

EAST MARSHALL COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

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East Marshall Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2004 Election)		
Mike Strawn	President	2006
Tim Bennett	Vice-President	2005
Dave Scott	Board Member	2004
Connie Allen	Board Member	2005
Leroy Kivett	Board Member	2006

Board of Education
(After September 2004 Election)

Mike Strawn	President	2006
Dave Scott	Vice-President	2007
Tim Bennett	Board Member	2005
Connie Allen	Board Member	2005
Leroy Kivett	Board Member	2006

School Officials

Dr. Alan Meyer	Superintendent	2005
Nancy Burchland	Board Secretary/ Business Manager	2005
Ahlers & Cooney, P.C.	Attorney	2005
Cartwright, Druker, and Ryden	Attorney	2005

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
East Marshall 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 Marshall Community School District, Gilman, Iowa as of and for the year ended June 30, 2005, 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 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 East Marshall 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 6, 2005 on our consideration of East Marshall 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 13 and 36 through 38 are not required parts of the basic financial statements, but are supplementary

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information 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 Marshall Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions 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 6, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$6,440,906 in fiscal 2004 to \$6,821,909 in fiscal 2005, while General Fund expenditures decreased from \$6,397,712 in fiscal 2004 to \$6,326,784 in fiscal 2005. This resulted in an increase in the District's General Fund balance from \$293,043 in fiscal 2004 to \$790,542 in fiscal 2005, a 170% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in state and federal sources in fiscal 2005. The decrease in expenditures was due primarily to a decrease in the instruction functional area.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

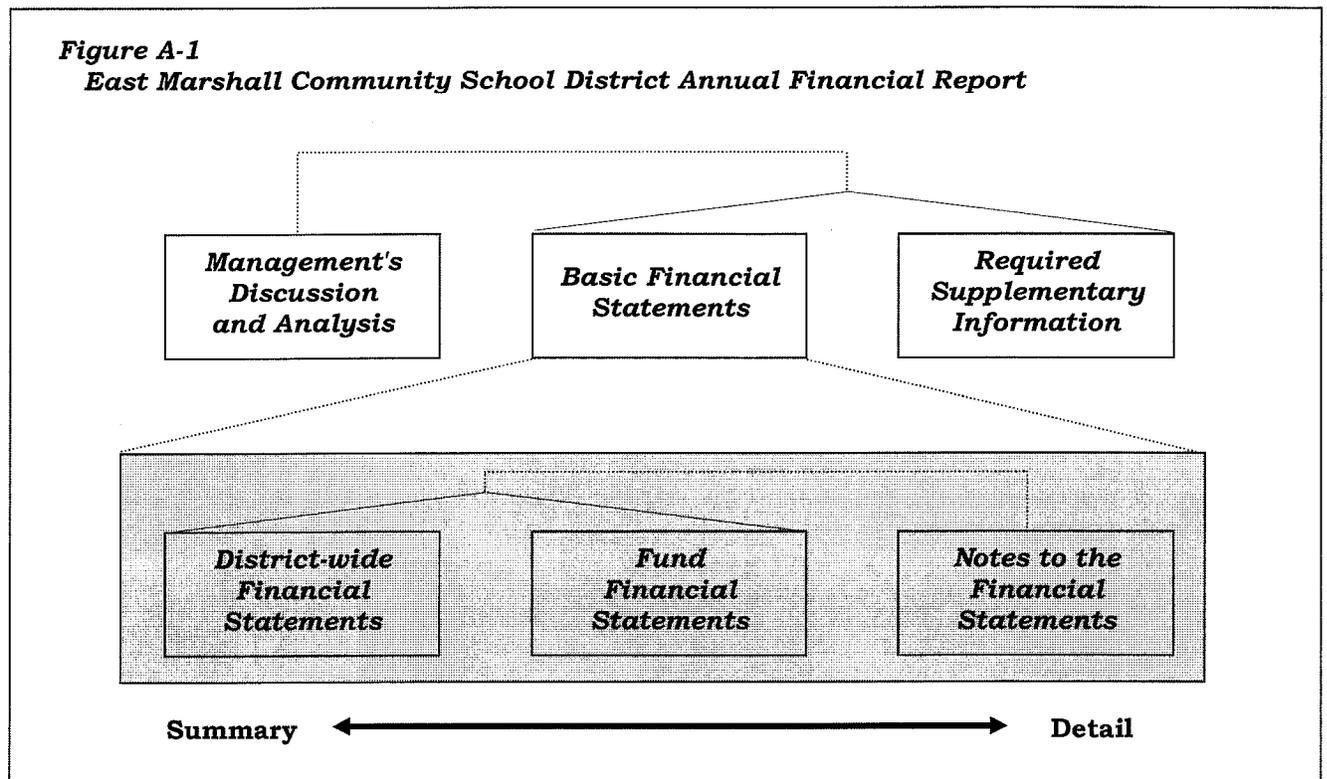


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

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

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

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

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

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

- 3) *Fiduciary funds*: The District is a trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust funds.
- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
 - Agency Funds (Washington D.C. Trip) – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

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

The required financial statements for fiduciary funds includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

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 compared to June 30, 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2005	2004	2005	2004	2005	2004	2004-05
Current and other assets	\$ 5,680,980	5,230,062	98,189	112,045	5,779,169	5,342,107	8.18%
Capital assets	2,374,514	2,472,098	26,173	24,130	2,400,687	2,496,228	-3.83%
Total assets	8,055,494	7,702,160	124,362	136,175	8,179,856	7,838,335	4.36%
Long-term obligations	639,012	419,582	0	0	639,012	419,582	52.30%
Other liabilities	3,866,372	4,309,689	32,678	30,837	3,899,050	4,340,526	-10.17%
Total liabilities	4,505,384	4,729,271	32,678	30,837	4,538,062	4,760,108	-4.66%
Net assets:							
Invested in capital assets, net of related debt	2,374,514	2,472,098	26,173	24,130	2,400,687	2,496,228	-3.83%
Restricted	732,043	320,114	0	0	732,043	320,114	128.68%
Unrestricted	443,553	180,677	65,511	81,208	509,064	261,885	94.38%
Total net assets	\$ 3,550,110	2,972,889	91,684	105,338	3,641,794	3,078,227	18.31%

The District's combined net assets increased by 18.31%, or \$563,567, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$411,929, or 128.68% 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 – decreased \$95,541, or 3.83%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2005 compared to June 30, 2004.

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	\$ 1,049,986	918,419	158,003	151,694	1,207,989	1,070,113	12.88%
Operating grants and contributions and restricted interest	764,882	668,752	142,347	136,847	907,229	805,599	12.62%
General revenues:							
Property tax	2,834,350	3,041,670	0	0	2,834,350	3,041,670	-6.82%
Local option sales and services tax	387,549	0	0	0	387,549	0	100.00%
Unrestricted state grants	2,667,436	2,574,805	0	0	2,667,436	2,574,805	3.60%
Other	73,664	32,659	630	976	74,294	33,635	120.88%
Total revenues	<u>7,777,867</u>	<u>7,236,305</u>	<u>300,980</u>	<u>289,517</u>	<u>8,078,847</u>	<u>7,525,822</u>	<u>7.35%</u>
Program expenses:							
Governmental activities:							
Instructional	4,307,361	4,217,610	0	0	4,307,361	4,217,610	2.13%
Support services	2,491,018	2,340,476	0	0	2,491,018	2,340,476	6.43%
Non-instructional programs	10,904	8,892	314,634	303,397	325,538	312,289	4.24%
Other expenses	391,363	465,866	0	0	391,363	465,866	-15.99%
Total expenses	<u>7,200,646</u>	<u>7,032,844</u>	<u>314,634</u>	<u>303,397</u>	<u>7,515,280</u>	<u>7,336,241</u>	<u>2.44%</u>
Changes in net assets	577,221	203,461	(13,654)	(13,880)	563,567	189,581	197.27%
Beginning net assets	<u>2,972,889</u>	<u>2,769,428</u>	<u>105,338</u>	<u>119,218</u>	<u>3,078,227</u>	<u>2,888,646</u>	<u>6.56%</u>
Ending net assets	<u>\$ 3,550,110</u>	<u>2,972,889</u>	<u>91,684</u>	<u>105,338</u>	<u>3,641,794</u>	<u>3,078,227</u>	<u>18.31%</u>

Property tax and unrestricted state grants account for 68% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 90% of the total expenses.

Changes in revenues will be as a result of changes in student participation, whether in the regular, special or extracurricular programs. The most significant change in revenues was due to the increase in property tax monies. Fluctuations in basic enrollment will significantly impact the state revenues, as well as property tax revenues, keeping in mind that neither source of funding will be ever fully realized with current law and funding structure as set by the legislature.

The most significant fluctuation in expenditure levels will be caused by increased salary and benefit obligations, in large part resulting from collective bargaining agreements. With a declining enrollment comes lesser ability to fund various programs required by the state and constant evaluation of staffing needs becomes a priority. Even with certain staff reductions there may still be an increase in expenditures due to the salary and benefit requirements.

The District makes a continual effort to be a good steward of public funds and maintains a philosophy of providing the best education possible, exploring every avenue available to fund the programs, while making certain to keep watch for services that could be merged with other programs.

Governmental Activities

Revenues for governmental activities were \$7,777,867 and expenses were \$7,200,646. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 4,307,361	2,742,571
Support services	2,491,018	2,458,644
Non-instructional programs	10,904	10,904
Other expenses	391,363	173,659
Totals	<u>\$ 7,200,646</u>	<u>5,385,778</u>

- The cost financed by users of the District’s programs was \$1,049,986.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$764,882.
- The net cost of governmental activities was financed with \$2,834,350 in property tax, \$387,549 in local option sales and services tax, \$2,667,436 in state foundation aid and \$44,473 in interest income.

Business-Type Activities

Revenues of the District’s business-type activities were \$300,980 and expenses were \$314,634. The District’s business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,527,169, above last year’s ending fund balances of a \$653,745. However, the primary reason

for the increase in combined fund balances in fiscal 2005 is due to the District receiving local option sales and services tax monies in fiscal 2005.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors:
 - The increase in revenues along with the decrease in expenditures caused the General Fund balance to improve substantially.

Proprietary Fund Highlights

The Proprietary Funds net assets decreased from \$105,338 at June 30, 2004 to \$91,684 at June 30, 2005, representing a decrease of 12.96%. For fiscal 2005, the District saw an increase in expenditures as well as an increase in revenues.

BUDGETARY HIGHLIGHTS

The District's revenues were \$478,918 more than budgeted revenues, a variance of 6.34%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

Total disbursements were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget disbursements 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 disbursements for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$2,400,687, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 3.98% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$285,497.

The original cost of the District's capital assets was \$6,211,049. Governmental funds account for \$6,077,285 with the remainder of \$133,764 in the Proprietary funds.

The largest change in capital asset activity during the year occurred in the land improvements category. The District's land improvements totaled \$91,140 at June 30, 2005, compared to \$103,331 reported at June 30, 2004.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2005	2004	2005	2004	2005	2004	2004-05
Land	\$ 110,574	110,574	0	0	110,574	110,574	0.00%
Buildings	1,816,109	1,890,636	0	0	1,816,109	1,890,636	-4.10%
Land improvements	91,140	103,331	0	0	91,140	103,331	-13.38%
Machinery and equipment	356,691	367,557	26,173	24,130	382,864	391,687	-2.30%
Total	\$ 2,374,514	2,472,098	26,173	24,130	2,400,687	2,496,228	-3.98%

Long-Term Debt

At June 30, 2005, the District had \$639,012 in long-term debt outstanding. This represents an increase of 52.3% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had compensated absences payable of \$42,072 at June 30, 2005.

The District had early retirement payable of \$596,940 at June 30, 2005.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total
	2005	2004	Change
Compensated absences	\$ 42,072	32,107	31.0%
Early retirement	596,940	387,475	54.1%
Totals	\$ 639,012	419,582	52.3%

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:

- On April 26, 2005, voters of the District passed a \$5,380,000 bond issue to build an addition to and to remodel the high school in LeGrand. The Board passed a resolution that was filed with the county auditors on April 29th that authorized a debt service levy for the 2005-06 budget year. Local Option Sales Tax will be used to abate the debt service levy to \$.35. The bonds were sold on June 9, 2005, the moneys were received on July 6 and are invested with Iowa Schools Joint Investment Trust. The District plans to break ground on the project in the spring of 2006.
- The instructional support program allows the district to generate 10% of the total regular program district cost for the budget year for additional or enhanced current educational programs. The District can participate in the instructional support program by either holding an election, which allows participation for ten years, or by board resolution, which allows participation for five years. The East Marshall School Board implemented the program by resolution for a period of five years starting with 2002-03. The program is funded with a combination of state aid, property tax and income surtax. Income surtax is paid in the year following the year it is levied. This funding source will expire after the 2006-07 school year unless it is renewed.

Fiscal Year	Instructional Support Levy	ISL State Aid	Income Surtax	Property Tax
2005-06	\$318,391	\$29,809	\$278,567	\$10,015
2004-05	\$322,049	\$31,732	\$282,711	\$7,606
2003-04	\$329,366	\$34,096	\$263,457	\$31,813
2002-03	\$329,445	\$36,776	\$277,226	\$15,443

- The District's certified enrollment increased slightly in 2005 for the first time since 2000. The District also continues to have increasing open enrolled students. In 2004-05 open enrollment revenues were \$720,917.

Fiscal Year	Enrolled In	Enrolled Out
2005-2006	181	50.8
2004-2005	140	43.5
2003-2004	120	43.7

- After a decline in property tax valuations in 2003, valuations increase slightly in 2004. The PPEL and PERL levies, fixed dollar levies, will generate more dollars because of the increase.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Nancy Burchland, District Business Manager, East Marshall Community School District, 225 South Elm Street, Gilman, Iowa, 50106.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP (Note 3)	\$ 645,848	78,753	724,601
Other	2,034,799	0	2,034,799
Receivables:			
Property tax:			
Delinquent	53,190	0	53,190
Succeeding year	2,388,505	0	2,388,505
Income surtax	282,711	0	282,711
Accounts	3,397	0	3,397
Accrued interest - ISCAP (Note 3)	317	0	317
Due from other governments	272,213	0	272,213
Inventories	0	19,436	19,436
Capital assets, net of accumulated depreciation (Note 4)	2,374,514	26,173	2,400,687
TOTAL ASSETS	8,055,494	124,362	8,179,856
LIABILITIES			
Accounts payable	146,662	2,629	149,291
Salaries and benefits payable	679,446	26,606	706,052
ISCAP warrants payable (Note 3)	643,000	0	643,000
ISCAP accrued interest payable (Note 3)	123	0	123
ISCAP unamortized premium	8,636	0	8,636
Deferred revenue:			
Succeeding year property tax	2,388,505	0	2,388,505
Other	0	3,443	3,443
Long-term liabilities (Note 5):			
Portion due within one year:			
Compensated absences	42,072	0	42,072
Early retirement payable	124,822	0	124,822
Portion due after one year:			
Early retirement payable	472,118	0	472,118
TOTAL LIABILITIES	4,505,384	32,678	4,538,062
NET ASSETS			
Investment in capital assets, net of related debt	2,374,514	26,173	2,400,687
Restricted for:			
Talented and gifted	6,234	0	6,234
Salary improvement program	210	0	210
Capital projects	364,488	0	364,488
Physical plant and equipment levy	197,444	0	197,444
Special purposes by the board	12,880	0	12,880
Public equipment recreation levy	18,320	0	18,320
Other special revenue purposes	132,467	0	132,467
Unrestricted	443,553	65,511	509,064
TOTAL NET ASSETS	\$ 3,550,110	91,684	3,641,794

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 2,808,686	929,431	508,458
Special instruction	821,571	89,111	37,790
Other instruction	677,104	0	0
	<u>4,307,361</u>	<u>1,018,542</u>	<u>546,248</u>
Support services:			
Student services	250,249	0	0
Instructional staff services	296,343	0	0
Administration services	766,557	0	0
Operation and maintenance of plant services	671,265	0	0
Transportation services	506,604	31,444	930
	<u>2,491,018</u>	<u>31,444</u>	<u>930</u>
Non-instructional programs:			
Community service operations	10,904	0	0
	<u>10,904</u>	<u>0</u>	<u>0</u>
Other expenditures:			
Facilities and acquisitions	86,941	0	0
AEA flowthrough	217,704	0	217,704
Depreciation(unallocated) *	86,718	0	0
	<u>391,363</u>	<u>0</u>	<u>217,704</u>
Total governmental activities	7,200,646	1,049,986	764,882
Business-Type activities:			
Non-instructional programs:			
Nutrition services	314,634	158,003	142,347
Total business-type activities	<u>314,634</u>	<u>158,003</u>	<u>142,347</u>
Total	<u>\$ 7,515,280</u>	<u>1,207,989</u>	<u>907,229</u>

General Revenues:

Local tax for:

- General purposes
- Public equipment recreation levy
- Capital outlay
- Local option sales and services tax
- Unrestricted state grants
- Unrestricted investment earnings
- Loss on disposal
- Compensation for loss of fixed assets

Total general revenues

Changes 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
(1,370,797)	0	(1,370,797)
(694,670)	0	(694,670)
(677,104)	0	(677,104)
<u>(2,742,571)</u>	<u>0</u>	<u>(2,742,571)</u>
(250,249)	0	(250,249)
(296,343)	0	(296,343)
(766,557)	0	(766,557)
(671,265)	0	(671,265)
(474,230)	0	(474,230)
<u>(2,458,644)</u>	<u>0</u>	<u>(2,458,644)</u>
(10,904)	0	(10,904)
<u>(10,904)</u>	<u>0</u>	<u>(10,904)</u>
(86,941)	0	(86,941)
0	0	0
(86,718)	0	(86,718)
<u>(173,659)</u>	<u>0</u>	<u>(173,659)</u>
(5,385,778)	0	(5,385,778)
0	(14,284)	(14,284)
<u>0</u>	<u>(14,284)</u>	<u>(14,284)</u>
<u>(5,385,778)</u>	<u>(14,284)</u>	<u>(5,400,062)</u>
\$ 2,666,548	0	2,666,548
19,946	0	19,946
147,856	0	147,856
387,549	0	387,549
2,667,436	0	2,667,436
44,473	811	45,284
(498)	(181)	(679)
29,689	0	29,689
<u>5,962,999</u>	<u>630</u>	<u>5,963,629</u>
577,221	(13,654)	563,567
<u>2,972,889</u>	<u>105,338</u>	<u>3,078,227</u>
<u>\$ 3,550,110</u>	<u>91,684</u>	<u>3,641,794</u>

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

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments				
ISCAP (Note 3)	\$ 645,848	0	0	645,848
Other	1,318,486	343,223	368,362	2,030,071
Receivables:				
Property tax:				
Delinquent	45,225	0	7,965	53,190
Succeeding year	1,969,962	0	418,543	2,388,505
Income surtax	282,711	0	0	282,711
Accounts	3,005	0	392	3,397
Accrued interest - ISCAP (Note 3)	317	0	0	317
Due from other governments	178,414	93,799	0	272,213
TOTAL ASSETS	\$ 4,443,968	437,022	795,262	5,676,252
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 69,602	72,534	4,526	146,662
Salaries and benefits payable	679,392	0	54	679,446
ISCAP warrants payable (Note 3)	643,000	0	0	643,000
ISCAP accrued interest payable (Note 3)	123	0	0	123
ISCAP unamortized premium	8,636	0	0	8,636
Deferred revenue:				
Succeeding year property tax	1,969,962	0	418,543	2,388,505
Income surtax	282,711	0	0	282,711
Total liabilities	<u>3,653,426</u>	<u>72,534</u>	<u>423,123</u>	<u>4,149,083</u>
Fund balances:				
Reserved for:				
Talented and gifted	6,234	0	0	6,234
Salary improvement program	210	0	0	210
Unreserved:				
Designated for special purpose	12,880	0	0	12,880
General	771,218	0	0	771,218
Management	0	0	23,908	23,908
Capital Projects	0	364,488	0	364,488
Physical plant and equipment levy	0	0	197,444	197,444
Public equipment recreation levy	0	0	18,320	18,320
Other special revenue purposes	0	0	132,467	132,467
Total fund balances	<u>790,542</u>	<u>364,488</u>	<u>372,139</u>	<u>1,527,169</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,443,968	437,022	795,262	5,676,252

SEE NOTES TO FINANCIAL STATEMENTS.

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

Total fund balances of governmental funds (page 17)	\$	1,527,169
 <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.		2,374,514
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.		282,711
Blending of the Internal Service Fund to be reflected on an entity-wide basis.		4,728
Long-term liabilities, including compensated absences and early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(639,012)</u>
Net assets of governmental activites (page 14)	\$	<u>3,550,110</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 2,452,828	387,549	362,268	3,202,645
Tuition	815,148	0	0	815,148
Other	121,913	908	156,490	279,311
State sources	3,159,081	0	298	3,159,379
Federal sources	272,939	0	0	272,939
Total revenues	<u>6,821,909</u>	<u>388,457</u>	<u>519,056</u>	<u>7,729,422</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	2,468,845	0	106,441	2,575,286
Special instruction	821,571	0	0	821,571
Other instruction	537,885	0	139,219	677,104
	<u>3,828,301</u>	<u>0</u>	<u>245,660</u>	<u>4,073,961</u>
Support services:				
Student services	249,724	0	525	250,249
Instructional staff services	263,967	0	32,376	296,343
Administration services	695,270	0	84,071	779,341
Operation and maintenance of plant services	640,558	0	23,828	664,386
Transportation services	424,249	0	79,255	503,504
	<u>2,273,768</u>	<u>0</u>	<u>220,055</u>	<u>2,493,823</u>
Non-instructional programs				
Food service operations	0	0	2,354	2,354
Community service operations	7,011	0	3,893	10,904
	<u>7,011</u>	<u>0</u>	<u>6,247</u>	<u>13,258</u>
Other expenditures:				
Facilities acquisitions	0	30,361	56,580	86,941
AEA flowthrough	217,704	0	0	217,704
	<u>217,704</u>	<u>30,361</u>	<u>56,580</u>	<u>304,645</u>
Total expenditures	<u>6,326,784</u>	<u>30,361</u>	<u>528,542</u>	<u>6,885,687</u>
Excess(deficiency) of revenues over(under) expenditures	495,125	358,096	(9,486)	843,735
Other financing sources:				
Compensation for loss of fixed assets	2,374	0	27,315	29,689
Sale of real property	0	0	0	0
Sale of equipment	0	0	0	0
Total other financing sources	<u>2,374</u>	<u>0</u>	<u>27,315</u>	<u>29,689</u>
Net change in fund balances	497,499	358,096	17,829	873,424
Fund balance beginning of year	293,043	6,392	354,310	653,745
Fund balance end of year	<u>\$ 790,542</u>	<u>364,488</u>	<u>372,139</u>	<u>1,527,169</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds (page 19) \$ 873,424

*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	\$ 184,507	
Depreciation expense	(281,593)	
Loss on disposal	(498)	(97,584)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 19,254

Net change in Internal Service Fund charged back against expenditures made for self-funded insurance at an entity-wide basis. 1,557

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.

Early retirement	(209,465)	
Compensated absences	(9,965)	(219,430)

Changes in net assets of governmental activities (page 16) \$ 577,221

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business-Type	
	Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
ASSETS		
Cash and pooled investments	\$ 78,753	4,728
Inventories	19,436	0
Capital assets, net of accumulated depreciation(Note 4)	26,173	0
TOTAL ASSETS	124,362	4,728
LIABILITIES		
Accounts payable	2,629	0
Salaries and benefits payable	26,606	0
Deferred revenue:		
Other	3,443	0
TOTAL LIABILITIES	32,678	0
NET ASSETS		
Investment in capital assets, net of related debt	26,173	0
Unrestricted	65,511	4,728
TOTAL NET ASSETS	\$ 91,684	4,728

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business-Type	
	Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 158,003	34,535
TOTAL OPERATING REVENUES	<u>158,003</u>	<u>34,535</u>
OPERATING EXPENSES:		
Non-instructional programs:		
Salaries	138,046	0
Benefits	29,050	32,978
Services	2,742	0
Supplies	140,892	0
Depreciation	3,904	0
TOTAL OPERATING EXPENSES	<u>314,634</u>	<u>32,978</u>
OPERATING GAIN (LOSS)	<u>(156,631)</u>	<u>1,557</u>
NON-OPERATING REVENUES (EXPENSES):		
Loss on disposal of assets	(181)	0
State sources	4,801	0
Federal sources	137,546	0
Interest on investments	811	0
TOTAL NON-OPERATING REVENUES	<u>142,977</u>	<u>0</u>
Change in net assets	(13,654)	1,557
Net assets beginning of year	<u>105,338</u>	<u>3,171</u>
Net assets end of year	<u>\$ 91,684</u>	<u>4,728</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business-Type	
	Enterprise Fund	Governmental Activities: Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 156,846	34,535
Cash received from miscellaneous	384	0
Cash payments to employees for services	(165,290)	(32,978)
Cash payments to suppliers for goods or services	(121,930)	0
Net cash provided by(used in) operating activities	<u>(129,990)</u>	<u>1,557</u>
Cash flows from non-capital financing activities:		
State grants received	4,801	0
Federal grants received	113,763	0
Net cash provided by non-capital financing activities	<u>118,564</u>	<u>0</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(6,128)	0
Net cash used in capital and related financing activities	<u>(6,128)</u>	<u>0</u>
Cash flows from investing activities:		
Interest on investments	811	0
Net cash provided by investing activities	<u>811</u>	<u>0</u>
Net increase(decrease) in cash and cash equivalents	(16,743)	1,557
Cash and cash equivalents at beginning of year	95,496	3,171
Cash and cash equivalents at end of year	<u>\$ 78,753</u>	<u>4,728</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating gain(loss)	\$ (156,631)	1,557
Adjustments to reconcile operating loss to net cash used in operating activities:		
Commodities consumed	23,783	0
Depreciation	3,904	0
Increase in inventories	(2,887)	0
Increase in accounts payable	808	0
Increase in salaries and benefits payable	1,806	0
Decrease in deferred revenue	(773)	0
Net cash provided by(used in) operating activities	<u>\$ (129,990)</u>	<u>1,557</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>\$ 78,753</u>	<u>4,728</u>
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		

During the year ended June 30, 2005, the District received Federal commodities valued at \$23,783.

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2005

	<u>Private Purpose Trust Scholarship</u>
Assets	
Cash and pooled investments	\$ 36,417
Total assets	<u>36,417</u>
Liabilities	
Total liabilities	<u>0</u>
Net assets	
Reserved for scholarships	<u>\$ 36,417</u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2005

	Private Purpose Trust
	<u>Scholarship</u>
Additions:	
Local sources:	
Interest income	\$ 336
Total additions	<u>336</u>
Deductions:	
Instruction:	
Scholarships awarded	<u>742</u>
Change in net assets	(406)
Net assets beginning of year	<u>36,823</u>
Net assets end of year	<u>\$ 36,417</u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

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

the Statement of Activities.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board

Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on

January 1, 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, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1
Buildings	1,000
Land improvements	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	20-50 years
Land improvements	20 years
Machinery and equipment	5-12 years

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

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized

since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

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

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 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 and the Treasurer of the State of Iowa; 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>
Iowa Schools Joint Investment Trust	<u>\$ 814</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) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2005 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2004-05A	6/30/04	6/30/05	\$ 0	179	0	0
2005-06A	6/28/05	6/28/06	645,848	138	643,000	123
Total			\$ 645,848	317	643,000	123

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no advance activity for the year ended June 30, 2005.

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

Series	Interest Rates on Warrants	Interest Rates on Investments
2004-05A	3.000%	2.463%
2005-06A	3.500%	3.903%

(4) 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	\$ 110,574	0	0	110,574
Total capital assets not being depreciated	110,574	0	0	110,574
Capital assets being depreciated:				
Buildings	3,800,591	0	0	3,800,591
Land improvements	243,819	0	0	243,819
Machinery and equipment	1,877,928	184,507	140,134	1,922,301
Total capital assets being depreciated	5,922,338	184,507	140,134	5,966,711
Less accumulated depreciation for:				
Buildings	1,909,955	74,527	0	1,984,482
Land improvements	140,488	12,191	0	152,679
Machinery and equipment	1,510,371	194,875	139,636	1,565,610
Total accumulated depreciation	3,560,814	281,593	139,636	3,702,771
Total capital assets being depreciated, net	2,361,524	(97,086)	498	2,263,940
Governmental activities capital assets, net	\$ 2,472,098	(97,086)	498	2,374,514

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 131,148	6,128	3,512	133,764
Less accumulated depreciation	107,018	3,904	3,331	107,591
Business-type activities capital assets, net	\$ 24,130	2,224	181	26,173

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 114,683
Support services:		
Operation and maintenance of plant		5,913
Transportation		74,279
		<u>194,875</u>
Unallocated depreciation		<u>86,718</u>
Total governmental activities depreciation expense		<u>\$ 281,593</u>
Business-type activities:		
Food service operations		\$ 3,904
Total business-type activities depreciation expense		<u>\$ 3,904</u>

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Compensated absences	\$ 32,107	42,072	32,107	42,072	42,072
Early retirement	387,475	304,419	94,954	596,940	124,822
Total	\$ 419,582	346,491	127,061	639,012	166,894

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed fifteen years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. The early retirement incentive is equal to 50% of the employee's base salary calculated by using the current year regular salary schedule, less any other additional pay and subject to a maximum of \$20,000 per individual. The District also pays insurance premiums for early retirees until the retiree reaches age 65. Administrative early retirees receive up to \$500 per month for insurance premiums and support personnel receive up to \$200 per month for insurance premiums. Early retirement benefits paid during the year ended June 30, 2005 totaled \$94,954.

(6) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$232,097, \$230,602, and \$230,252 respectively, equal to the required contributions for each year.

(7) Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield

of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-funded to fully-insured coverage. ISEBA is recovering shortfall through a combination of assessments, deficit recovery charges and administration cost reduction measures. Members continuing membership in the Association had their deficit recovery assessment included in their annual premium for the 2004-2005 and 2005-2006 plan years. The deficit recovery is equal to 2% of the annual premium. The total amount of the deficit recoveries of current members is estimated to be \$2.2 million. The District's share of this assessment was \$11,777 paid with the 2004-2005 premiums and 2% of the 2005-2006 premium will be paid along with the 2005-2006 premium, an amount that is unknown at this time. Since the program is now fully insured, there will be no additional assessments dues to claims exceeding premiums charged to members.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2005 were \$588,844.

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

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

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$217,704 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.

REQUIRED SUPPLEMENTAL INFORMATION

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF RECEIPTS, DISBURSEMENTS AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (GAAP BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 4,297,104	158,814
State sources	3,159,379	4,801
Federal sources	272,939	137,546
Total revenues	<u>7,729,422</u>	<u>301,161</u>
Disbursements:		
Instruction	4,073,961	0
Support services	2,493,823	0
Non-instructional programs	13,258	314,815
Other expenditures	304,645	0
Total expenditures	<u>6,885,687</u>	<u>314,815</u>
Excess(deficiency) of receipts over(under) disbursements	843,735	(13,654)
Other financing sources, net	<u>29,689</u>	<u>0</u>
Excess(deficiency) of receipts over(under) disbursements	873,424	(13,654)
Balance beginning of year	<u>653,745</u>	<u>105,338</u>
Balance end of year	<u>\$ 1,527,169</u>	<u>91,684</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
4,455,918	4,165,834	4,165,834	290,084
3,164,180	3,110,146	3,110,146	54,034
410,485	275,685	275,685	134,800
8,030,583	7,551,665	7,551,665	478,918
4,073,961	4,363,000	4,363,000	289,039
2,493,823	2,330,732	2,740,000	246,177
328,073	368,400	368,400	40,327
304,645	765,337	765,337	460,692
7,200,502	7,827,469	8,236,737	1,036,235
830,081	(275,804)	(685,072)	(1,515,153)
29,689	0	0	(29,689)
859,770	(275,804)	(685,072)	(1,544,842)
759,083	823,397	823,397	(64,314)
1,618,853	547,593	138,325	1,480,528

EAST MARSHALL 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 Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison 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.

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 \$409,268.

OTHER SUPPLEMENTAL INFORMATION

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

	Special Revenue Funds					Total Special Revenue
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Public Recreation Equipment Levy	Expendable Trust	
ASSETS						
Cash and pooled investments	\$ 20,341	103,930	194,336	17,986	31,769	368,362
Receivables:						
Property tax:						
Current year delinquent	4,438	0	3,108	419	0	7,965
Succeeding year	250,000	0	148,496	20,047	0	418,543
Accounts	0	392	0	0	0	392
TOTAL ASSETS	\$ 274,779	104,322	345,940	38,452	31,769	795,262
LIABILITIES AND FUND EQUITY						
Liabilities:						
Accounts payable	\$ 871	3,570	0	85	0	4,526
Salaries and benefits payable	0	54	0	0	0	54
Deferred revenue:						
Succeeding year property tax	250,000	0	148,496	20,047	0	418,543
	250,871	3,624	148,496	20,132	0	423,123
Fund equity:						
Fund balances:						
Unreserved:						
Undesignated	23,908	100,698	197,444	18,320	31,769	372,139
Total fund balances	23,908	100,698	197,444	18,320	31,769	372,139
TOTAL LIABILITIES AND FUND EQUITY	\$ 274,779	104,322	345,940	38,452	31,769	795,262

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue Funds					Total Special Revenue
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Public Recreation Equipment Levy	Expendable Trust	
REVENUES:						
Local sources:						
Local tax	\$ 194,466	0	147,856	19,946	0	362,268
Other	905	146,603	1,328	105	7,549	156,490
State sources	160	0	122	16	0	298
TOTAL REVENUES	195,531	146,603	149,306	20,067	7,549	519,056
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	106,441	0	0	0	0	106,441
Other instruction	0	139,219	0	0	0	139,219
Support services:						
Student services	525	0	0	0	0	525
Instructional staff	150	0	32,226	0	0	32,376
Administration services	84,071	0	0	0	0	84,071
Operation and maintenance of plant services	15,709	0	0	7,910	209	23,828
Student transportation	13,100	0	66,155	0	0	79,255
Non-instructional programs						
Food service operation	2,354	0	0	0	0	2,354
Community service operations	0	0	0	3,893	0	3,893
Other expenditures:						
Facilities acquisitions	0	0	56,580	0	0	56,580
TOTAL EXPENDITURES	222,350	139,219	154,961	11,803	209	528,542
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(26,819)	7,384	(5,655)	8,264	7,340	(9,486)
OTHER FINANCING SOURCES (USES):						
Compensation for loss of fixed assets	0	0	27,315	0	0	27,315
	0	0	27,315	0	0	27,315
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(26,819)	7,384	21,660	8,264	7,340	17,829
FUND BALANCE BEGINNING OF YEAR	50,727	93,314	175,784	10,056	24,429	354,310
FUND BALANCE END OF YEAR	\$ 23,908	100,698	197,444	18,320	31,769	372,139

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 6,323	987	1,020	6,290
HS Vocal	2,902	2,519	2,072	3,349
Spec MS Vocal	321	0	321	0
HS Band	(10,721)	291	(11,204)	774
Fine Arts Grant	14,395	0	14,395	0
Band Fundraising	0	9,625	9,625	0
HS Band Resale	0	44	0	44
Spec MS Band	1,634	0	728	906
MS Band Resale	183	298	377	104
Athletics	20,750	5,417	5,955	20,212
Athletic Uniforms	11,546	7,200	11,469	7,277
Spec MS Athletics	11,947	13,616	11,535	14,028
Golf	0	488	488	0
Boys Basketball	0	2,771	2,771	0
Football	0	10,218	10,218	0
Baseball	2,081	4,658	5,787	952
Wrestling	0	1,303	1,303	0
Alumni Basketball Uniforms	420	766	0	1,186
Girls BB	0	3,182	3,182	0
Volleyball	0	3,665	3,665	0
Softball	1,704	4,656	5,680	680
Girls Track	0	989	989	0
Kids Benefit	513	295	78	730
Student Pop	0	13,742	13,742	0
Interest	0	1,605	1,605	0
Middle School Fine Arts	6,467	4,800	2,848	8,419
MS Yearbook	0	1,830	1,830	0
Spec MS Art	1,575	0	755	820
MS Student Council	1,241	3,978	2,023	3,196
MS Activities	3,638	677	676	3,639
High School Fine Arts	4,825	7,200	1,142	10,883
Class of 2005	0	120	54	66
Class of 2006	1,226	9,272	9,408	1,090
Class of 2007	0	50	43	7
Class of 2008	0	50	47	3
HS Yearbook	6,797	10,488	9,721	7,564
Spec HS Art	520	180	700	0
Silk Screening	309	5,535	3,749	2,095
Cheerleaders	0	916	916	0
FFA	835	5,318	5,908	245
National Honor Society	461	99	(2,309)	2,869
HS Student Council	1,422	876	(972)	3,270
HS Activities	0	745	745	0
Vending Machine	0	6,134	6,134	0
Total	\$ 93,314	146,603	139,219	100,698

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 AGENCY FUND
 YEAR ENDED JUNE 30, 2005

	Balance		Balance	
	Beginning		End	
	of Year	Additions	Deductions	of Year
Washington D.C. Trip				
ASSETS				
Cash and pooled investments	\$ 215	10	225	0
LIABILITIES				
Due to other groups	\$ 215	10	225	0

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 3,202,645	2,778,213	2,456,190	2,072,280
Tuition	815,148	655,870	531,116	564,748
Other	279,311	295,208	307,592	348,459
State sources	3,159,379	3,052,978	3,178,497	3,255,054
Federal sources	272,939	190,579	151,031	117,541
Total	<u>\$ 7,729,422</u>	<u>6,972,848</u>	<u>6,624,426</u>	<u>6,358,082</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 2,575,286	2,704,570	2,713,419	2,764,455
Special instruction	821,571	946,698	882,346	909,511
Other instruction	677,104	608,756	551,333	533,987
Support services:				
Student services	250,249	239,395	223,689	185,505
Instructional staff services	296,343	256,506	247,896	239,374
Administration services	779,341	674,193	667,157	615,345
Operation and maintenance of plant services	664,386	664,676	631,774	646,911
Transportation services	503,504	470,553	404,631	531,870
Central services	0	1,396	930	1,350
Non-instructional programs				
Food service	2,354	3,364	3,729	2,313
Community service	10,904	20,289	14,453	13,992
Other expenditures:				
Facilities acquisitions	86,941	156,383	40,150	93,991
AEA flow-through	217,704	221,438	238,108	240,731
Total	<u>\$ 6,885,687</u>	<u>6,968,217</u>	<u>6,619,615</u>	<u>6,779,335</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

Independent Auditor's Report on 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 Marshall 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 Marshall 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 6, 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 Marshall Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide 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 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.

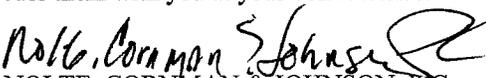
Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Marshall Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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 Marshall Community School District and other parties to whom East Marshall 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 Marshall Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

September 6, 2005

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-05 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

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

Conclusion - Response accepted.

I-B-05 Travel Allowance - We noted during our audit that the Superintendent was receiving a travel allowance, and was also receiving a mileage reimbursement.

Recommendation - If the Superintendent is receiving an allowance for travel expenses, then he should not be receiving reimbursement for travel expenses also.

Response - We will bring this to the attention of the Board when the superintendent's contract is renewed.

Conclusion - Response accepted.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Part II: Other Findings Related to Statutory Reporting

II-A-05 Official Depositories - A resolution naming official depositories has been approved by the Board. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2005.

Recommendation - The district should increase their depository limits.

Response - The depository limits were increased for the 2006 fiscal year.

Conclusion - Response accepted.

II-B-05 Certified Budget - District disbursements for the year ended June 30, 2005, did not exceed the amended certified budget amounts in the functional areas.

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. (See Comment I-B-05)

II-E-05 Business Transactions - No business transactions between the District and District Officials or employees were noted.

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.

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.