,300)</u>
4,260,024	4,363,000	4,363,000	102,976
2,306,719	2,330,732	2,330,732	24,013
327,050	368,400	368,400	41,350
377,821	765,337	765,337	387,516
<u>7,271,614</u>	<u>7,827,469</u>	<u>7,827,469</u>	<u>555,855</u>
(9,249)	(275,804)	(275,804)	266,555
768,332	823,397	823,397	(55,065)
<u>759,083</u>	<u>547,593</u>	<u>547,593</u>	<u>211,490</u>

EAST MARSHALL 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 GAAP basis. Encumbrances are not recognized on the GAAP 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 MARSHALL COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2004

	Special Revenue Funds								
		Physical Management	Plant & Equipment Levy	Public Recreation Levy	Student Activity	Expendable Trust	Total Special Revenue	Capital Projects	Total Nonmajor Governmental Funds
ASSETS									
Cash and pooled investments	\$ 48,066	184,169	10,690	102,108	24,429	369,462	4,124	373,586	
Receivables:									
Property tax:									
Current year delinquent	2,697	2,913	391	0	0	6,001	2,268	8,269	
Succeeding year	195,000	148,264	20,000	0	0	363,264	0	363,264	
Accounts	14	0	0	45	0	59	0	59	
TOTAL ASSETS	\$ 245,777	335,346	31,081	102,153	24,429	738,786	6,392	745,178	
LIABILITIES AND FUND EQUITY									
Liabilities:									
Accounts payable	\$ 50	11,298	1,025	8,839	0	21,212	0	21,212	
Deferred revenue:									
Succeeding year property tax	195,000	148,264	20,000	0	0	363,264	0	363,264	
	195,050	159,562	21,025	8,839	0	384,476	0	384,476	
Fund equity:									
Fund balances:									
Unreserved:									
Undesignated	50,727	175,784	10,056	93,314	24,429	354,310	6,392	360,702	
Total fund balances	50,727	175,784	10,056	93,314	24,429	354,310	6,392	360,702	
TOTAL LIABILITIES AND FUND EQUITY	\$ 245,777	335,346	31,081	102,153	24,429	738,786	6,392	745,178	

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue						Capital Projects	Total Nonmajor Governmental Funds
	Management	Physical Plant & Equipment Levy	Public Recreation Levy	Student Activity	Expendible Trust	Total Special Revenue		
REVENUES:								
Local sources:								
Local tax	\$ 148,671	160,737	21,606	0	0	331,014	0	331,014
LOSSI	0	0	0	0	0	0	6,389	6,389
Other	769	1,527	77	182,750	9,142	194,265	3	194,268
State sources	122	131	18	0	0	271	0	271
TOTAL REVENUES	149,562	162,395	21,701	182,750	9,142	525,550	6,392	531,942
EXPENDITURES:								
Current:								
Instruction:								
Regular instruction	58,410	0	0	0	0	58,410	0	58,410
Other instruction	0	67,194	0	179,998	250	247,442	0	247,442
	58,410	67,194	0	179,998	250	305,852	0	305,852
Support services:								
Student services	310	0	0	0	0	310	0	310
Instructional staff services	821	9,496	0	0	0	10,317	0	10,317
Administration services	20,039	0	0	0	0	20,039	0	20,039
Operation and maintenance of plant services	48,268	0	0	0	0	48,268	0	48,268
Transportation services	20,016	0	0	0	0	20,016	0	20,016
Other	0	0	0	0	0	0	0	0
	89,454	9,496	0	0	0	98,950	0	98,950
Non-instructional:								
Food service	3,364	0	0	0	0	3,364	0	3,364
Community service and education operations	0	0	5,956	0	0	5,956	0	5,956
	3,364	0	5,956	0	0	9,320	0	9,320
Other expenditures:								
Facility acquisition	0	147,237	8,810	0	336	156,383	0	156,383
TOTAL EXPENDITURES	151,228	223,927	14,766	179,998	586	589,145	0	570,505
Excess (deficiency) of revenues over (under) expenditures	(1,666)	(61,532)	6,935	2,752	8,556	(44,955)	6,392	(38,563)
Fund balance beginning of year	52,393	237,316	3,121	90,562	15,873	399,265	0	399,265
Fund balance end of year	\$ 50,727	175,784	10,056	93,314	24,429	354,310	6,392	360,702

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL 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
Drama	\$ 4,261	4,928	2,866	6,323
HS vocal	3,470	3,120	3,688	2,902
MS vocal	2,453	0	2,131	322
HS band	5,462	938	3,299	3,101
Fine arts grant	0	5,000	4,427	573
Band fundraising	0	18,203	18,203	0
HS band resale	0	1,526	1,526	0
MS band	5,691	1,113	5,170	1,634
MS band resale	197	1,528	1,542	183
Athletics	18,960	2,802	1,011	20,751
Athletic uniforms	5,178	7,500	1,132	11,546
Athletic resale	1	0	1	0
MS athletics	14,278	15,656	17,987	11,947
Golf	0	236	236	0
Boys basketball	0	4,271	4,271	0
Football	0	14,735	14,735	0
Baseball	(248)	8,428	6,099	2,081
Boys track	0	25	25	0
Wrestling	0	2,169	2,169	0
Alumni basketball uniforms	921	876	1,377	420
Girls basketball	0	5,684	5,684	0
Volleyball	0	4,760	4,760	0
Softball	645	3,976	2,916	1,705
Girls Track	0	892	892	0
Kids benefit	659	50	196	513
Student pop	0	13,572	13,572	0
Interest	0	1,176	1,176	0
Middle school fine arts	0	6,250	(217)	6,467
MS yearbook	496	1,642	2,138	0
MS arts	3,457	0	1,882	1,575
MS student council	2,688	3,065	4,512	1,241
MS student council - sign	1,289	0	1,289	0
MS activities	3,304	4,115	3,781	3,638
High school fine arts	0	6,250	1,425	4,825
Juniors	1,139	9,355	9,271	1,223
HS yearbook	4,449	9,526	7,178	6,797
HS newspaper	2,659	0	2,659	0
HS art	1,651	100	1,231	520
Silk screening	(1,663)	6,373	4,401	309
Cheerleaders	0	359	359	0
FFA	641	3,922	3,728	835
National honor society	30	409	(22)	461
HS student council	1,125	1,746	1,449	1,422
HS activities	7,339	1,628	8,967	0
Vending machine	30	4,846	4,876	0
Total	\$ 90,562	182,750	179,998	93,314

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 AGENCY FUND
 YEAR ENDED JUNE 30, 2004

	Balance			Balance
	Beginning	Additions	Deductions	End
	of Year			of Year
Washington D.C. Trip				
ASSETS				
Cash and pooled investments	\$ 0	215	0	215
LIABILITIES				
Due to other groups	\$ 0	215	0	215

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL 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	\$ 2,778,213	2,456,190	2,072,280	2,014,584
Tuition	655,870	531,116	564,748	488,644
Other	295,208	307,592	348,459	355,844
State sources	3,052,978	3,178,497	3,255,054	3,270,241
Federal sources	190,579	151,031	117,541	80,776
Total	\$ 6,972,848	6,624,426	6,358,082	6,210,089
Expenditures:				
Instruction:				
Regular instruction	\$ 2,704,570	2,713,419	2,764,455	2,659,130
Special instruction	946,698	882,346	909,511	789,095
Other instruction	608,756	551,333	533,987	469,582
Support services:				
Student services	239,395	223,689	185,505	156,034
Instructional staff services	256,506	247,896	239,374	199,951
Administration services	674,193	667,157	615,345	570,461
Operation and maintenance of plant services	664,676	631,774	646,911	671,315
Transportation services	470,553	404,631	531,870	446,319
Central services	1,396	930	1,350	1,581
Non-instructional:				
Food service	3,364	3,729	2,313	3,854
Community service & education operations	20,289	14,453	13,992	12,619
Other expenditures:				
Facilities acquisitions	156,383	40,150	93,991	453,306
AEA flow-through	221,438	238,108	240,731	245,868
Total	\$ 6,968,217	6,619,615	6,779,335	6,679,115

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 Marshall Community School District:

We have audited the financial statements of East Marshall Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated October 21, 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 Marshall 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, 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.

Internal Control Over Financial Reporting

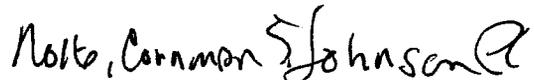
In planning and performing our audit, we considered East Marshall Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control 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 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 I-A-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of East Marshall Community School District and other parties to whom East Marshall 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 Marshall Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

October 21, 2004

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

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

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties - One important aspect of the internal control structure 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 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 that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate alternatives and implement as soon as possible.

Conclusion - Response accepted.

EAST MARSHALL 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 amount budgeted.
- 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 - No business transactions between the District and District officials were noted.
- 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 filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.