

EAST CENTRAL COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

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East Central Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2004 Election)		
Steve Gendreau	President	2005
Charles Jargo	Vice President	2006
Richard Badrick	Board Member	2004
Sharon Marshall	Board Member	2004
Ray Naeve	Board Member	2005

Board of Education (After September 2004 Election)		
Steve Gendreau	President	2005
Charles Jargo	Vice President	2006
Warren Koch	Board Member	2007
Sharon Marshall	Board Member	2007
Ray Naeve	Board Member	2005

School Officials

James House	Superintendent	2005
Sandra Hansen	Business Manager/ Board Secretary	2005
Gruhn Law Firm	Attorney	2005

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(a professional corporation)
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the East Central Community School District, Miles, Iowa as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the East Central Community School District at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 15, 2005 on our consideration of the East Central Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 11 and 30 and 32 are not required parts of the basic financial statements, but are supplementary information

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required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise East Central Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

September 15, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

East Central Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$3,504,846 in fiscal 2004 to \$3,375,706 in fiscal 2005, while General Fund expenditures increased from \$3,162,328 in fiscal 2004 to \$3,214,678 in fiscal 2005. This resulted in an increase in the District's fund balance from \$682,543 in fiscal 2004 to \$844,852 in fiscal 2005, which was a 23.8% increase from the prior year. Although revenues decreased and expenditures increased during fiscal 2005, the General Fund balance was still able to increase because fiscal 2005 revenues were greater than fiscal 2005 expenditures.
- The District received various grants during the 2005 fiscal year, including: the Gaming Grant, REAP, Star Schools, State Decategorization Grant, and the Dubuque Racing Grant.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of East Central Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how the governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report East Central Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which East Central Community School District acts solely as an agent or custodian for the benefit of those outside of the School District.

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

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

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

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

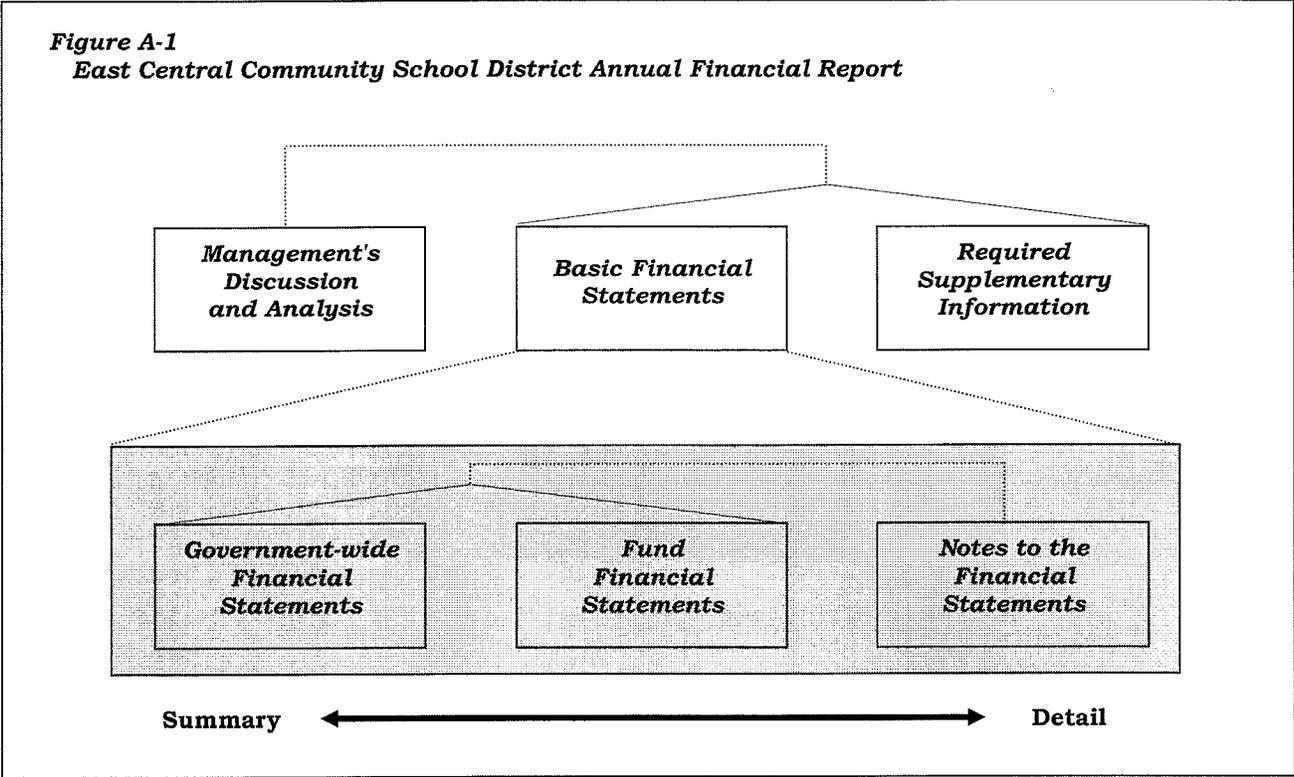


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Current and other assets	\$ 2,679,332	2,631,785	39,315	25,157	2,718,647	2,656,942	2.32%
Capital assets	502,351	426,580	11,331	12,535	513,682	439,115	16.98%
Total assets	3,181,683	3,058,365	50,646	37,692	3,232,329	3,096,057	4.40%
Other liabilities	1,630,761	1,641,314	3,054	1,363	1,633,815	1,642,677	-0.54%
Total liabilities	1,630,761	1,641,314	3,054	1,363	1,633,815	1,642,677	-0.54%
Net assets:							
Invested in capital assets, net of related debt	502,351	426,580	11,331	12,535	513,682	439,115	16.98%
Restricted	184,012	289,572	0	0	184,012	289,572	-36.45%
Unrestricted	864,559	700,899	36,261	23,794	900,820	724,693	24.30%
Total net assets	\$ 1,550,922	1,417,051	47,592	36,329	1,598,514	1,453,380	9.99%

The District's combined net assets increased by 9.99%, or \$145,134, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$105,560, or 36.45% over the prior year.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased approximately \$176,127, or 24.3%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2005.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Revenues:							
Program revenues:							
Charges for services	\$ 246,997	328,882	89,582	84,642	336,579	413,524	-18.61%
Operating grants and contributions and restricted interest	406,771	527,556	66,157	61,567	472,928	589,123	-19.72%
Capital grants and contributions and restricted interest	0	19,789	0	0	0	19,789	-100.00%
General revenues:							
Property tax	1,288,068	1,311,643	0	0	1,288,068	1,311,643	-1.80%
Local option sales and service tax	189,380	210,995	0	0	189,380	210,995	-10.24%
Unrestricted state grants	1,522,362	1,540,295	0	0	1,522,362	1,540,295	-1.16%
Unrestricted investment earnings	25,096	8,088	853	220	25,949	8,308	212.34%
Total revenues	3,678,674	3,947,248	156,592	146,429	3,835,266	4,093,677	-6.31%
Program expenses:							
Governmental activities:							
Instructional	2,308,087	2,321,438	0	0	2,308,087	2,321,438	-0.58%
Support services	897,842	970,201	0	0	897,842	970,201	-7.46%
Non-instructional programs	0	0	145,014	135,847	145,014	135,847	6.75%
Other expenses	340,155	258,372	0	0	340,155	258,372	31.65%
Total expenses	3,546,084	3,550,011	145,014	135,847	3,691,098	3,685,858	0.14%
Excess of revenues over expenses	132,590	397,237	11,578	10,582	144,168	407,819	-64.65%
Other financing sources (uses), net	1,281	2,730	(315)	0	966	2,730	-64.62%
Change in net assets	133,871	399,967	11,263	10,582	145,134	410,549	-64.65%
Beginning net assets	1,417,051	1,017,084	36,329	25,747	1,453,380	1,042,831	39.37%
Ending net assets	\$ 1,550,922	1,417,051	47,592	36,329	1,598,514	1,453,380	9.99%

Property tax and unrestricted state grants account for 73.3% of the District's total revenues. The District's expenses primarily relate to instruction and support services, which account for 86.8% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$3,678,674 and expenses were \$3,546,084.

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	\$ 2,308,087	1,775,181
Support services	897,842	897,842
Other expenses	340,155	219,293
Totals	\$ 3,546,084	2,892,316

-
- A portion of the cost financed by users of the District's programs was \$246,997.
 - The federal and state government subsidized certain programs with operating grants and contributions totaling \$406,771.
 - The net cost portion of governmental activities was financed with \$1,288,068 in property tax, \$189,380 in local option sales and services tax, \$1,522,362 in unrestricted state grants, unrestricted investment earnings of \$25,096, and \$1,281 from the sale of equipment.

Business-Type Activities

The District's only business-type activity is the School Nutrition Fund. Revenues of the District's business-type activities totaled \$156,592 in 2005. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income. Expenses of the District's business-type activities were \$145,329 in 2005.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported combined fund balances of \$1,028,538, an increase of \$58,064 above last years ending fund balances of \$970,474.

Governmental Fund Highlights

- In light of decreased revenues for each governmental fund, the District used controlled spending to keep positive ending balance in all funds.

Proprietary Fund Highlights

- School Nutrition Fund net assets increased from \$36,329 at June 30, 2004 to \$47,592 at June 30, 2005, representing an increase of 31%.

BUDGETARY HIGHLIGHTS

The District's receipts were \$6,156 less than budgeted receipts. The most significant variance resulted from the District receiving less in state source revenues than originally anticipated.

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

Even though the District follows this practice, expenditures in the other expenditures function exceeded the amounts budgeted by \$6,725.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$513,682, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See figure A-6) More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$109,225.

The original cost of the District's capital assets was \$3,219,416. Governmental funds account for \$3,185,966, with the remainder of \$33,450 accounted for in the Proprietary School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. The District's net assets in machinery and equipment totaled \$47,873 at June 30, 2004, compared to \$88,708 reported at June 30, 2005. This represents an 85.3% increase from fiscal 2004 to fiscal 2005.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total Change 2004-05
	Activities		Activities		School District		
	2005	2004	2005	2004	2005	2004	
Land	\$ 6,827	6,827	0	0	6,827	6,827	0.00%
Buildings	390,337	347,838	0	0	390,337	347,838	12.22%
Improvements other than buildings	27,810	36,577	0	0	27,810	36,577	-23.97%
Machinery and equipment	77,377	35,338	11,331	12,535	88,708	47,873	85.30%
Total	\$ 502,351	426,580	11,331	12,535	513,682	439,115	16.98%

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:

- The District's School Board approved the District's continued participation in the instructional support program for a period of five more years. These monies will be used to fund future General Fund expenditures.
- The District's Board approved a \$22,980 Fire (Life) Safety Grant for the upcoming year to make improvements in the two kitchens.
- The rising cost of gas, diesel, and natural gas continue to be a concern for the District.
- Declining enrollment continues to be a concern to the District.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents:			
Other	\$ 1,294,520	35,078	1,329,598
Receivables			
Property tax:			
Delinquent	34,177	0	34,177
Succeeding year	1,281,056	0	1,281,056
Accounts	2,919	0	2,919
Due from other governments	66,660	0	66,660
Inventories	0	4,237	4,237
Capital assets, net of accumulated depreciation (Note 3)	502,351	11,331	513,682
TOTAL ASSETS	3,181,683	50,646	3,232,329
LIABILITIES			
Accounts payable	76,228	0	76,228
Salaries and benefits payable	273,477	1,704	275,181
Deferred revenue:			
Succeeding year property tax	1,281,056	0	1,281,056
Other	0	1,350	1,350
TOTAL LIABILITIES	1,630,761	3,054	1,633,815
NET ASSETS			
Investment in capital assets, net of related debt	502,351	11,331	513,682
Restricted for:			
Teacher Quality	326	0	326
Capital projects	41,358	0	41,358
Management levy	60,970	0	60,970
Physical plant and equipment levy	26,674	0	26,674
Other special revenue purposes	54,684	0	54,684
Unrestricted	864,559	36,261	900,820
TOTAL NET ASSETS	\$ 1,550,922	47,592	1,598,514

SEE NOTES TO FINANCIAL STATEMENTS.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Governmental activities:			
Instruction:			
Regular instruction	\$ 1,502,545	233,139	266,230
Special instruction	508,382	13,858	19,679
Other instruction	297,160	0	0
	<u>2,308,087</u>	<u>246,997</u>	<u>285,909</u>
Support services:			
Student services	97,504	0	0
Instructional staff services	64,157	0	0
Administration services	329,345	0	0
Operation and maintenance of plant services	256,116	0	0
Transportation services	150,720	0	0
	<u>897,842</u>	<u>0</u>	<u>0</u>
Other expenditures:			
Facilities acquisitions	188,573	0	0
AEA flowthrough	120,862	0	120,862
Depreciation(unallocated)*	30,720	0	0
	<u>340,155</u>	<u>0</u>	<u>120,862</u>
Total governmental activities	3,546,084	246,997	406,771
Business-Type activities:			
Non-instructional programs:			
Nutrition services	145,014	89,582	66,157
Total business-type activities	<u>145,014</u>	<u>89,582</u>	<u>66,157</u>
Total	<u>\$ 3,691,098</u>	<u>336,579</u>	<u>472,928</u>

General Revenues:

Property tax levied for:
 General purposes
 Capital outlay
 Local option sales and services
 Unrestricted state grants
 Unrestricted investment earnings
 Gain on sale of assets

Total general revenues

Changes in net assets before other financing uses

Other financing uses

 Loss on disposal of capital assets

Total other financing uses

Change in net assets

Net assets beginning of year

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
(1,003,176)	0	(1,003,176)
(474,845)	0	(474,845)
(297,160)	0	(297,160)
<u>(1,775,181)</u>	<u>0</u>	<u>(1,775,181)</u>
(97,504)	0	(97,504)
(64,157)	0	(64,157)
(329,345)	0	(329,345)
(256,116)	0	(256,116)
(150,720)	0	(150,720)
<u>(897,842)</u>	<u>0</u>	<u>(897,842)</u>
(188,573)	0	(188,573)
0	0	0
(30,720)	0	(30,720)
<u>(219,293)</u>	<u>0</u>	<u>(219,293)</u>
(2,892,316)	0	(2,892,316)
0	10,725	10,725
0	10,725	10,725
<u>(2,892,316)</u>	<u>10,725</u>	<u>(2,881,591)</u>
\$ 1,259,268	0	1,259,268
28,800	0	28,800
189,380	0	189,380
1,522,362	0	1,522,362
25,096	853	25,949
1,281	0	1,281
<u>3,026,187</u>	<u>853</u>	<u>3,027,040</u>
133,871	11,578	145,449
0	(315)	(315)
0	(315)	(315)
133,871	11,263	145,134
<u>1,417,051</u>	<u>36,329</u>	<u>1,453,380</u>
<u>\$ 1,550,922</u>	<u>47,592</u>	<u>1,598,514</u>

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 JUNE 30, 2005

	General	Other Nonmajor Governmental Funds	Total
ASSETS			
Cash and pooled investments:			
Other	\$ 1,113,497	160,880	1,274,377
Receivables:			
Property tax:			
Delinquent	33,401	776	34,177
Succeeding year	1,221,944	59,112	1,281,056
Accounts	2,919	0	2,919
Due from other governments	38,814	27,846	66,660
TOTAL ASSETS	\$ 2,410,575	248,614	2,659,189
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 71,577	4,541	76,118
Salaries and benefits payable	272,202	1,275	273,477
Deferred revenue:			
Succeeding year property tax	1,221,944	59,112	1,281,056
Total liabilities	1,565,723	64,928	1,630,651
Fund balances:			
Reserved for:			
Teacher Quality	326	0	326
Unreserved:			
General	844,526	0	844,526
Capital projects	0	41,358	41,358
Management levy	0	60,970	60,970
Physical plant and equipment levy	0	26,674	26,674
Other special revenue	0	54,684	54,684
Total fund balances	844,852	183,686	1,028,538
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,410,575	248,614	2,659,189

SEE NOTES TO FINANCIAL STATEMENTS.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005

Total fund balances of governmental funds (page 15)	\$ 1,028,538
<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 report as assets in in the governmental funds.	502,351
Blending of the Internal Service Funds to be reflected on an entity-wide basis.	<u>20,033</u>
Net assets of governmental activites (page 12)	<u><u>\$ 1,550,922</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	General	Other Nonmajor Governmental Funds	Total
REVENUES:			
Local sources:			
Local tax	\$ 1,259,268	218,180	1,477,448
Tuition	119,026	0	119,026
Other	68,311	84,756	153,067
State sources	1,777,095	32	1,777,127
Federal sources	152,006	0	152,006
Total revenues	<u>3,375,706</u>	<u>302,968</u>	<u>3,678,674</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	1,506,362	3,923	1,510,285
Special instruction	508,382	0	508,382
Other instruction	210,892	85,012	295,904
	<u>2,225,636</u>	<u>88,935</u>	<u>2,314,571</u>
Support services:			
Student services	97,219	285	97,504
Instructional staff services	59,412	163	59,575
Administration services	331,864	905	332,769
Operation and maintenance of plant services	211,869	50,343	262,212
Transportation services	167,816	13,557	181,373
	<u>868,180</u>	<u>65,253</u>	<u>933,433</u>
Other expenditures:			
Facilities acquisitions	0	253,025	253,025
AEA flowthrough	120,862	0	120,862
	<u>120,862</u>	<u>253,025</u>	<u>373,887</u>
Total expenditures	<u>3,214,678</u>	<u>407,213</u>	<u>3,621,891</u>
Excess (deficiency) of revenues over (under) expenditures	161,028	(104,245)	56,783
Other financing sources:			
Sale of equipment	1,281	0	1,281
Total other financing sources	<u>1,281</u>	<u>0</u>	<u>1,281</u>
Net change in fund balances	162,309	(104,245)	58,064
Fund balance beginning of year	<u>682,543</u>	<u>287,931</u>	<u>970,474</u>
Fund balance end of year	<u>\$ 844,852</u>	<u>183,686</u>	<u>1,028,538</u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2005

Net change in fund balances - total governmental funds (page 17) \$ 58,064

*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	\$ 183,577	
Depreciation expense	<u>(107,806)</u>	75,771

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

36

Changes in net assets of governmental activities (page 14)

\$ 133,871

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 JUNE 30, 2005

	Business-Type	
	Activities:	
	Enterprise	Governmental
	Fund	Activities:
	School	Internal
	Nutrition	Service
ASSETS		
Cash and pooled investments	\$ 35,078	20,143
Inventories	4,237	0
Capital assets, net of accumulated depreciation	11,331	0
Total assets	<u>50,646</u>	<u>20,143</u>
LIABILITIES		
Accounts payable	0	110
Salaries and benefits payable	1,704	0
Deferred Revenue:		
Other	1,350	0
Total liabilities	<u>3,054</u>	<u>110</u>
NET ASSETS		
Invested in capital assets, net of related debt	11,331	0
Unrestricted	36,261	20,033
Total net assets	<u>\$ 47,592</u>	<u>20,033</u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2005

	Business-Type	
	Enterprise Fund School Nutrition	Governmental Activities: Internal Service
Operating revenue:		
Local sources:		
Charges for services	\$ 89,582	4,894
Operating expenses:		
Non-instructional programs:		
Food service operations:		
Salaries	50,956	0
Benefits	6,759	4,858
Services	1,471	0
Supplies	84,409	0
Depreciation	1,419	0
Total operating expenses	145,014	4,858
Operating income (loss)	(55,432)	36
Non-operating revenues:		
State sources	2,289	0
Federal sources	63,868	0
Interest on investments	853	0
Total non-operating revenues	67,010	0
Income before other financing uses	11,578	36
Other financing uses:		
Loss on disposal of capital assets	(315)	0
Change in net assets after other financing uses	11,263	36
Net assets beginning of year	36,329	19,997
Net assets end of year	\$ 47,592	20,033

SEE NOTES TO FINANCIAL STATEMENTS.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2005

	Business-Type	
	Enterprise Fund School Nutrition	Governmental Activities: Internal Service
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 89,189	0
Cash received from miscellaneous operating activities	380	4,894
Cash payments to employees for services	(56,011)	(4,748)
Cash payments to suppliers for goods or services	(74,178)	0
Net cash provided by (used in) operating activities	<u>(40,620)</u>	<u>146</u>
Cash flows from non-capital financing activities:		
State grants received	2,289	0
Federal grants received	50,945	0
Net cash provided by non-capital financing activities	<u>53,234</u>	<u>0</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(530)	0
Net cash used in capital and related financing activities	<u>(530)</u>	<u>0</u>
Cash flows from investing activities:		
Interest on investments	853	0
Net cash provided by investing activities	<u>853</u>	<u>0</u>
Net increase in cash and cash equivalents	12,937	146
Cash and cash equivalents at beginning of year	<u>22,141</u>	<u>19,997</u>
Cash and cash equivalents at end of year	<u>\$ 35,078</u>	<u>20,143</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (55,432)	36
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Commodities consumed	12,923	0
Depreciation	1,419	0
Increase in inventories	(1,221)	0
Increase in accounts payable	0	110
Increase in salaries and benefits payable	1,704	0
Decrease in deferred revenue	(13)	0
Net cash provided by (used in) operating activities	<u>\$ (40,620)</u>	<u>146</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>\$ 35,078</u>	<u>20,143</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2005, the District received Federal commodities valued at \$12,923.

SEE NOTES TO FINANCIAL STATEMENTS.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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

The East Central Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Miles and Sabula, Iowa, and the predominate agricultural territory in Clinton and Jackson Counties. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, East Central Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The East Central Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental fund:

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

The District reports the following proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund and the Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the self-funded health insurance plan of the District. The Internal Service Fund is charged back to the Governmental Funds and shown combined in the Statement of Net Assets and Statement of Activities. This chargeback is based upon a percentage of total employees by the participants' various functional areas.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

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

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

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

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

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

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

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements in the other expenditures function exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits in bank at June 30, 2005 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.

At June 30, 2005, the district had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 30,751</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 6,827	0	0	6,827
Total capital assets not being depreciated	<u>6,827</u>	<u>0</u>	<u>0</u>	<u>6,827</u>
Capital assets being depreciated:				
Buildings	1,044,683	64,452	0	1,109,135
Land improvements	373,942	0	0	373,942
Machinery and equipment	1,647,192	119,125	70,255	1,696,062
Total capital assets being depreciated	<u>3,065,817</u>	<u>183,577</u>	<u>70,255</u>	<u>3,179,139</u>
Less accumulated depreciation for:				
Buildings	696,845	21,953	0	718,798
Land improvements	337,365	8,767	0	346,132
Machinery and equipment	1,611,854	77,086	70,255	1,618,685
Total accumulated depreciation	<u>2,646,064</u>	<u>107,806</u>	<u>70,255</u>	<u>2,683,615</u>
Total capital assets being depreciated, net	<u>419,753</u>	<u>75,771</u>	<u>0</u>	<u>495,524</u>
Governmental activities capital assets, net	<u>\$ 426,580</u>	<u>75,771</u>	<u>0</u>	<u>502,351</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 32,190	530	(730)	33,450
Less accumulated depreciation	19,655	1,419	(1,045)	22,119
Business-type activities capital assets, net	<u>\$ 12,535</u>	<u>(889)</u>	<u>315</u>	<u>11,331</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular	\$	40,313
Other		1,256
Support services:		
Instructional staff		4,582
Administration		4,065
Operation and maintenance of plant		1,524
Transportation		25,346
		<u>77,086</u>
Unallocated depreciation		<u>30,720</u>
Total governmental activities depreciation expense	\$	<u>107,806</u>
Business-type activities:		
Food services	\$	1,419
Total business-type activities depreciation expense	\$	<u>1,419</u>

(4) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$113,024, \$111,385, and \$116,529, respectively, equal to the required contributions for each year.

(5) Risk Management

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

(6) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$120,862 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(7) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted expenditures at the functional area level. During the year ended June 30, 2005, expenditures in the other programs functional area exceeded the amounts budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

EAST CENTRAL 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, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Revenues:		
Local sources	\$ 1,749,541	90,435
Intermediate sources	0	0
State sources	1,777,127	2,289
Federal sources	152,006	63,868
Total revenues	<u>3,678,674</u>	<u>156,592</u>
Expenditures:		
Instruction	2,314,571	0
Support services	933,433	0
Non-instructional programs	0	145,014
Other expenditures	373,887	0
Total expenditures	<u>3,621,891</u>	<u>145,014</u>
Excess (deficiency) of revenues over (under) expenditures	56,783	11,578
Other financing sources (uses), net	<u>1,281</u>	<u>(315)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	58,064	11,263
Balance beginning of year	<u>970,474</u>	<u>36,329</u>
Balance end of year	<u>\$ 1,028,538</u>	<u>47,592</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
1,839,976	1,647,878	1,647,878	192,098
0	1,000	1,000	(1,000)
1,779,416	1,989,196	1,989,196	(209,780)
215,874	203,348	203,348	12,526
<u>3,835,266</u>	<u>3,841,422</u>	<u>3,841,422</u>	<u>(6,156)</u>
2,314,571	2,403,697	2,403,697	89,126
933,433	968,206	968,206	34,773
145,014	216,500	216,500	71,486
373,887	367,162	367,162	(6,725)
<u>3,766,905</u>	<u>3,955,565</u>	<u>3,955,565</u>	<u>188,660</u>
68,361	(114,143)	(114,143)	182,504
966	500	500	466
69,327	(113,643)	(113,643)	182,970
<u>1,006,803</u>	<u>681,699</u>	<u>681,699</u>	<u>325,104</u>
<u>1,076,130</u>	<u>568,056</u>	<u>568,056</u>	<u>508,074</u>

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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

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

During the year ended June 30, 2005, expenditures in the other expenditures function exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2005

	Special Revenue Funds							Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue	Capital Projects		
ASSETS								
Cash and pooled investments	\$ 60,970	33,042	30,219	21,642	145,873	15,007		160,880
Receivables:								
Property tax:								
Current year delinquent		0	776	0	776	0		776
Succeeding year	29,866	0	29,246	0	59,112	0		59,112
Due from other governments	0	0	0	0	0	27,846		27,846
TOTAL ASSETS	\$ 90,836	33,042	60,241	21,642	205,761	42,853		248,614
LIABILITIES AND FUND EQUITY								
Liabilities:								
Accounts payable	\$ 0	0	4,321	0	4,321	220		4,541
Salaries and benefits payable	0	0	0	0	0	1,275		1,275
Deferred revenue:								
Succeeding year property tax	29,866	0	29,246	0	59,112	0		59,112
Total Liabilities	29,866	0	33,567	0	63,433	1,495		64,928
Fund equity:								
Fund balances:								
Unreserved:								
Undesignated	60,970	33,042	26,674	21,642	142,328	41,358		183,686
Total fund balances	60,970	33,042	26,674	21,642	142,328	41,358		183,686
TOTAL LIABILITIES AND FUND EQUITY	\$ 90,836	33,042	60,241	21,642	205,761	42,853		248,614

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2005

	Special Revenue Funds						
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue	Capital Projects	Total Nonmajor Governmental Funds
REVENUES:							
Local sources:							
Local tax	\$ 0	0	28,800	0	28,800	189,380	218,180
Other	0	84,430	0	326	84,756	0	84,756
State sources	0	0	32	0	32	0	32
TOTAL REVENUES	0	84,430	28,832	326	113,588	189,380	302,968
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	3,055	0	0	868	3,923	0	3,923
Other instruction	0	85,012	0	0	85,012	0	85,012
Support services:							
Student support services	285	0	0	0	285	0	285
Instructional staff	163	0	0	0	163	0	163
Administration services	905	0	0	0	905	0	905
Operation and maintenance of plant services	35,628	0	14,715	0	50,343	0	50,343
Student transportation	13,557	0	0	0	13,557	0	13,557
Other expenditures:							
Facilities acquisitions	0	0	0	0	0	253,025	253,025
TOTAL EXPENDITURES	53,593	85,012	14,715	868	154,188	253,025	407,213
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER)							
EXPENDITURES	(53,593)	(582)	14,117	(542)	(40,600)	(63,645)	(104,245)
FUND BALANCE BEGINNING OF YEAR							
	114,563	33,624	12,557	22,184	182,928	105,003	287,931
FUND BALANCE END OF YEAR							
	\$ 60,970	33,042	26,674	21,642	142,328	41,358	183,686

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2005

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Athletic	\$ 5,051	43,408	44,489	3,970
Girls BB Camp	381	633	862	152
FB Camp	130	1,752	618	1,264
SB Camp	97	280	231	146
VB Camp	548	1,789	1,265	1,072
JH Softball	0	1,453	1,487	(34)
Concession	0	8,419	8,419	0
Miscellaneous	13,109	4,352	4,342	13,119
Project Grad.	1,264	3,640	3,740	1,164
Speech & Drama	1,428	479	371	1,536
Student Council	598	696	524	770
Student of the Month	132	0	0	132
Student Pictures	0	415	415	0
State Tournament	1,574	84	227	1,431
Class 2008	0	3,839	2,228	1,611
Class 2007	747	0	0	747
Class 2006	1,588	8,613	7,525	2,676
Class 2005	4,092	0	3,581	511
Class 2004	749	0	749	0
German	380	0	0	380
Stand Chapter	226	0	0	226
Career Day	261	0	0	261
Middle School	1,269	4,058	3,419	1,908
Intrafund Transfers	0	520	520	0
Total	\$ 33,624	84,430	85,012	33,042

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS
 EXPENDABLE TRUST FUNDS
 YEAR ENDED JUNE 30, 2005

Expendable Trust Funds	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Wosoba Scholarship	\$ 6,759	96	99	6,756
Nelson Scholarship	5,379	70	303	5,146
Wilcke Scholarship	2,832	51	31	2,852
Keil Scholarship	319	4	0	323
Treloar Scholarship	3,234	58	34	3,258
Wiese Scholarship	1,639	25	1	1,663
Gray Scholarship	2,022	22	400	1,644
Total	<u>\$ 22,184</u>	<u>326</u>	<u>868</u>	<u>21,642</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 1,477,448	1,522,638	1,403,774	1,144,595
Tuition	119,026	146,690	153,254	93,301
Other	153,067	190,189	157,088	170,769
Intermediate sources	0	91	85	0
State sources	1,777,127	1,791,963	1,813,811	1,889,108
Federal sources	152,006	295,677	279,234	202,725
Total	\$ 3,678,674	3,947,248	3,807,246	3,500,498
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 1,510,285	1,457,712	1,350,625	1,374,728
Special instruction	508,382	525,033	504,593	485,733
Other instruction	295,904	297,170	393,278	418,866
Support services:				
Student services	97,504	94,974	88,163	92,719
Instructional staff services	59,575	97,051	146,858	152,016
Administration services	332,769	307,041	360,919	384,757
Operation and maintenance of plant services	262,212	233,996	225,141	249,609
Transportation services	181,373	202,919	177,285	183,303
Non-instructional programs	0	0	87,062	76,896
Other expenditures:				
Facilities acquisitions	253,025	107,064	149,380	62,993
AEA flow-through	120,862	123,726	132,244	133,434
Total	\$ 3,621,891	3,446,686	3,615,548	3,615,054

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 Internal Control over Financial Reporting and
on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of East Central Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 15, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered East Central Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 Part I of the accompanying Schedule of Findings.

A material weakness is a reportable 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 caused by error or fraud 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-05 is a material weakness.

Compliance and Other Matters

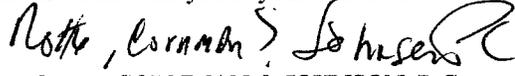
As part of obtaining reasonable assurance about whether East Central Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements non-compliance with which could have 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 or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 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.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of East Central Community School District and other parties to whom East Central Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of East Central Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

September 15, 2005

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

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

REPORTABLE CONDITIONS:

- I-A-05 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-05 District and Regional Rents - We noted during our audit that the district receives money for use of facilities when hosting district and regional events.

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

Response - We will comply with this recommendation.

Conclusion - Response accepted.

- I-C-05 Gate Admissions - At the time of the audit, gate admissions were not reconciled to pre-numbered tickets sold.

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

Response - We will comply with this recommendation.

Conclusion - Response accepted.

- I-D-05 Appraisal Fee - We noted during the audit that the fixed assets appraisal cost of \$2,500 was not repaid to the Management Fund from the previous year.

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

Response - We will comply with this recommendation.

Conclusion - Response accepted.

I-E-05 Student Activity Fund - We noted during our audit that the Student Activity Fund included an interest account. We also noted during our audit that the District wrote checks to individual students in the Student Activity Fund for after prom prizes. According to the Uniform Accounting Manual for the Department of Education, no funds from a student organization may be distributed to individual students.

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

Response - We will comply with this recommendation.

Conclusion - Response accepted.

I-F-05 Purchase Orders - We noted during our audit that purchase orders in the Activity Fund were dated after the invoices. Purchase orders are typically used to document approval prior to the purchase as well as documenting which account will be paying for the invoice. Also, during the audit, it was noted that 90% of Activity Fund disbursements tested did not have proper approval or authorization for the purchase.

Recommendation - The District should review procedures in place with regard to use of purchase orders, placing the order and subsequent payment. The District should require purchase orders be completed prior to ordering. With the proper use of purchase orders, the District can ensure that purchases are properly approved and authorized before purchasing.

Response - We will correct procedures for handling of purchase orders.

Conclusion - Response accepted.

EAST CENTRAL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS
 YEAR ENDED JUNE 30, 2005

Part II: Other Findings Related to Statutory Reporting

II-A-05 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, 2005.

II-B-05 Certified Budget - District expenditures for the year ended June 30, 2005 exceeded the amount budgeted in the other expenditures program area.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response – We will amend the budget according to the Code of Iowa in the future.

Conclusion – Response accepted.

II-C-05 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-05 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. We did note there was insufficient detail on receipts for reimbursement to determine if procedures were handled properly.

Recommendation - The District should review procedures to make sure reimbursements are made to persons who have sufficient detail on travel receipts.

Response – We will correct procedures.

Conclusion – Response accepted.

II-E-05 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Richard Badrick, Board Member Owner Badrick Service & Sales	Mower, and Repairs	\$3,343

In accordance with 279.7A of the Code of Iowa, the above transaction with the Board Member appears to represent a conflict of interest.

Recommendation - The District should consult legal council.

Response – The services provided by Mr. Badrick were competitively bid.

Conclusion – Response acknowledged. No documentation was kept to support the mower purchase was competitively bid. In the future, the District should keep documentation for the bidding process.

- II-F-05 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-05 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-H-05 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-I-05 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. However, we did note that the District was not receiving the proper interest rate, set by the State Rate Setting Committee, on their Certificates of Deposit.
- Recommendation - The District should contact Metrobank and request to receive the proper interest rates as set by the State Rate Setting Committee.
- Response – The District was contacted by the bank about the interest rates and the situation has been resolved.
- Conclusion – Response accepted.
- II-J-05 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.