

NORTHEAST COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

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Northeast Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Charles Corr	President	2004
Mark Neblung	Vice President	2003
Mary Smith	Board Member	2003
Mark Mahmens	Board Member	2004
Bill Costello	Board Member	2005

Board of Education (After September 2003 Election)		
Charles Corr	President	2004
Mark Neblung	Vice-President	2006
Mary Smith	Board Member	2006
Mark Mahmens	Board Member	2004
Bill Costello	Board Member	2005

School Officials

Jim Cox	Superintendent	2004
Cindy McAleer	District Secretary/ Treasurer/Business Manager	2004
Brian Gruhn	Attorney	2004

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Northeast 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 Northeast 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 Northeast 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, Northeast Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated September 9, 2004, on our consideration of the Northeast Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of

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

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 34 through 36 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 Northeast Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



NOLTE, CORNMAN & JOHNSON, P.C.

September 9, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$5,443,719 in fiscal 2003 to \$5,302,951 in fiscal 2004, while General Fund expenditures increased from \$5,112,917 in fiscal 2003 to \$5,326,815 in fiscal 2004. This resulted in a decrease in the District's General Fund balance from \$1,458,107 in fiscal 2003 to a balance of \$1,439,953 in fiscal 2004, a 1% decrease from the prior year.
- The District shared a curriculum director position with Central Clinton Community School District in the past. Upon the resignation of the curriculum director, we eliminated the position and out elementary principal is being paid a stipend for curriculum director responsibilities.
- The District issued \$650,000 in sales tax revenue bonds for funding of our \$780,000 all-weather track and softball/baseball field lighting project during the 2003/04 fiscal year. This project was necessary because of the erosion of our lime-based track and the lack of lighting for our softball/baseball fields. The intent was also to be able to offer our campus as an option for conference and district events.
- Our special education delivery system was also changed. We changed from a rules based delivery system to an approved District Developed Delivery System of level weighting. The purpose was to integrate special education teachers into the regular classroom for students who might not quite qualify for special education services.
- The District, for the first time, went to class sharing initiatives with the Preston and East Central Community School Districts. Due to staff reductions in the Preston and East Central Community Schools, we were able to open up sharing initiatives with our Spanish and Vocational classes. This resulted in an increase in out tuition revenues.
- The District was a recipient of the Carol M. White Physical Education Program Grant in the amount of \$149,636. The grant was used to purchase fitness equipment for the District's new fitness center, along with heart monitor equipment and various physical education items.
- During the 2003/04 fiscal year, the district refunded its 1995 General Obligation Bonds in the amount of \$2,800,000, saving the district approximately \$300,000. The bond issue is for the new elementary school which was built in 1997.
- We had a 3.4% decrease in enrollment. This was a decrease that the district was anticipating, and it resulted in the reduction of the Media Specialist and the shared Curriculum Director position.

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 Northeast 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 Northeast 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 Northeast Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

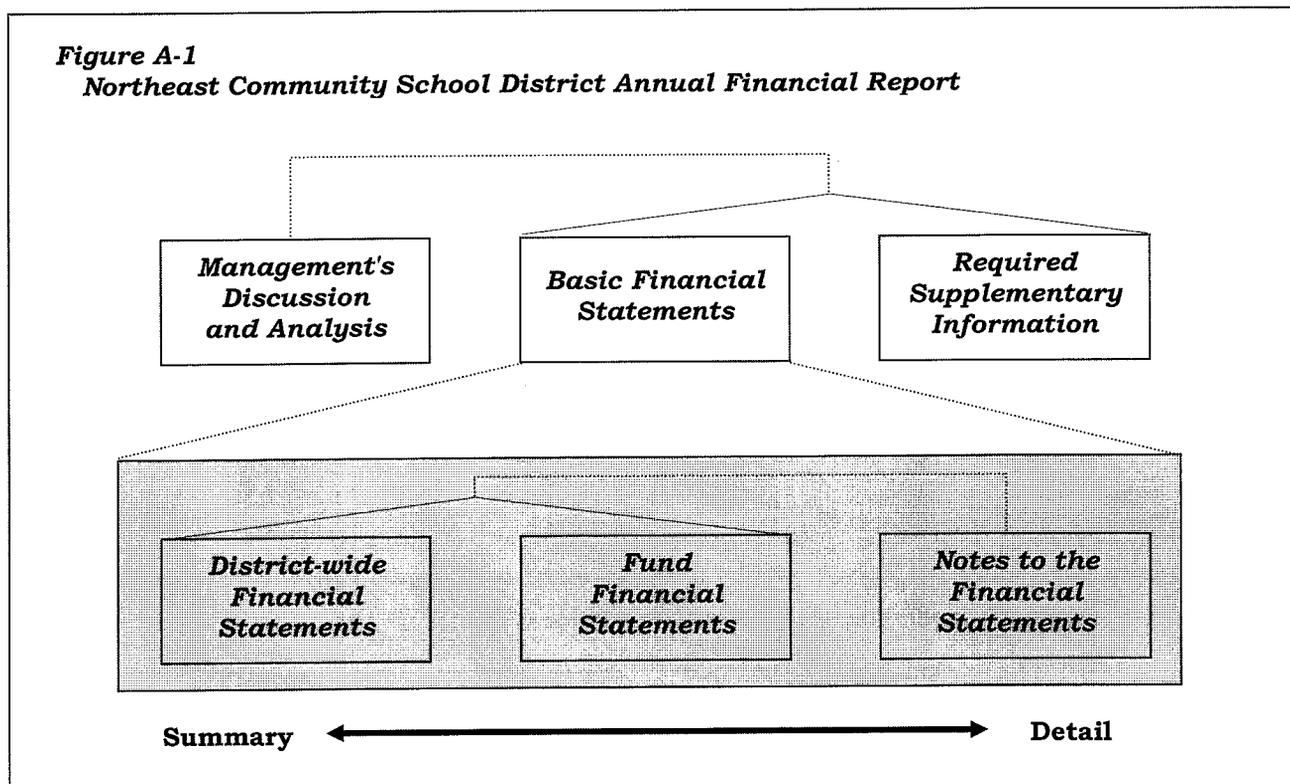


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

The two government-wide 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 Fund, and the 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.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Current and other assets	\$ 7,143,739	75,894	7,219,633
Capital Assets	5,920,399	57,446	5,977,845
Total assets	<u>13,064,138</u>	<u>133,340</u>	<u>13,197,478</u>
Long-term liabilities	6,375,077	0	6,375,077
Other liabilities	2,742,224	14,103	2,756,327
Total liabilities	<u>9,117,301</u>	<u>14,103</u>	<u>9,131,404</u>
Net assets:			
Invested in capital assets, net of related debt	2,321,486	57,446	2,378,932
Restricted	21,456	0	21,456
Unrestricted	1,603,895	61,791	1,665,686
Total net assets	<u>\$ 3,946,837</u>	<u>119,237</u>	<u>4,066,074</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	Business-type	Total
	Activities	Activities	School District
	2004	2004	2004
Revenues:			
Program revenues:			
Charges for services	\$ 802,138	153,932	956,070
Operating grants and contributions and restricted interest	607,637	81,817	689,454
General revenues:			
Property tax	2,332,030	0	2,332,030
Local option sales and service tax	366,707	0	366,707
Unrestricted state grants	2,161,482	0	2,161,482
Unrestricted investment earnings	46,953	1,031	47,984
Other	5,710	0	5,710
Total revenues	<u>6,322,657</u>	<u>236,780</u>	<u>6,559,437</u>
Program expenses:			
Governmental activities:			
Instructional	3,842,468	0	3,842,468
Support services	1,838,812	0	1,838,812
Non-instructional programs	774	242,208	242,982
Other expenses	884,476	0	884,476
Total expenses	<u>6,566,530</u>	<u>242,208</u>	<u>6,808,738</u>
Change in net assets before capital contributions	<u>\$ (243,873)</u>	<u>(5,428)</u>	<u>(249,301)</u>

Property tax and unrestricted state grants account for 69% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 83% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$6,322,657 and expenses were \$6,566,530.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 3,842,468	2,625,947
Support services	1,838,812	1,835,123
Non-instructional programs	774	774
Other expenses	884,476	694,911
Totals	<u>\$ 6,566,530</u>	<u>5,156,755</u>

-
- The cost financed by users of the District's programs was \$802,138.
 - Federal and state governments subsidized certain programs with grants and contributions totaling \$607,637.
 - The net cost of governmental activities was financed with \$2,332,030 in property and other taxes, \$366,707 in local option sales and services tax, \$2,161,482 in unrestricted state grants, and \$46,953 in interest on investments.

Business-Type Activities

Revenues of the District's business-type activities were \$236,780 and expenses were \$242,208. 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 Northeast 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 \$4,298,556, above last year's ending fund balances of \$1,652,652.

Governmental Fund Highlights

- The District's improved governmental funds balance is the product of many factors. The District issued \$2,800,000 in crossover refunding general obligation bonds, and \$650,000 in revenue bonds.

Proprietary Fund Highlights

- School Nutrition Fund net assets increased from \$110,145 at June 30, 2003, to \$119,237 at June 30, 2004, representing an increase of 8%.

BUDGETARY HIGHLIGHTS

The District's receipts were \$242,547 more than budgeted receipts, a variance of 3.85%. The most significant variance resulted from the District receiving more in local, federal and intermediate 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 \$5,977,845, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information

about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$389,580.

The original cost of the District's capital assets was \$10,240,923. Governmental funds account for \$10,099,421 with the remainder of \$141,502 in the Proprietary, School Nutrition Fund.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type	Total
			Activities	School District
	2004		2004	2004
Land	\$	116,677	0	116,677
Construction in progress		678,929	0	678,929
Buildings		4,501,186	0	4,501,186
Improvements other than buildings		171,809	0	171,809
Machinery and equipment		451,798	57,446	509,244
Total	\$	5,920,399	57,446	5,977,845

Long-Term Debt

At June 30, 2004, the District had \$6,375,077 in general obligation, revenue and other long-term debt outstanding. This represents an increase of 101% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

In May 2004, the District's voters authorized the issuance of \$2,800,000 in general obligations bonds to advance refund the issue of May 1995. In April 2004, the District issued \$650,000 in revenue bonds. The District had total outstanding bonded indebtedness at June 30, 2004 of \$6,350,000.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
General obligation bonds	\$ 5,700,000	3,080,000	85.1%
Revenue bonds	650,000	0	100.0%
Early retirement	25,077	89,166	-71.9%
Totals	\$ 6,375,077	3,169,166	101.2%

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:

- Continued budget concerns at the state level will affect future projections. The States 2.5% budget cut did reduce revenues for the 2004 fiscal year.
- Potential substantial increases in gasoline/diesel fuel will impact the District's efforts to control expenditures.
- During the year ended June 30, 2004, the District issued \$2,800,000 in general obligation refunding bonds and \$650,000 in revenue bonds.
- Continued declining enrollment could result in additional reduction of staff and/or program reductions.

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 Cindy McAleer, Business Manager, Northeast Community School District, Box 66, 1450 370th Avenue, Goose Lake, Iowa, 52750.

BASIC FINANCIAL STATEMENTS

NORTHEAST COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents:			
Other	\$ 4,693,998	68,651	4,762,649
Receivables			
Property tax:			
Delinquent	46,754	0	46,754
Succeeding year	2,031,465	0	2,031,465
Income surtax	170,562	0	170,562
Accounts	13,960	0	13,960
Due from other governments	187,000	0	187,000
Inventories	0	7,243	7,243
Capital assets, net of accumulated depreciation (Note 4)	5,920,399	57,446	5,977,845
TOTAL ASSETS	13,064,138	133,340	13,197,478
LIABILITIES			
Accounts payable	201,365	0	201,365
Salaries and benefits payable	441,791	11,033	452,824
Accrued interest payable	67,603	0	67,603
Deferred revenue:			
Succeeding year property tax	2,031,465	0	2,031,465
Other	0	3,070	3,070
Long-term liabilities (Note 5):			
Portion due within one year:			
General obligation bonds	190,000	0	190,000
Revenue bonds	40,000	0	40,000
Early Retirement	19,546	0	19,546
Portion due after one year:			
General obligation bonds	5,510,000	0	5,510,000
Revenue bonds	610,000	0	610,000
Early Retirement	5,531	0	5,531
TOTAL LIABILITIES	9,117,301	14,103	9,131,404
NET ASSETS			
Investment in capital assets, net of related debt	2,321,486	57,446	2,378,932
Restricted for:			
Teacher Compensation	186	0	186
Physical plant and equipment levy	1,302	0	1,302
Other special revenue purposes	19,968	0	19,968
Unrestricted	1,603,895	61,791	1,665,686
TOTAL NET ASSETS	\$ 3,946,837	119,237	4,066,074

SEE NOTES TO FINANCIAL STATEMENTS.

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

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Governmental activities:			
Instruction:			
Regular instruction	\$ 2,456,579	631,472	409,576
Special instruction	828,275	170,666	4,807
Other instruction	557,614	0	0
	<u>3,842,468</u>	<u>802,138</u>	<u>414,383</u>
Support services:			
Student services	167,693	0	0
Instructional staff services	91,353	0	0
Administration services	639,786	0	0
Operation and maintenance of plant services	463,903	0	0
Transportation services	476,077	0	3,689
	<u>1,838,812</u>	<u>0</u>	<u>3,689</u>
Non-instructional programs	774	0	0
Other expenditures:			
Facilities acquisitions	270,704	0	0
Long-term debt interest	270,699	0	0
AEA flowthrough	189,565	0	189,565
Depreciation(unallocated)*	153,508	0	0
	<u>884,476</u>	<u>0</u>	<u>189,565</u>
Total governmental activities	6,566,530	802,138	607,637
Business-Type activities:			
Non-instructional programs:			
Nutrition services	242,208	153,932	81,817
Total business-type activities	<u>242,208</u>	<u>153,932</u>	<u>81,817</u>
Total	<u>\$ 6,808,738</u>	<u>956,070</u>	<u>689,454</u>

General Revenues:

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

Change in net assets before capital contributions

Capital contributions

Change 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
(1,415,531)	0	(1,415,531)
(652,802)	0	(652,802)
(557,614)	0	(557,614)
<u>(2,625,947)</u>	<u>0</u>	<u>(2,625,947)</u>
(167,693)	0	(167,693)
(91,353)	0	(91,353)
(639,786)	0	(639,786)
(463,903)	0	(463,903)
(472,388)	0	(472,388)
<u>(1,835,123)</u>	<u>0</u>	<u>(1,835,123)</u>
(774)		(774)
(270,704)	0	(270,704)
(270,699)	0	(270,699)
0	0	0
(153,508)	0	(153,508)
<u>(694,911)</u>	<u>0</u>	<u>(694,911)</u>
(5,156,755)	0	(5,156,755)
0	(6,459)	(6,459)
0	(6,459)	(6,459)
<u>(5,156,755)</u>	<u>(6,459)</u>	<u>(5,163,214)</u>
\$ 2,050,901	0	2,050,901
232,320	0	232,320
48,809	0	48,809
366,707	0	366,707
2,161,482	0	2,161,482
46,953	1,031	47,984
5,710	0	5,710
<u>4,912,882</u>	<u>1,031</u>	<u>4,913,913</u>
(243,873)	(5,428)	(249,301)
0	14,520	14,520
(243,873)	9,092	(234,781)
<u>4,190,710</u>	<u>110,145</u>	<u>4,300,855</u>
<u>\$ 3,946,837</u>	<u>119,237</u>	<u>4,066,074</u>

NORTHEAST COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
ASSETS					
Cash and pooled investments:					
Other	\$ 1,787,401	95,359	2,773,401	37,837	4,693,998
Receivables:					
Property tax:					
Delinquent	37,427	0	5,035	4,292	46,754
Succeeding year	1,565,227	0	232,333	233,905	2,031,465
Income surtax	170,562	0	0	0	170,562
Accounts	2,164	0	10,195	1,601	13,960
Due from other governments	132,227	54,773	0	0	187,000
TOTAL ASSETS	\$ 3,695,008	150,132	3,020,964	277,635	7,143,739
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 77,475	117,073	3,000	3,817	201,365
Salaries and benefits payable	441,791	0	0	0	441,791
Deferred revenue:					
Succeeding year property tax	1,565,227	0	232,333	233,905	2,031,465
Income surtax	170,562	0	0	0	170,562
Total liabilities	2,255,055	117,073	235,333	237,722	2,845,183
Fund balances:					
Reserved for:					
Teacher Compensation	186	0	0	0	186
Unreserved:					
Undesignated	1,439,767	33,059	2,785,631	39,913	4,298,370
Total fund balances	1,439,953	33,059	2,785,631	39,913	4,298,556
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,695,008	150,132	3,020,964	277,635	7,143,739

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHEAST 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 17)	\$	4,298,556
 <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 in the governmental funds.		5,920,399
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(67,603)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		170,562
Long-term liabilities, including bonds payable, bus lease, early retirement, and land purchase are not due and payable in the current period and, therefore, are not reported in the funds.		<u>(6,375,077)</u>
Net assets of governmental activites (page 14)	\$	<u><u>3,946,837</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 1,890,207	366,707	232,320	197,756	2,686,990
Tuition	549,462	0	0	0	549,462
Other	62,798	26,163	27,365	151,649	267,975
Intermediate Sources	31,654	0	0	0	31,654
State sources	2,551,492	0	156	133	2,551,781
Federal sources	217,338	0	0	0	217,338
Total revenues	5,302,951	392,870	259,841	349,538	6,305,200
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	2,374,774	0	0	137,408	2,512,182
Special instruction	828,275	0	0	0	828,275
Other instruction	396,456	0	0	148,697	545,153
	3,599,505	0	0	286,105	3,885,610
Support services:					
Student services	166,834	0	0	859	167,693
Instructional staff services	91,353	0	0	0	91,353
Administration services	539,023	0	0	26,210	565,233
Operation and maintenance of plant services	405,085	0	0	36,908	441,993
Transportation services	335,450	0	0	74,805	410,255
	1,537,745	0	0	138,782	1,676,527
Non-instructional programs	0	0	0	774	774
Other expenditures:					
Facilities acquisitions	0	949,633	0	0	949,633
Long-term debt:					
Principal	0	0	180,000	0	180,000
Interest and fiscal charges	0	0	232,897	0	232,897
AEA flowthrough	189,565	0	0	0	189,565
	189,565	949,633	412,897	0	1,552,095
Total expenditures	5,326,815	949,633	412,897	425,661	7,115,006
Excess(deficiency) of revenues over(under) expenditures	(23,864)	(556,763)	(153,056)	(76,123)	(809,806)
Other financing sources:					
Operating transfers in	0	0	128,657	0	128,657
Operating transfers out	0	(128,657)	0	0	(128,657)
General obligation bonds issued	0	0	2,800,000	0	2,800,000
Revenue bonds issued	0	650,000	0	0	650,000
Sale of equipment	5,710	0	0	0	5,710
Total other financing sources	5,710	521,343	2,928,657	0	3,455,710
Net change in fund balances	(18,154)	(35,420)	2,775,601	(76,123)	2,645,904
Fund balance beginning of year	1,458,107	68,479	10,030	116,036	1,652,652
Fund balance end of year	\$ 1,439,953	33,059	2,785,631	39,913	4,298,556

SEE NOTES TO FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds (page 19) \$ 2,645,904

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

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

Capital outlays	\$ 701,307	
Depreciation expense	(359,118)	342,189

Proceeds from issuing long-debt liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:

Issued	(3,450,000)	
Repaid	180,000	(3,270,000)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it was due. (37,802)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 11,747

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in the governmental funds, as follows:

Early Retirement		64,089

Changes in net assets of governmental activities (page 16) \$ (243,873)

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
ASSETS	
Cash and pooled investments	\$ 68,651
Inventories	7,243
Capital assets, net of accumulated depreciation	57,446
Total assets	133,340
 LIABILITIES	
Salaries and benefits payable	11,033
Deferred revenue:	
Other	3,070
Total liabilities	14,103
 NET ASSETS	
Invested in capital assets, net of related debt	57,446
Unrestricted	61,791
Total net assets	\$ 119,237

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
Operating revenues:	
Local sources:	
Charges for services	\$ 153,932
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	89,896
Benefits	22,823
Services	5,323
Supplies	114,329
Depreciation	9,837
Total operating expenses	242,208
Operating loss	(88,276)
Non-operating revenues:	
State sources	5,467
Federal sources	76,350
Interest on investments	1,031
Total non-operating revenues	82,848
Loss before capital contributions	(5,428)
Capital contributions	14,520
Change in net assets	9,092
Net assets beginning of year	110,145
Net assets end of year	\$ 119,237

SEE NOTES TO FINANCIAL STATEMENTS.

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

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 153,500
Cash received from miscellaneous operating activities	624
Cash payments to employees for services	(114,700)
Cash payments to suppliers for goods or services	(100,132)
Net cash provided by operating activities	<u>(60,708)</u>
Cash flows from non-capital financing activities:	
State grants received	5,467
Federal grants received	54,960
Net cash provided by non-capital financing activities	<u>60,427</u>
Cash flows from investing activities:	
Interest on investments	1,031
Net cash provided by investing activities	<u>1,031</u>
Net increase in cash and cash equivalents	750
Cash and cash equivalents at beginning of year	<u>67,901</u>
Cash and cash equivalents at end of year	<u>\$ 68,651</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (88,276)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	21,390
Depreciation	9,837
Increase in inventories	(1,870)
Decrease in salaries and benefits payable	(1,981)
Increase in deferred revenue	192
Net cash used in operating activities	<u>\$ (60,708)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 68,651</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2004, the District received Federal commodities valued at \$21,390.

During the year ended June 30, 2004, the District received capital contributions of \$14,520 from the Capital Projects Fund.

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHEAST COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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

The Northeast 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 Goose Lake, Iowa, and the predominate agricultural territory in Clinton County. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, Northeast 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 Northeast 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 Crawford and Ida Counties Assessors' Conference Board.

B. Basis of Presentation

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

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

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

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

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

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

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

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary 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 Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

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

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's

principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

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

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

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

Asset Class	Amount
Land	\$ 2,500
Buildings	2,500
Improvements other than buildings	2,500
Machinery and equipment:	
School Nutrition Fund equipment	500

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

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

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

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

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

Long-term liabilities - In the Government-wide financial statements, long-term debt and other long-term obligations

are reported as liabilities in the governmental activities column in the Statement of Net Assets.

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

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

E. Budgeting and Budgetary Control

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

(2) **Cash and Pooled Investments**

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

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

The District had no investments at June 30, 2004.

(3) **Interfund Transfers**

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	<u>\$ 128,657</u>

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

(4) **Capital Assets**

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

	Balance Beginning of Year, as restated (Note 9)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 116,677	0	0	116,677
Construction in progress	0	678,929	0	678,929
Total capital assets not being depreciated	<u>116,677</u>	<u>678,929</u>	<u>0</u>	<u>795,606</u>
Capital assets being depreciated:				
Buildings	6,551,858	0	0	6,551,858
Improvements other than buildings	490,493	0	0	490,493
Machinery and equipment	2,239,086	43,003	20,625	2,261,464
Total capital assets being depreciated	<u>9,281,437</u>	<u>43,003</u>	<u>20,625</u>	<u>9,303,815</u>
Less accumulated depreciation for:				
Buildings	1,919,635	131,037	0	2,050,672
Improvements other than buildings	296,213	22,471	0	318,684
Machinery and equipment	1,604,056	226,235	20,625	1,809,666
Total accumulated depreciation	<u>3,819,904</u>	<u>379,743</u>	<u>20,625</u>	<u>4,179,022</u>
Total capital assets being depreciated, net	<u>5,461,533</u>	<u>(336,740)</u>	<u>0</u>	<u>5,124,793</u>
Governmental activities capital assets, net	<u>\$ 5,578,210</u>	<u>342,189</u>	<u>0</u>	<u>5,920,399</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 130,632	14,520	3,650	141,502
Less accumulated depreciation	87,877	9,837	13,658	84,056
Business-type activities capital assets, net	<u>\$ 42,755</u>	<u>4,683</u>	<u>(10,008)</u>	<u>57,446</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 48,809
Other		12,461
Support services:		
Administration		74,553
Operation and maintenance of plant		24,590
Transportation		65,822
		<u>226,235</u>
Unallocated depreciation		153,508
Total governmental activities depreciation expense		<u>\$ 379,743</u>
Business-type activities:		
Food services		\$ 9,837
Total business-type activities depreciation expense		<u>\$ 9,837</u>

(5) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 3,080,000	2,800,000	180,000	5,700,000	190,000
Revenue bonds	0	650,000	0	650,000	40,000
Early retirement	89,166	5,744	69,833	25,077	19,546
Total	<u>\$ 3,169,166</u>	<u>3,455,744</u>	<u>249,833</u>	<u>6,375,077</u>	<u>249,546</u>

General Obligation Bonds Payable

Details of the District's June 30, 2004 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond issue dated May 1, 1995			Bond issue dated May 1, 2004			Total		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Interest
2005	5.30	\$ 190,000	167,333			81,022	\$ 190,000	248,355	438,355
2006	5.40	205,000	157,262	2.00	245,000	81,022	450,000	238,284	688,284
2007	5.50	215,000	146,193	2.25	250,000	76,123	465,000	222,316	687,316
2008	5.60	230,000	134,367	2.50	255,000	70,498	485,000	204,865	689,865
2009	5.70	245,000	121,488	2.75	265,000	64,123	510,000	185,611	695,611
2010	5.80	260,000	107,523	3.00	275,000	56,835	535,000	164,358	699,358
2011	5.85	275,000	92,442	3.00	280,000	48,585	555,000	141,027	696,027
2012	5.90	290,000	76,355	3.10	290,000	40,185	580,000	116,540	696,540
2013	5.95	310,000	59,245	3.25	300,000	31,195	610,000	90,440	700,440
2014	6.00	330,000	40,800	3.30	315,000	21,445	645,000	62,245	707,245
2015	6.00	350,000	21,000	3.40	325,000	11,050	675,000	32,050	707,050
Total		\$ 2,900,000	1,124,008		\$ 2,800,000	582,083	\$ 5,700,000	1,706,091	7,406,091

Revenue Bonds Payable

Details of the District's revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond issue dated April 1, 2004			
	Interest Rates	Principal	Interest	Total
2005	2.25	40,000	14,028	54,028
2006	2.25	115,000	12,000	127,000
2007	2.25	120,000	9,336	129,336
2008	2.25	125,000	6,564	131,564
2009	2.25	125,000	3,748	128,748
2010	2.25	125,000	936	125,936
Total		\$ 650,000	46,612	696,612

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed twenty-five years of service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to \$30,000. Early retirement benefits that were paid during the year ended June 30, 2004, totaled \$69,833.

(6) Advance Refunding

On May 1, 2004, the District issued refunding bonds in the amount of \$2,800,000 to advance refund \$2,900,000 of outstanding general obligation bonds. The proceeds of the refunding issues have been placed in the Debt Service Fund to be used to call the bonds during the 2005 fiscal year. The expected net present value of the savings from the refunding is \$300,675.

(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 \$173,577, \$167,158, \$173,789, respectively, equal to the required contributions for each year.

(8) Risk Management

Northeast 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 \$189,565 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Accounting Change and Restatements

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

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

The government-wide financial statements split the District's

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

Beginning capital assets for governmental activities of \$5,799,863 were restated to \$5,578,210. The restatement primarily removed assets below the District's capitalizations threshold.

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

	Fund				Total
	General	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	
Net assets, June 30, 2003, as previously reported	\$ 1,458,107	68,479	10,030	116,036	1,652,652
GASB Interpretation 6 adjustments	0	0	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	<u>\$ 1,458,107</u>	<u>68,479</u>	<u>10,030</u>	<u>116,036</u>	<u>1,652,652</u>
GASB 34 adjustments:					
Capital assets, net of accumulated depreciation of \$3,819,904					<u>5,578,210</u>
Long-term liabilities:					
Bonds and notes				3,080,000	
Early retirement				<u>89,166</u>	(3,169,166)
Accrued interest payable					<u>(29,801)</u>
Income surtax					<u>158,815</u>
Net assets, July 1, 2003, as restated					<u>\$ 4,190,710</u>

REQUIRED SUPPLEMENTAL INFORMATION

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

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Revenues:		
Local sources	\$ 3,504,427	154,963
State sources	2,551,781	5,467
Federal sources	217,338	76,350
Intermediate sources	31,654	0
Total revenues	<u>6,305,200</u>	<u>236,780</u>
Expenditures:		
Instruction	3,885,610	0
Support services	1,676,527	0
Non-instructional programs	774	242,208
Other expenditures	1,552,095	0
Total expenditures	<u>7,115,006</u>	<u>242,208</u>
Excess(deficiency) of revenues over(under) expenditures	(809,806)	(5,428)
Other financing sources, net	<u>3,455,710</u>	0
Capital Contributions	0	14,520
Excess(deficiency) of revenues and capital contributions over(under) expenditures	2,645,904	9,092
Balance beginning of year	<u>1,652,652</u>	<u>110,145</u>
Balance end of year	<u><u>\$ 4,298,556</u></u>	<u><u>119,237</u></u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
3,659,390	3,405,288	3,405,288	254,102
2,557,248	2,672,000	2,672,000	(114,752)
293,688	215,145	215,145	78,543
31,654	7,000	7,000	24,654
<u>6,541,980</u>	<u>6,299,433</u>	<u>6,299,433</u>	<u>242,547</u>
3,885,610	3,963,700	3,963,700	78,090
1,676,527	1,778,000	1,778,000	101,473
242,982	273,700	273,700	30,718
1,552,095	802,185	1,600,000	47,905
<u>7,357,214</u>	<u>6,817,585</u>	<u>7,615,400</u>	<u>258,186</u>
(815,234)	(518,152)	(1,315,967)	(500,733)
<u>3,455,710</u>	<u>0</u>	<u>0</u>	<u>(3,455,710)</u>
14,520	0	0	0
2,654,996	(518,152)	(1,315,967)	(3,956,443)
<u>1,762,797</u>	<u>1,694,566</u>	<u>1,694,566</u>	<u>68,231</u>
<u>4,417,793</u>	<u>1,176,414</u>	<u>378,599</u>	<u>4,039,194</u>

NORTHEAST 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 one budget amendment increasing budgeted disbursements by \$797,815.

OTHER SUPPLEMENTAL INFORMATION

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

	Special Revenue Funds			
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue
ASSETS				
Cash and pooled investments	\$ 15,634	21,959	244	37,837
Receivables:				
Property tax:				
Current year delinquent	3,234	0	1,058	4,292
Succeeding year	189,000	0	44,905	233,905
Accounts	0	1,601	0	1,601
TOTAL ASSETS	\$ 207,868	23,560	46,207	277,635
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts payable	\$ 0	3,817	0	3,817
Deferred revenue:				
Succeeding year property tax	189,000	0	44,905	233,905
Total Liabilities	189,000	3,817	44,905	237,722
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	18,868	19,743	1,302	39,913
Total fund balances	18,868	19,743	1,302	39,913
TOTAL LIABILITIES AND FUND EQUITY	\$ 207,868	23,560	46,207	277,635

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue Funds			
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue
REVENUES:				
Local sources:				
Local tax	\$ 148,947	0	48,809	197,756
Other	177	151,472	0	151,649
State sources	100	0	33	133
TOTAL REVENUES	<u>149,224</u>	<u>151,472</u>	<u>48,842</u>	<u>349,538</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	137,408	0	0	137,408
Other instruction	0	148,697	0	148,697
Support services:				
Student support services	859	0	0	859
Administration services	26,210	0	0	26,210
Operation and maintenance of plant services	36,908	0	0	36,908
Student transportation	25,805	0	49,000	74,805
Non-instructional programs	774	0	0	774
TOTAL EXPENDITURES	<u>227,964</u>	<u>148,697</u>	<u>49,000</u>	<u>425,661</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(78,740)	2,775	(158)	(76,123)
FUND BALANCE BEGINNING OF YEAR	<u>97,608</u>	<u>16,968</u>	<u>1,460</u>	<u>116,036</u>
FUND BALANCE END OF YEAR	<u>\$ 18,868</u>	<u>19,743</u>	<u>1,302</u>	<u>39,913</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHEAST 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 Change	Balance End of Year
Activity Interest Account	\$ 0	252	0	(252)	0
Activity General Activities	0	8,370	2,415	(5,955)	0
HS Pop Machine	0	3,530	0	(3,530)	0
Post Prom	611	2,821	3,268	0	164
Concessions	0	19,425	16,888	(2,537)	0
Elem Pop Sales	0	3,329	3,327	(2)	0
Drama	3,194	2,934	3,296	0	2,832
Music	0	0	829	829	0
Cross Country	(1,278)	295	874	1,857	0
Golf	(2,993)	1,106	2,333	0	(4,220)
MS Boys Basketball	113	279	479	87	0
HS Boys Basketball	567	5,957	3,952	0	2,572
HS Boys BB Tournament	2,973	9,814	11,218	0	1,569
MS Football	0	220	317	97	0
HS Football	4,564	12,650	8,013	0	9,201
HS FB Fundraising	0	4,050	4,050	0	0
Baseball	(3,805)	642	5,536	0	(8,699)
Baseball Fundraising	0	876	876	0	0
MS Boys Track	15	228	119	0	124
HS Boys Track	(8,318)	864	1,562	0	(9,016)
Boys Track Fundraising	0	613	418	0	195
MS Wrestling	2,050	919	300	0	2,669
HS Wrestling	3,528	4,396	4,148	0	3,776
Wrestling Fundraising	0	7,431	7,431	0	0
Student Leadership	0	2,279	2,426	0	(147)
MS Girls Basketball	0	309	576	267	0
HS Girls Basketball	8,305	3,328	2,264	0	9,369
MS Volleyball	0	309	233	0	76
HS Volleyball	(1,870)	2,441	2,513	0	(1,942)
HS VB Fundraising	0	760	679	0	81
MS Girls Softball	0	281	348	67	0
HS Softball	(3,359)	753	4,338	0	(6,944)
HS Softball Fundraising	(124)	3,452	2,982	0	346
MS Girls Track	5	254	120	0	139
HS Girls Track	(8,189)	1,760	3,555	7,503	(2,481)
HS Cheerleading	(2,131)	0	182	2,313	0
Activity Cheerleading	0	1,080	1,080	0	0
FBLA	2,170	14,639	16,086	0	723
FTA	1,287	3,139	3,362	0	1,064
FFA	6,971	18,512	18,286	0	7,197
MS Student Council	674	100	0	0	774
HS Student Council	762	952	1,075	0	639
Class of 2003	430	0	340	(90)	0
Class of 2004	1,590	415	1,001	(654)	350
Class of 2005	2,632	0	2,009	0	623
Class of 2006	2,670	318	325	0	2,663
Class of 2007	2,724	6	48	0	2,682
Class of 2008	1,200	4,386	3,220	0	2,366
Class of 2009	0	998	0	0	998
Total	\$ 16,968	151,472	148,697	0	19,743

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 2,686,990	2,312,474	2,212,662	2,279,669
Tuition	549,462	511,819	403,357	348,294
Other	267,975	618,112	473,540	244,535
Intermediate sources	31,654	7,000	14,953	7,000
State sources	2,551,781	2,762,566	2,672,357	2,717,883
Federal sources	217,338	155,085	178,219	185,118
Total	\$ 6,305,200	6,367,056	5,955,088	5,782,499
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 2,512,182	2,132,811	2,115,138	2,144,851
Special instruction	828,275	779,628	740,360	723,294
Other instruction	545,153	620,602	629,872	602,500
Support services:				
Student services	167,693	163,248	162,556	148,161
Instructional staff services	91,353	152,368	137,139	137,594
Administration services	565,233	529,277	433,704	413,994
Operation and maintenance of plant services	441,993	448,459	439,436	457,843
Transportation services	410,255	378,924	363,859	417,951
Central services	0	20	(348)	145
Non-instructional programs	774	21,575	19,672	52,465
Other expenditures:				
Facilities acquisitions	949,633	249,434	119,723	19,404
Long-term debt:				
Principal	208,000	165,000	155,000	145,000
Interest and other charges	204,897	191,153	202,468	212,977
AEA flow-through	189,565	203,882	199,431	209,302
Total	\$ 7,115,006	6,036,381	5,718,010	5,685,481

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
Northeast Community School District:

We have audited the financial statements of Northeast Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated September 9, 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 Northeast Community School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

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

Internal Control Over Financial Reporting

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

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

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

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



NOLTE, CORNMAN & JOHNSON, P.C.

September 9, 2004

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

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

REPORTABLE CONDITIONS:

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

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

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

Conclusion - Response accepted.

I-B-04 Activity Fund – The District had several accounts in the Student Activity Fund with deficit balances at June 30, 2004.

Recommendation – The District should review purchase approval procedures for the Student Activity Fund and may wish to require additional approval before ordering goods or services from these accounts. The District should investigate alternatives to eliminate these deficit balances.

Response – We will continue to implement budget restrictions for these particular activities.

Conclusion – Response accepted.

I-C-04 Activity Admissions - The Activity gate admissions and change box were not reconciled with pre-numbered tickets.

Recommendation - The District should establish reconciliation procedures for activity admissions. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the change box and admissions to the number of tickets issued.

Response – We will implement a process for tracking pre-numbered tickets with admissions.

Conclusion – Response accepted.

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

Part II: Other Findings Related to Statutory Reporting

- II-A-04 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- II-B-04 Certified Budget - District disbursements for the year ended June 30, 2004 did not exceed the certified budget.
- II-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-D-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-E-04 Business Transactions - We noted no business transactions between the District and District officials or employees.
- II-F-04 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-H-04 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-I-04 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.