

EAST UNION COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2004

NEWS RELEASE

Nolte, Cornman & Johnson P.C. today released an audit report on the East Union Community School District in Afton, Iowa.

The District has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements include a Statement of Net Assets and a Statement of Activities which provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Also included is Management's Discussion and Analysis of the District's financial statements.

The District's revenues for the governmental funds totaled \$6,520,303 for the year ended June 30, 2004 and included \$1,802,600 in local tax, \$2,134,366 from the state, \$593,982 from the federal government, \$20,578 in interest on investments, \$1,500,000 from the sale of bonds and \$500 from the sale of equipment.

Governmental fund expenditures for the year totaled \$5,398,634 and included \$3,076,210 for instruction, \$1,187,357 for support services and \$1,135,067 for other expenditures.

A copy of the audit report is available for review in the office of the Auditor of State and the District Secretary's office.

Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	13
Statement of Activities	B	14-15
Governmental Fund Financial Statements:		
Balance Sheet	C	16
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	17
Statement of Revenues, Expenditures and Changes in Fund Balances	E	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	19
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	20
Statement of Revenues, Expenses and Changes in Net Assets	H	21
Statement of Cash Flows	I	22
Notes to Financial Statements		23-33
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund		34-35
Budgetary Comparison Schedule- Budget to GAAP Reconciliation		36
Notes to Required Supplementary Information - Budgetary Reporting		37
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	38
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	39
Schedule of Changes in Student Activity Accounts	3	40
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	4	41
Schedule of Expenditures of Federal Awards	5	42-43
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		44-45
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance		46-47
Schedule of Findings and Questioned Costs		48-51

East Union Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Mike Rollings	President	2003
Debbie Gibbons	Vice President	2003
Tim Stewart	Board Member	2004
David Waigand	Board Member	2005
Vickie Paulus	Board Member	2005

Board of Education (After September 2003 Election)		
Mike Rollings	President	2006
Tim Stewart	Vice President	2004
David Waigand	Board Member	2005
Vickie Paulus	Board Member	2005
Kenneth Hagen	Board Member	2006

School Officials		
Steve Clark	Superintendent	2004
Kay Vaughn	Co-Board Treasurer	2004
Billie Jo Greene	Business Manager, Board Secretary & Co-Board Treasurer	2004
Sue Seitz	Attorney	2004

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
East Union 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 Union 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 Union 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 10 to the financial statements, during the year ended June 30, 2004, East Union 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 reports dated September 15, 2004 on our consideration of the East Union Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of

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laws, regulations, contracts and grants. Those reports are 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 34 through 37 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 Union 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, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, 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.

September 15, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

East Union 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 \$4,443,287 in fiscal 2003 to \$4,471,865 in fiscal 2004, while General Fund expenditures decreased from \$4,474,937 in fiscal 2003 to \$4,246,093 in fiscal 2004. This resulted in an increase in the District's General Fund balance from \$42,693 in fiscal 2003 to a balance of \$268,965 in fiscal 2004.
- The increase in General Fund revenues was attributable to an increase in local tax revenue in fiscal 2004. The decrease in expenditures was due primarily to controlled spending throughout the year.
- 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 \$89,432 in fiscal year 2003 to \$12,278 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 Union 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 Union 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 Union 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.

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.

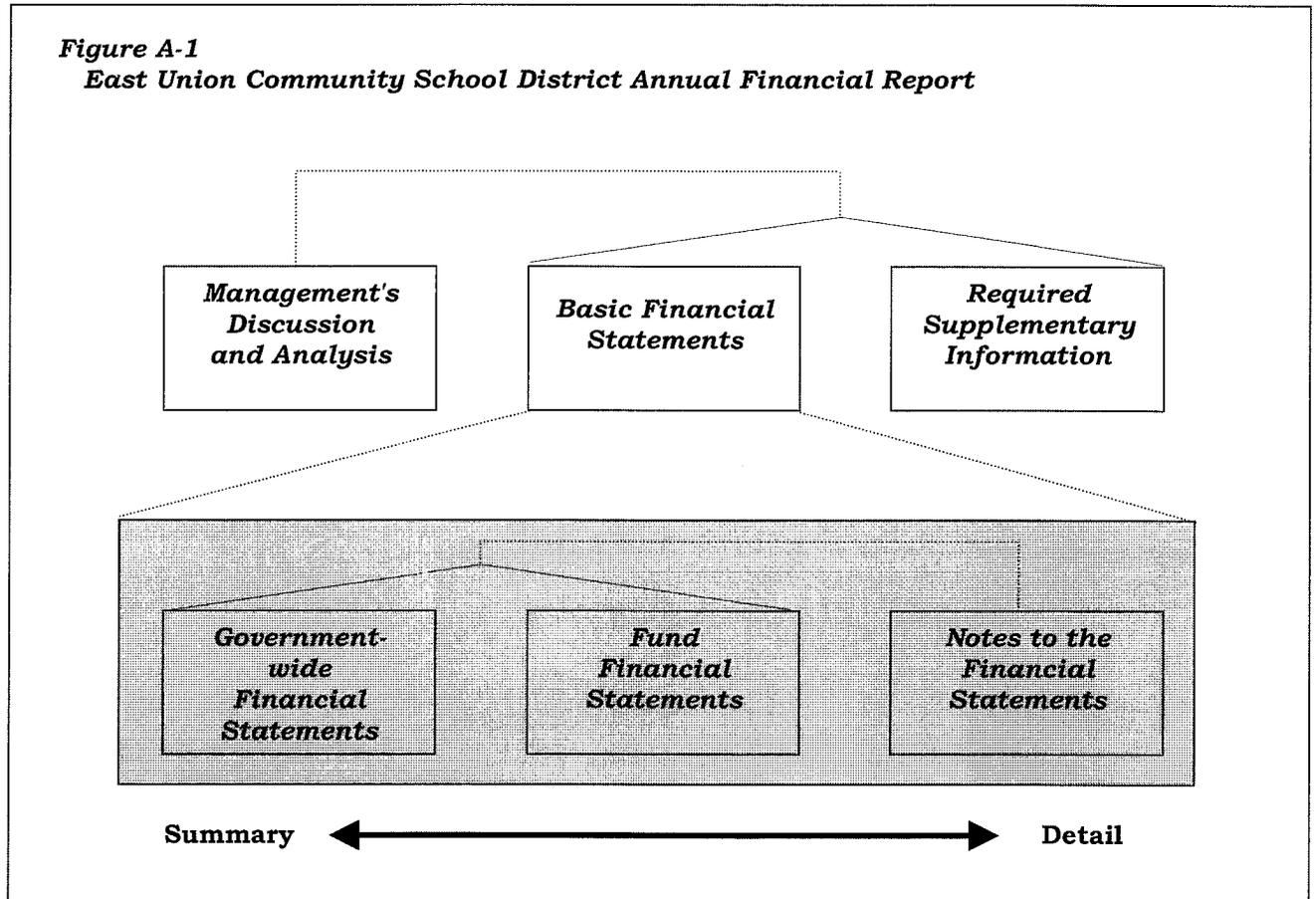


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2			
Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
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 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 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 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, Capital Projects, 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.

Reconciliation 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	\$ 4,305,706	11,426	4,317,132
Capital assets	1,423,391	4,886	1,428,277
Total assets	<u>5,729,097</u>	<u>16,312</u>	<u>5,745,409</u>
Long-term obligations	1,517,778	0	1,517,778
Other liabilities	2,785,293	2,238	2,787,531
Total liabilities	<u>4,303,071</u>	<u>2,238</u>	<u>4,305,309</u>
Net assets:			
Invested in capital assets, net of related debt	961,867	4,886	966,753
Restricted	251,440	0	251,440
Unrestricted	212,719	9,188	221,907
Total net assets	<u>\$ 1,426,026</u>	<u>14,074</u>	<u>1,440,100</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	\$ 468,277	93,627	561,904
Operating grants and contributions and restricted interest	941,435	91,968	1,033,403
Capital grants and contributions and restricted interest	27,195	0	27,195
General revenues:			
Property tax	1,512,802	0	1,512,802
Local option sales and service tax	289,798	0	289,798
Unrestricted state grants	1,759,718	0	1,759,718
Other	21,078	120	21,198
Total revenues	5,020,303	185,715	5,206,018
Program expenses:			
Governmental activities:			
Instructional	3,090,440	0	3,090,440
Support services	1,210,607	0	1,210,607
Non-instructional programs	0	189,233	189,233
Other expenses	429,516	0	429,516
Total expenses	4,730,563	189,233	4,919,796
Changes in net assets	289,740	(3,518)	286,222
Net assets beginning of year	1,136,286	17,592	1,153,878
Net assets end of year	1,426,026	14,074	1,440,100

Property tax and unrestricted state grants account for 68% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 87% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$5,020,303 and expenses were \$4,730,563.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 3,090,440	1,837,569
Support services	1,210,607	1,208,943
Other expenses	429,516	247,144
Totals	\$ 4,730,563	3,293,656

- The cost financed by users of the District's programs was \$468,277.

-
- Federal and state governments subsidized certain programs with grants and contributions totaling \$941,435.
 - The net cost of governmental activities was financed with \$1,802,600 in local tax, \$1,759,718 in unrestricted state grants, and \$20,578 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$185,715 and expenses were \$189,233. 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 Union 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 \$1,520,413, above last year's ending fund balances of a \$398,744. However, the primary reason for the increase was because of the sale of bonds in the Capital Projects Fund.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. Increase in the tax levy during the year resulted in an increase in revenues. The increase in revenues, along with the decrease in General Fund expenditures ensured the financial position of the District increase.
- The Management, and Activity Fund combined balance increased from \$84,981 in 2003, to \$108,352 in 2004, due to the increase in revenues in the Management Fund and decrease in expenditures in the Activity Fund.
- The Physical Plant and Equipment Levy (PPEL) fund balance increased from \$67,944 to \$104,620, due to a decrease in total expenditures for the year.
- The Capital Projects fund balance increased during the current year, from \$203,126 to \$754,318. This was a result of the sale of bonds.
- The District started a Debt Service fund during the year. The balance at year-end was \$284,158.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$17,592 at June 30, 2003 to \$14,074 at June 30, 2004, representing a decrease of approximately 20%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$83,001 more than budgeted revenues, a variance of 1.6%. The most significant variance resulted from the District receiving more in federal 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 \$1.4 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 less than 1% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$74,763.

The original cost of the District's capital assets was \$3,851,190. Governmental funds account for \$3,819,835 with the remainder of \$31,355 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$723,553 at June 30, 2004. This increase resulted from improvements made during the current year.

Figure A-6

	Capital Assets, Net of Depreciation		
	Governmental Activities	Business-type Activities	Total School District
	2004	2004	2004
Land	\$ 14,205	0	14,205
Construction in progress	723,553	0	723,553
Buildings	570,825	0	570,825
Improvements other than buildings	34,550	0	34,550
Machinery and equipment	80,258	4,886	85,144
Total	\$ 1,423,391	4,886	1,428,277

Long-Term Debt

At June 30, 2004, the District had long-term debt outstanding of \$1,517,778 in general obligation bonds, compensated absences, and early retirement. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding general obligation bonds payable of \$1,500,000 at June 30, 2004.

The District had compensated absences of \$2,707, at June 30, 2004.

The District also had total outstanding early retirement payable of \$15,071 at June 30, 2004.

Figure A-7

	Outstanding Long-Term Obligations		
	Total School District		Total Change
	2004	2003	
General obligation bonds	\$ 1,500,000	0	100.0%
Early retirement	15,071	0	100.0%
Compensated absences	2,707	2,750	-1.6%
Total	\$ 1,517,778	2,750	55091.9%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Although the District has experienced declining enrollment for a few years, the District expects a slight increase in enrollment.
- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten-year period beginning in fiscal year 2005.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Billie Jo Greene, District Business Manager/Board Secretary, East Union Community School District, 916 High School Drive, Afton, Iowa, 50830.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments			
ISCAP(Note 4)	\$ 898,845	0	898,845
Other	1,760,524	7,842	1,768,366
Receivables:			
Property tax:			
Delinquent	81,214	0	81,214
Succeeding year	1,544,404	0	1,544,404
Accounts	451	610	1,061
Due from other governments	20,268	0	20,268
Inventories	0	2,974	2,974
Capital assets, net of accumulated depreciation(Note 5)	1,423,391	4,886	1,428,277
TOTAL ASSETS	5,729,097	16,312	5,745,409
LIABILITIES			
Accounts payable	294,057	75	294,132
Salaries and benefits payable	40,432	0	40,432
ISCAP warrants payable(Note 4)	894,000	0	894,000
ISCAP premiums payable	12,400	0	12,400
Deferred revenue:			
Succeeding year property tax	1,544,404	0	1,544,404
Other	0	2,163	2,163
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds	105,000	0	105,000
Early retirement	7,535	0	7,535
Compensated absences	2,707	0	2,707
Portion due after one year:			
General obligation bonds	1,395,000	0	1,395,000
Early retirement	7,536	0	7,536
TOTAL LIABILITIES	4,303,071	2,238	4,305,309
NET ASSETS			
Investment in capital assets, net of related debt	961,867	4,886	966,753
Restricted for:			
Talented and gifted	53,490	0	53,490
Early intervention	49	0	49
Physical plant & equipment levy	104,620	0	104,620
Management levy	3,488	0	3,488
Other special revenue purposes	89,793	0	89,793
Unrestricted	212,719	9,188	221,907
TOTAL NET ASSETS	\$ 1,426,026	14,074	1,440,100

SEE NOTES TO FINANCIAL STATEMENTS.

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	\$ 1,674,537	60,459	784,594	0
Special instruction	1,111,379	1,784	0	0
Other instruction	304,524	406,034	0	0
	<u>3,090,440</u>	<u>468,277</u>	<u>784,594</u>	<u>0</u>
Support services:				
Student services	117,481	0	0	0
Instructional staff services	84,091	0	0	0
Administration services	419,226	0	0	0
Operation and maintenance of plant services	321,078	0	0	0
Transportation services	268,731	0	1,664	0
	<u>1,210,607</u>	<u>0</u>	<u>1,664</u>	<u>0</u>
Other expenditures:				
Facilities acquisitions	228,582	0	0	27,195
Long-term debt interest	560	0	0	0
AEA flowthrough	155,177	0	155,177	0
Depreciation (unallocated)*	45,197	0	0	0
	<u>429,516</u>	<u>0</u>	<u>155,177</u>	<u>27,195</u>
Total governmental activities	4,730,563	468,277	941,435	27,195
Business-Type activities:				
Non-instructional programs:				
Nutrition services	189,233	93,627	91,968	0
Total business-type activities	189,233	93,627	91,968	0
Total	\$ 4,919,796	561,904	1,033,403	27,195

General Revenues:

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

Total general revenues

Changes in net assets

Net assets beginning of year, as restated note 10

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
(829,484)	0	(829,484)
(1,109,595)	0	(1,109,595)
101,510	0	101,510
(1,837,569)	0	(1,837,569)
(117,481)	0	(117,481)
(84,091)	0	(84,091)
(419,226)	0	(419,226)
(321,078)	0	(321,078)
(267,067)	0	(267,067)
(1,208,943)	0	(1,208,943)
(201,387)	0	(201,387)
(560)	0	(560)
0	0	0
(45,197)	0	(45,197)
(247,144)	0	(247,144)
(3,293,656)	0	(3,293,656)
0	(3,638)	(3,638)
0	(3,638)	(3,638)
(3,293,656)	(3,638)	(3,297,294)
\$ 1,479,817	0	1,479,817
32,985	0	32,985
289,798	0	289,798
1,759,718	0	1,759,718
20,578	120	20,698
500	0	500
3,583,396	120	3,583,516
289,740	(3,518)	286,222
1,136,286	17,592	1,153,878
\$ 1,426,026	14,074	1,440,100

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

	General	Capital Projects	Other Governmental Funds	Total
ASSETS				
Cash and pooled investments				
ISCAP (Note 4)	\$ 898,845	0	0	898,845
Other	304,917	960,236	495,371	1,760,524
Receivables:				
Property tax				
Delinquent	36,479	42,976	1,759	81,214
Succeeding year	1,473,956	0	70,448	1,544,404
Accounts	451	0	0	451
Due from other governments	20,268	0	0	20,268
TOTAL ASSETS	\$ 2,734,916	1,003,212	567,578	4,305,706
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	45,163	248,894	0	294,057
Salaries and benefits payable	40,432	0	0	40,432
ISCAP warrants payable (Note 4)	894,000	0	0	894,000
ISCAP premiums payable	12,400	0	0	12,400
Deferred revenue:				
Succeeding year property tax	1,473,956	0	70,448	1,544,404
Total liabilities	2,465,951	248,894	70,448	2,785,293
Fund balances:				
Reserved for:				
Debt service	0	0	284,158	284,158
Talented and gifted	53,490	0	0	53,490
Early intervention	49	0	0	49
Unreserved:				
Undesignated	215,426	754,318	212,972	1,182,716
Total fund balances	268,965	754,318	497,130	1,520,413
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,734,916	1,003,212	567,578	4,305,706

SEE NOTES TO FINANCIAL STATEMENTS.

EAST UNION 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)	\$	1,520,413
 <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.		1,423,391
Long-term liabilities, including bonds payable, compensated absences payable, and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(1,517,778)
Net assets of governmental activities (page 13)	\$	<u>1,426,026</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Other Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 1,443,266	0	69,536	1,512,802
LOSST	0	289,798	0	289,798
Tuition	62,243	0	0	62,243
Other	265,258	25,328	136,026	426,612
State sources	2,134,311	0	55	2,134,366
Federal sources	566,787	0	27,195	593,982
Total revenues	4,471,865	315,126	232,812	5,019,803
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	1,634,597	0	25,710	1,660,307
Special instruction	1,111,379	0	0	1,111,379
Other instruction	161,378	0	143,146	304,524
	2,907,354	0	168,856	3,076,210
Support services:				
Student services	102,410	0	0	102,410
Instructional staff services	84,091	0	0	84,091
Administration services	419,226	0	0	419,226
Operation and maintenance of plant services	321,013	0	0	321,013
Transportation services	256,822	0	3,795	260,617
	1,183,562	0	3,795	1,187,357
Other expenditures:				
Facilities acquisitions	0	979,330	0	979,330
Long-term debt:				
Interest and fiscal charges	0	0	560	560
AEA flowthrough	155,177	0	0	155,177
	155,177	979,330	560	1,135,067
Total expenditures	4,246,093	979,330	173,211	5,398,634
Excess (deficiency) of revenues over (under) expenditures	225,772	(664,204)	59,601	(378,831)
Other financing sources (uses):				
Transfers in	0	0	284,604	284,604
Transfers out	0	(284,604)	0	(284,604)
Sale of bonds	0	1,500,000	0	1,500,000
Sale of equipment and materials	500	0	0	500
Total other financing sources (uses)	500	1,215,396	284,604	1,500,500
Net change in fund balances	226,272	551,192	344,205	1,121,669
Fund balance beginning of year	42,693	203,126	152,925	398,744
Fund balance end of year	\$ 268,965	754,318	497,130	1,520,413

SEE NOTES TO FINANCIAL STATEMENTS.

EAST UNION 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) \$ 1,121,669

*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. Capital outlays expenditures exceeded depreciation expense in the current year, as follows:

Capital expenditures	\$ 755,598	
Depreciation expense	(72,499)	683,099

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.

Early retirement	\$ 43	
Compensated absences	(15,071)	(15,028)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets.

(1,500,000)

Changes in net assets of governmental activities (page 15) \$ 289,740

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
ASSETS	
Cash and cash equivalents	\$ 7,842
Accounts receivable	610
Inventories	2,974
Capital assets, net of accumulated depreciation	4,886
TOTAL ASSETS	16,312
 LIABILITIES	
Accounts payable	75
Deferred revenues	2,163
TOTAL LIABILITES	2,238
 NET ASSETS	
Invested in capital assets, net of related debt	4,886
Unrestricted	9,188
TOTAL NET ASSETS	\$ 14,074

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Other local sources:	
Sale of lunches and breakfasts:	
Students	\$ 86,533
Adults	5,925
Miscellaneous	1,169
TOTAL OPERATING REVENUES	93,627
OPERATING EXPENSES:	
Food service operations:	
Salaries	92,321
Benefits	14,239
Services	329
Supplies	80,080
Depreciation	2,264
TOTAL OPERATING EXPENSES	189,233
OPERATING LOSS	(95,606)
NON-OPERATING REVENUES:	
Interest	120
State sources	2,862
Federal sources	89,106
TOTAL NON-OPERATING REVENUES	92,088
Net loss	(3,518)
Retained earnings at beginning of year	17,592
Retained earnings end of year	\$ 14,074

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 91,898
Cash received from miscellaneous operating activities	1,169
Cash payments to employees for services	(106,560)
Cash payments to suppliers for goods or services	(68,953)
Net cash used in operating activities	(82,446)
Cash flows from non-capital financing activities:	
State grants received	2,862
Federal grants received	79,731
Net cash provided by non-capital financing activities	82,593
Cash flows from investing activities:	
Interest on investments	120
Net cash provided by investing activities	120
Net increase in cash and cash equivalents	267
Cash and cash equivalents at beginning of year	7,575
Cash and cash equivalents at end of year	\$ 7,842
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (95,606)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	9,375
Depreciation	2,264
Decrease in inventories	2,134
Increase in accounts receivables	(423)
Decrease in accounts payable	(53)
Decrease in deferred revenue	(137)
Net cash used in operating activities	\$ (82,446)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 7,842

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2004, the District received Federal commodities valued at \$9,375.

SEE NOTES TO FINANCIAL STATEMENTS.

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

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

The East Union 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 City of Afton, Iowa, and the predominate agricultural territory in Union, Madison, Ringgold, and Clarke 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 Union 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 Union 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 Union, Madison, Ringgold, and Clarke 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 Capital Projects Fund is used to account for all resources used in the acquisition of capital facilities.

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.

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	\$ 1,500
Buildings	1,500
Improvements other than buildings	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,500

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	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. A liability for these amounts is reported governmental fund financial statements only for employees that have resigned or retired. 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 disbursements 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 \$1,688,083 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) **Transfers**

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 284,604

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. 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	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2004-05A	6/30/04	6/30/05	\$ 898,845	0	894,000	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. ISCAP advance activity in the General Fund for the year ended June 30, 2004 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2003-04A	\$ 0	150,000	150,000	0

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%

(5) Capital Assets

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

	Balance Beginning of Year, as Restated (Note 10)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 14,205	0	0	14,205
Construction in progress	0	723,553	0	723,553
Total capital assets not being depreciated	14,205	723,553	0	737,758
Capital assets being depreciated:				
Buildings	2,197,419	27,195	0	2,224,614
Land improvements	109,900	0	0	109,900
Machinery and equipment	742,713	4,850	0	747,563
Total capital assets being depreciated	3,050,032	32,045	0	3,082,077
Less accumulated depreciation for:				
Buildings	1,613,537	40,252	0	1,653,789
Land improvements	70,405	4,945	0	75,350
Machinery and equipment	640,003	27,302	0	667,305
Total accumulated depreciation	2,323,945	72,499	0	2,396,444
Total capital assets being depreciated, net	726,087	(40,454)	0	685,633
Governmental activities capital assets, net \$	740,292	683,099	0	1,423,391

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 31,355	0	0	31,355
Less accumulated depreciation	24,205	2,264	0	26,469
Business-type activities capital assets, net \$	7,150	(2,264)	0	4,886

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 14,230
Support services:	
Transportation	13,072
	27,302
Unallocated depreciation	45,197
Total governmental activities depreciation expense	\$ 72,499
Business-type activities:	
Food services	\$ 2,264

(6) 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
General obligation bonds	\$ 0	1,500,000	0	1,500,000	105,000
Early retirement	0	15,071	0	15,071	7,535
Compensated absences	2,750	2,707	2,750	2,707	2,707
Total	\$ 2,750	1,517,778	2,750	1,517,778	115,242

General Obligation Bonds Payable

Details of the District's June 30, 2004 General Obligation bonds indebtedness is as follows:

Year Ending June 30,	Interest Rate	Bond issue January 1, 2004		
		Principal	Interest	Total
2005	3.60 %	\$ 105,000	50,237	155,237
2006	3.60	145,000	45,738	190,738
2007	3.60	155,000	40,338	195,338
2008	3.60	165,000	34,578	199,578
2009	2.90	170,000	29,143	199,143
2010	3.15	180,000	23,842	203,842
2011	3.40	185,000	17,862	202,862
2012	3.65	195,000	11,158	206,158
2013	3.80	200,000	3,800	203,800
Total		\$ 1,500,000	256,696	1,756,696

Early Retirement

The District offers a voluntary early retirement plan, for one year only, to its licensed employees. Eligible employees must be between the ages of fifty-five and sixty-three, and employees must have completed ten years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education, with only three being approved each year. Eligible employee early retirement incentives consists of a cash payment of \$14,000, less applicable withholdings. Payments will be made in four equal installments of \$3,500 on or before August 15, 2004, February 15, 2005, August 15, 2005, and February 15, 2006.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual 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 \$143,220, \$146,508, and

\$142,717, respectively, equal to the required contributions for each year.

(8) Risk Management

East Union 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: life and long-term disability.

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 \$8,555.

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

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$155,177 for

the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Accounting Change & 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.

Beginning capital assets for governmental activities of \$7,379,330 were restated to \$3,064,237. The restatement primarily removed assets below the District's capitalization threshold.

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

	Fund			Total
	General	Capital Projects	Other Governmental Funds	
Net assets, June 30, 2003, as previously reported \$	42,693	203,126	152,925	398,744
GASB Interpretation 6 adjustments	0	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	\$ 42,693	203,126	152,925	398,744
GASB 34 adjustments:				
Capital assets, net of accumulated depreciation of \$2,323,945				740,292
Long-term liabilities:				
Compensated absences				(2,750)
Net assets July 1, 2003, as restated				\$ 1,136,286

REQUIRED SUPPLEMENTAL INFORMATION

EAST UNION COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF RECEIPTS, DISBURSEMENTS AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (CASH 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	\$ 2,304,600	93,187
State sources	2,134,176	2,862
Federal sources	598,854	89,106
Total receipts	<u>5,037,630</u>	<u>185,155</u>
Disbursements:		
Instruction	3,043,133	0
Support services	1,218,592	0
Non-instructional programs	3,795	184,888
Other expenditures	889,681	0
Total disbursements	<u>5,155,201</u>	<u>184,888</u>
Excess(deficiency) of receipts over(under) disbursements	(117,571)	267
Other financing sources, net	<u>1,500,500</u>	<u>0</u>
Excess(deficiency) of receipts and other financing sources over(under) disbursements	1,382,929	267
Balance beginning of year	377,595	7,575
Balance end of year	<u>\$ 1,760,524</u>	<u>7,842</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
2,397,787	2,332,179	2,332,179	65,608
2,137,038	2,225,605	2,225,605	(88,567)
687,960	582,000	582,000	105,960
5,222,785	5,139,784	5,139,784	83,001
3,043,133	3,133,701	3,308,701	265,568
1,218,592	1,714,357	1,714,357	495,765
188,683	201,229	201,229	12,546
889,681	466,326	1,966,326	1,076,645
5,340,089	5,515,613	7,190,613	1,850,524
(117,304)	(375,829)	(2,050,829)	1,933,525
1,500,500	0	0	1,500,500
1,383,196	(375,829)	(2,050,829)	3,434,025
385,170	694,503	694,503	(309,333)
1,768,366	318,674	(1,356,326)	3,124,692

EAST UNION COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE-
 BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types		
	Cash Basis	Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 5,037,630	(17,827)	5,019,803
Expenses	5,155,201	243,433	5,398,634
Net	(117,571)	(261,260)	(378,831)
Other financing sources, net	1,500,500	0	1,500,500
Beginning fund balances	377,595	21,149	398,744
Ending fund balances	\$ 1,760,524	(240,111)	1,520,413

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Accrual	
Adjust- ments		Accrual Basis	
Revenues	\$ 185,155	560	185,715
Expenses	184,888	4,345	189,233
Net	267	(3,785)	(3,518)
Beginning retained earnings	7,575	10,017	17,592
Ending retained earnings	\$ 7,842	6,232	14,074

EAST UNION 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. During the year, the District adopted two budget amendments increasing budgeted disbursements by \$1,675,000.

OTHER SUPPLEMENTAL INFORMATION

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

	Management	Physical Plant & Equipment Levy	Student Activity	Total Special Revenue Funds	Debt Service	Total Nonmajor Governmental Funds
ASSETS						
Cash and pooled investments	\$ 17,634	103,786	89,793	211,213	284,158	495,371
Receivables:						
Property tax:						
Current year delinquent	925	834	0	1,759	0	1,759
Succeeding year	37,000	33,448	0	70,448	0	70,448
TOTAL ASSETS	\$ 55,559	138,068	89,793	283,420	284,158	567,578
LIABILITIES AND FUND EQUITY						
Liabilities:						
Deferred revenue:						
Succeeding year property tax	\$ 37,000	33,448	0	70,448	0	70,448
Fund equity:						
Fund balances:						
Reserved:						
Debt service	0	0	0	0	284,158	284,158
Unreserved:						
Undesignated	18,559	104,620	89,793	212,972	0	212,972
Total fund balances	18,559	104,620	89,793	212,972	284,158	497,130
TOTAL LIABILITIES AND FUND EQUITY	\$ 55,559	138,068	89,793	283,420	284,158	567,578

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Management	Physical Plant & Equipment Levy	Student Activity	Total Special Revenue Funds	Debt Service	Total Normajor Governmental Funds
REVENUES:						
Local sources:						
Local tax	\$ 36,551	32,985	0	69,536	0	69,536
Other	208	492	135,212	135,912	114	136,026
State sources	29	26	0	55	0	55
Federal sources	0	27,195	0	27,195	0	27,195
TOTAL REVENUES	36,788	60,698	135,212	232,698	114	232,812
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	25,710	0	0	25,710	0	25,710
Other instruction	0	20,227	122,919	143,146	0	143,146
	25,710	20,227	122,919	168,856	0	168,856
Support services:						
Transportation services	0	3,795	0	3,795	0	3,795
Other expenditures:						
Long-term debt:						
Interest and fiscal charges	0	0	0	0	560	560
TOTAL EXPENDITURES	25,710	24,022	122,919	172,651	560	173,211
Excess (deficiency) of revenues over (under) expenditures	11,078	36,676	12,293	60,047	(446)	59,601
Other financing sources:						
Transfer in	0	0	0	0	284,604	284,604
Excess of revenues and other financing sources over expenditures	11,078	36,676	12,293	60,047	284,158	344,205
Fund balance beginning of year	7,481	67,944	77,500	152,925	0	152,925
Fund balance end of year	\$ 18,559	104,620	89,793	212,972	284,158	497,130

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST UNION 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
Class of 2003	\$ (47)	0	(47)	0
Class of 2004	3,541	18,399	21,940	0
Class of 2005	958	8,172	4,376	4,754
Class of 2006	126	434	70	490
Class of 2007	0	440	5	435
Concessions	1,290	412	305	1,397
Drama	2,729	1,585	1,966	2,348
E.U. club	559	0	559	0
FFA	10,254	12,906	12,417	10,743
FCCLA	2,132	2,098	1,925	2,305
Band	1,271	6,917	5,305	2,883
Investments	0	384	384	0
Book club	272	95	367	0
NHS	454	160	42	572
Now account	0	175	175	0
PTO	1,784	3,850	5,554	80
Scholarship	93	0	93	0
Science club	1,502	721	769	1,454
Spanish club	1,290	0	1	1,289
Student council	5,435	10,313	10,059	5,689
Vocal	2,222	10,944	6,858	6,308
Vocational agriculture	184	0	0	184
2003 yearbook	938	302	1,240	0
2004 yearbook	0	8,724	6,131	2,593
General athletics	39,317	43,926	40,809	42,434
MS student council	1,006	4,255	1,617	3,644
Drill team	190	0	(1)	191
Total	\$ 77,500	135,212	122,919	89,793

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST UNION 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	\$ 1,802,600	1,588,327	1,257,040	1,198,087
Tuition	62,243	73,670	75,600	29,062
Other	426,612	425,941	258,386	242,613
State sources	2,134,366	2,297,998	2,378,916	2,359,346
Federal sources	593,982	531,003	427,149	198,595
Total	\$ 5,019,803	4,916,939	4,397,091	4,027,703
Expenditures:				
Instruction:				
Regular instruction	\$ 1,660,307	1,713,182	1,721,908	1,499,783
Special instruction	1,111,379	1,120,994	849,404	585,224
Other instruction	304,524	334,655	286,856	335,338
Support services:				
Student services	102,410	109,199	230,457	255,065
Instructional staff services	84,091	130,410	116,543	111,822
Administration services	419,226	432,822	387,466	360,627
Operation and maintenance of plant services	321,013	399,059	396,350	386,032
Transportation services	260,617	324,195	241,964	272,656
Non-instructional	0	749	27,772	0
Other expenditures:				
Facilities acquisitions	979,330	61,790	0	0
Long Term Debt:				
Principal	0	0	0	30,000
Interest	560	0	0	0
AEA flow-through	155,177	167,690	169,735	170,253
Total	\$ 5,398,634	4,794,745	4,428,455	4,006,800

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST UNION COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DIRECT:			
DEPARTMENT OF EDUCATION:			
TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS	84.287	FY 03	\$ 3,173
TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS	84.287	FY 04	358,613
			<u>361,786</u>
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION (non-cash)	10.550	FY 04	9,375
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 04	16,632
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 04	63,099
			<u>79,731</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	1970-G	79,287
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	1970-GC	19,377
			<u>98,664</u>
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)	84.298	FY 04	3,227
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 04	4,247
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 03	2,066
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 04	31,507
			<u>33,573</u>
RURAL EDUCATION ACHIEVEMENT PROGRAM (REAP)	84.358	FY 04	18,335
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 03	80
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 04	1,647
			<u>1,727</u>
CHILD CARE DEVELOPEMENT BLOCK GRANTS	93.575	FY 04	37,500
FUND FOR THE IMPROVEMENT OF EDUCATION (IOWA DEMONSTRATION)	84.215	FY 03	14,974

EAST UNION COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2004

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 04	6,974
DATA DRIVEN LEADERSHIP	84.348	FY 04	2,739
SPECIAL EDUCATION - GRANTS TO STATES (SUCCESS 4)	84.027	FY 03	1,184
SPECIAL EDUCATION - GRANTS TO STATES (SUCCESS 4)	84.027	FY 04	3,239
			4,423
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 04	20,266
TOTAL			\$ 697,541

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the East Union Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements.

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 Union Community School District:

We have audited the financial statements of East Union Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated September 15, 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 Union 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 and Questioned Costs.

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

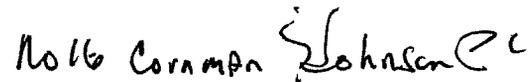
In planning and performing our audit, we considered East Union Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control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

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 II-A-04 is a material weakness. Prior reportable conditions have all been resolved except for item II-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 Union Community School District and other parties to whom East Union 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 Union 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.

A handwritten signature in black ink, appearing to read "Nolte Cornman & Johnson P.C.", with a stylized flourish at the end.

NOLTE, CORNMAN & JOHNSON, P.C.

September 15, 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 on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance

To the Board of Education of
East Union Community School District

Compliance

We have audited the compliance of East Union Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. East Union Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of East Union Community School District's management. Our responsibility is to express an opinion on East Union Community School District's compliance based on our audit.

We conducted our audit of compliance 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 and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about East Union Community School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on East Union Community School District's compliance with those requirements.

In our opinion, East Union Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of East Union Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered East Union Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect East Union Community School District's ability to administer a major

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federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

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 non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance 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 III-A-04 is a material weakness.

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


NOLTE, CORNMAN & JOHNSON, P.C.

September 15, 2004

EAST UNION COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - CFDA Number 84.287 - Twenty First Century Community Learning Centers
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) East Union Community School District did not qualify as a low-risk auditee.

EAST UNION COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

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

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-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 available alternatives and implement as soon as possible.

Conclusion - Response accepted.

EAST UNION COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 84.287: 21st Century Community Learning Center
Federal Award Year: 2004
U.S. Department of Education

III-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 available alternatives and implement as soon as possible.

Conclusion - Response accepted.

EAST UNION COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part IV: Other Findings Related to Statutory Reporting

- IV-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.
- IV-B-04 Certified Budget - District disbursements for the year ended June 30, 2004, did not exceed the amount budgeted.
- IV-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.
- IV-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.
- IV-E-04 Business Transactions - No business transactions between the District and District officials were noted.
- IV-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.
- IV-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we did note the minutes were not detailed enough to indicate the vote of each board member.
- Recommendation - The minutes should give enough detail to indicate the vote of each board member per Chapter 21.3 of the Code of Iowa
- Response - We will work on your recommendation and make the necessary changes.
- Conclusion - Response accepted.
- IV-H-04 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- IV-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.
- IV-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.