

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

JUNE 30, 2005

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East Union Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2004 Election)</b>		
Mike Rollings	President	2006
Tim Stewart	Vice President	2004
David Waigand	Board Member	2005
Vickie Paulus	Board Member	2005
Kenneth Hagen	Board Member	2006
<b>Board of Education (After September 2004 Election)</b>		
Mike Rollings	President	2006
Kenneth Hagen	Vice President	2006
David Waigand	Board Member	2005
Vickie Paulus	Board Member	2005
Lynn Kruse	Board Member	2007
<b>School Officials</b>		
Steve Clark	Superintendent	2005
Kay Vaughn	Co-Board Treasurer	2005
Billie Jo Greene	Business Manager, Board Secretary & Co-Board Treasurer	2005
Sue Seitz	Attorney	2005

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3050

Telephone (641) 792-1910

### INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of East Union Community School District, Afton, 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 East Union Community School District at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated September 28, 2005 on our consideration of East Union 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. Those reports are 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 12 and 34 through 37 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board.

**Members American Institute & Iowa Society of Certified Public Accountants**

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 an opinion on the financial statements that collectively comprise East Union Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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 28, 2005

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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East Union Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 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 \$4,471,865 in fiscal 2004 to \$4,685,573 in fiscal 2005, while General Fund expenditures increased from \$4,246,093 in fiscal 2004 to \$4,256,770 in fiscal 2005. This resulted in an increase in the District's General Fund balance from \$268,965 in fiscal 2004 to \$698,868 in fiscal 2005, a 160% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in state and federal grant revenues in fiscal 2005. The increase in expenditures was due primarily to an increase in instructional services.
- September 2004 Certified Enrollment count resulted in a decrease of 11.2 students, representing a 2.5% decrease compared to the prior year.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

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

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.

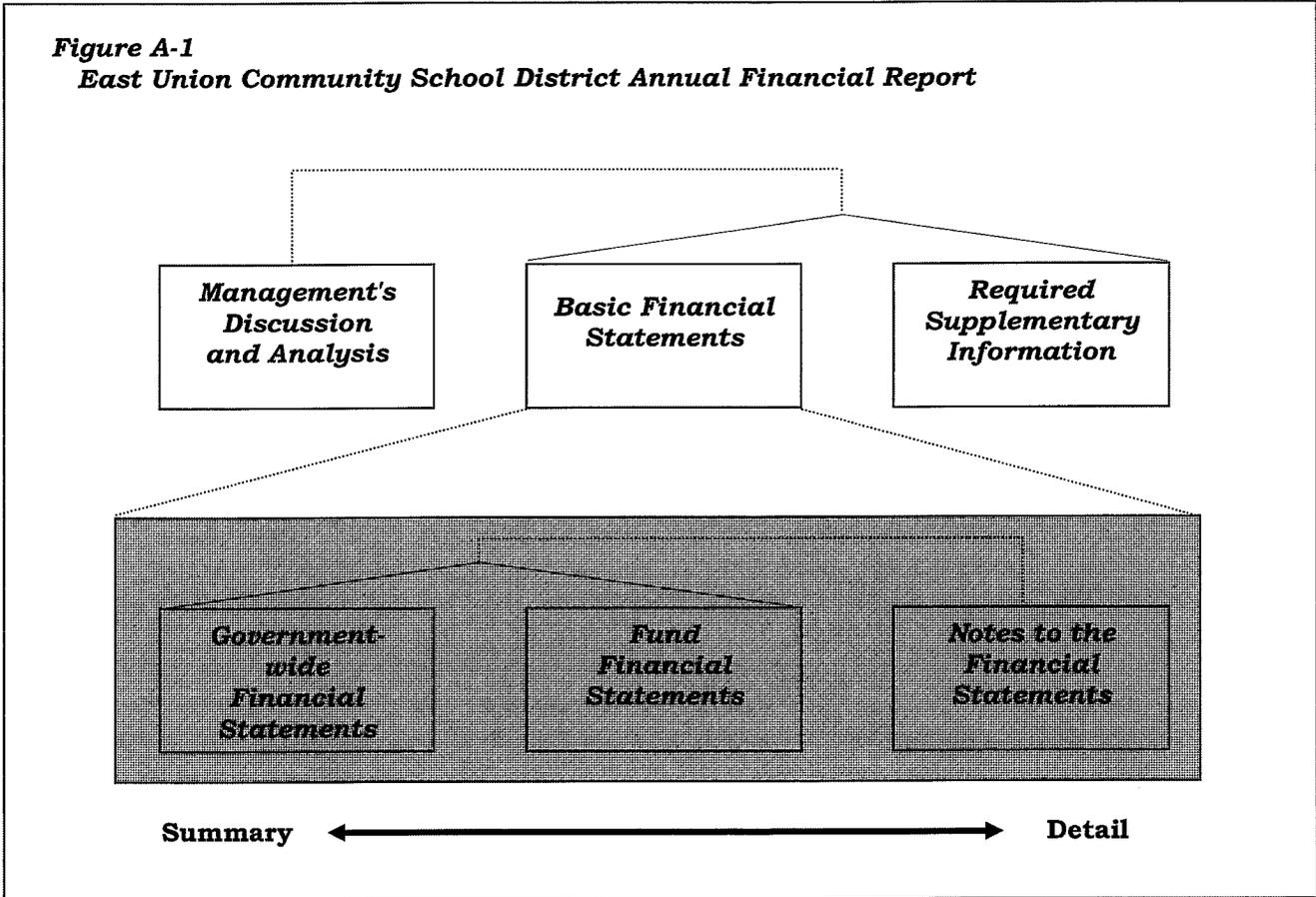


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2</b>			
<b>Major Features of the Government-wide and Fund Financial Statements</b>			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>
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

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## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

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

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

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

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

### Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

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

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

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 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	\$ 4,476,764	4,305,706	27,172	11,426	4,503,936	4,317,132
Capital assets	2,057,441	1,423,391	5,768	4,886	2,063,209	1,428,277	44.45%
Total assets	6,534,205	5,729,097	32,940	16,312	6,567,145	5,745,409	14.30%
Long-term obligations	1,406,957	1,517,778	0	0	1,406,957	1,517,778	-7.30%
Other liabilities	2,665,922	2,785,293	2,509	2,238	2,668,431	2,787,531	-4.27%
Total liabilities	4,072,879	4,303,071	2,509	2,238	4,075,388	4,305,309	-5.34%
Net assets:							
Invested in capital assets, net of related debt	1,404,307	961,867	5,768	4,886	1,410,075	966,753	45.86%
Restricted	233,206	251,440	0	0	233,206	251,440	-7.25%
Unrestricted	823,813	212,719	24,663	9,188	848,476	221,907	282.36%
Total net assets	\$ 2,461,326	1,426,026	30,431	14,074	2,491,757	1,440,100	73.03%

The District's combined net assets increased by 73.03% or \$1,051,657 over the prior year. A portion of the District's net assets is the invested in capital assets, 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 \$18,234 or 7.25% over the prior year. The decrease was primarily due to the decrease in the fund balance of the Special Revenue, Physical Plant and Equipment Levy Fund.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - increased \$626,569 or 282.36%. This was due to the controlled spending in the General Fund.

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
	<b>Revenues:</b>						
<b>Program revenues:</b>							
Charges for services	\$ 458,820	468,277	117,159	93,627	575,979	561,904	2.50%
Operating grants and contributions and restricted interest	1,050,104	941,435	97,747	91,968	1,147,851	1,033,403	11.07%
Capital grants and contributions and restricted interest	0	27,195	0	0	0	27,195	100.00%
<b>General revenues:</b>							
Property tax	1,733,688	1,512,802	0	0	1,733,688	1,512,802	14.60%
Local option sales and service tax	354,088	289,798	0	0	354,088	289,798	22.18%
Unrestricted state grants	1,799,631	1,759,718	0	0	1,799,631	1,759,718	2.27%
Other	49,266	21,078	152	120	49,418	21,198	133.13%
<b>Total revenues</b>	<b>5,445,597</b>	<b>5,020,303</b>	<b>215,058</b>	<b>185,715</b>	<b>5,660,655</b>	<b>5,206,018</b>	<b>8.73%</b>
<b>Program expenses:</b>							
<b>Governmental activities:</b>							
Instructional	3,247,944	3,090,440	0	0	3,247,944	3,090,440	5.10%
Support services	892,225	1,210,607	0	0	892,225	1,210,607	-26.30%
Non-instructional programs	0	0	198,701	189,233	198,701	189,233	5.00%
Other expenses	270,128	429,516	0	0	270,128	429,516	-37.11%
<b>Total expenses</b>	<b>4,410,297</b>	<b>4,730,563</b>	<b>198,701</b>	<b>189,233</b>	<b>4,608,998</b>	<b>4,919,796</b>	<b>-6.32%</b>
Changes in net assets	1,035,300	289,740	16,357	(3,518)	1,051,657	286,222	267.43%
Net assets beginning of year	1,426,026	1,136,286	14,074	17,592	1,440,100	1,153,878	24.81%
Net assets end of year	\$ 2,461,326	1,426,026	30,431	14,074	2,491,757	1,440,100	73.03%

Property tax and operating grants and contributions and restricted interest account for 62% of the total revenue. The District's expenses primarily relate to instruction and support services that account for 90% of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$5,445,597 and expenses were \$4,410,297.

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

	Total and Net Cost of Governmental Activities	
	Total Cost of Services	Net Cost of Services
Instruction	\$ 3,247,944	1,893,461
Support services	892,225	890,987
Other expenses	270,128	116,925
<b>Totals</b>	<b>\$ 4,410,297</b>	<b>2,901,373</b>

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- The cost financed by users of the District's programs was \$458,820.
  - Federal and state governments subsidized certain programs with grants and contributions totaling \$1,050,104.
  - The net cost of governmental activities was financed with \$1,733,688 in local tax, \$354,088 in local option sales and service tax, \$1,799,631 in unrestricted state grants and \$48,166 in interest income.

### **Business-Type Activities**

Revenues of the District's business-type activities were \$215,058 and expenses were \$198,701. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

### **INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,651,873, above last year's ending fund balances of \$1,520,413. However, the primary reason for the increase was the increase in the fund balance of the General Fund.

### **Governmental Fund Highlights**

- The District's General Fund balance increased from \$268,965 on June 30, 2004 to \$698,868 on June 30, 2005. The fluctuation in the District's General Fund financial position is the product of many factors. An increase in the state and federal grant revenue during the year resulted in an increase in total revenues. The District did an impressive job of controlling expenditures in a difficult budget year. The increase in expenditures was only \$10,677 for the year. Revenues still exceeded expenditures ensuring the increase in the District's financial position.
- The Management fund balance decreased from \$18,559 in 2004, to \$15,072 in 2005, due to the increase in expenditures. These increases were attributable to the payout of early retirement incentives and the normal increase in the cost of property insurance.
- The Physical Plant and Equipment Levy (PPEL) fund balance decreased from \$104,620 to \$62,469, due in part to the District purchasing a new bus during the year.
- The Capital Projects fund balance decreased during the current year, from \$754,318 to \$440,805. A transfer was made to the Debt Service Fund to pay for the general obligation bonds. This transfer along with expenditures exceeding revenues is the cause for the decrease in the fund balance.

### **Proprietary Fund Highlights**

The School Nutrition Fund net assets increased from \$14,074 at June 30, 2004 to \$30,431 at June 30, 2005, representing an increase of approximately 116%.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$100,159 more than budgeted revenues, a variance of 1.9%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is not the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District's budget is developed utilizing realistic projections of revenues and expenditures. The district then manages or controls General Fund spending through its line-item budget. In situations where revenues exceed projections, and expenditures do not exceed spending authority, the Board may take action to amend the budget authorizing additional expenditures.

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instruction functional area due to the timing of disbursements paid at year-end.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2005, the District had invested \$2,063,209, 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 increase of more than 44% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$172,246.

The original cost of the District's capital assets was \$4,597,510. Governmental funds account for \$4,565,611 with the remainder of \$31,899 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the buildings category. The buildings totaled \$1,814,787 at June 30, 2005, compared to \$570,825 reported at June 30, 2004. This increase resulted from the purchases made during the current year.

Figure A-6

	Capital Assets, Net of Depreciation						
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Land	\$ 14,205	14,205	0	0	14,205	14,205	0.00%
Construction in progress	0	723,553	0	0	0	723,553	-100.00%
Buildings	1,814,787	570,825	0	0	1,814,787	570,825	217.92%
Land improvements	31,472	34,550	0	0	31,472	34,550	-8.91%
Machinery and equipment	196,977	80,258	5,768	4,886	202,745	85,144	138.12%
Total	\$ 2,057,441	1,423,391	5,768	4,886	2,063,209	1,428,277	44.45%

### Long-Term Debt

At June 30, 2005, the District had long-term debt outstanding of \$1,406,957 in general obligation bonds, compensated absences and early retirement. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The general obligation bonds, which are being paid from the Capital Project Fund, have a balance of \$1,395,000 as of June 30, 2005. Of this balance, \$145,000 of principal is due next year.

Early retirement is sitting at a balance of \$7,536 as of June 30, 2005. This balance is going to be paid from the Management Fund throughout the next year.

The District, at year end, had compensated absences of \$4,421, which are payable from the General Fund.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	2005	2004	
General obligation bonds	\$ 1,395,000	1,500,000	-7.0%
Early retirement	7,536	15,071	-50.0%
Compensated absences	4,421	2,707	63.3%
<b>Total</b>	<b>\$ 1,406,957</b>	<b>1,517,778</b>	<b>-7.3%</b>

### **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:

- Low allowable growth over several years and enrollment decreases may negatively impact the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget. The district's cash balance will support short term funding shortfalls from the state.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten-year period which started in fiscal year 2005.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

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

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments			
ISCAP(Note 4)	\$ 873,854	0	873,854
Other	1,640,835	25,400	1,666,235
Receivables:			
Property tax:			
Delinquent	46,098	0	46,098
Succeeding year	1,619,567	0	1,619,567
Income surtax	183,143	0	183,143
Accounts	12,508	0	12,508
Due from other governments	100,759	0	100,759
Inventories	0	1,772	1,772
Capital assets, net of accumulated depreciation(Note 5)	2,057,441	5,768	2,063,209
<b>TOTAL ASSETS</b>	<b>6,534,205</b>	<b>32,940</b>	<b>6,567,145</b>
<b>LIABILITIES</b>			
Accounts payable	96,467	0	96,467
Salaries and benefits payable	44,030	0	44,030
Interest payable	24,174	0	24,174
ISCAP warrants payable(Note 4)	870,000	0	870,000
ISCAP premiums payable	11,684	0	11,684
Deferred revenue:			
Succeeding year property tax	1,619,567	0	1,619,567
Other	0	2,509	2,509
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds	145,000	0	145,000
Early retirement	7,536	0	7,536
Compensated absences	4,421	0	4,421
Portion due after one year:			
General obligation bonds	1,250,000	0	1,250,000
<b>TOTAL LIABILITIES</b>	<b>4,072,879</b>	<b>2,509</b>	<b>4,075,388</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	1,404,307	5,768	1,410,075
Restricted for:			
Talented and gifted	53,777	0	53,777
Physical plant & equipment levy	62,469	0	62,469
Management levy	7,536	0	7,536
Other special revenue purposes	109,424	0	109,424
Unrestricted	823,813	24,663	848,476
<b>TOTAL NET ASSETS</b>	<b>\$ 2,461,326</b>	<b>30,431</b>	<b>2,491,757</b>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST UNION 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
<b>Governmental activities:</b>			
Instruction:			
Regular instruction	\$ 1,731,699	45,634	870,723
Special instruction	453,198	0	24,940
Other instruction	1,063,047	413,186	0
	<u>3,247,944</u>	<u>458,820</u>	<u>895,663</u>
Support services:			
Student services	59,333	0	0
Instructional staff services	16,142	0	0
Administration services	386,933	0	0
Operation and maintenance of plant services	274,116	0	0
Transportation services	155,701	0	1,238
	<u>892,225</u>	<u>0</u>	<u>1,238</u>
Other expenditures:			
Facilities acquisitions	0	0	0
Long-term debt interest	75,912	0	0
AEA flowthrough	153,203	0	153,203
Depreciation(unallocated)*	41,013	0	0
	<u>270,128</u>	<u>0</u>	<u>153,203</u>
 Total governmental activities	 4,410,297	 458,820	 1,050,104
<b>Business-Type activities:</b>			
Non-instructional programs:			
Nutrition services	198,701	117,159	97,747
Total business-type activities	<u>198,701</u>	<u>117,159</u>	<u>97,747</u>
 Total	 \$ 4,608,998	 575,979	 1,147,851

**General Revenues:**

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

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
(815,342)	0	(815,342)
(428,258)	0	(428,258)
(649,861)	0	(649,861)
<u>(1,893,461)</u>	<u>0</u>	<u>(1,893,461)</u>
(59,333)	0	(59,333)
(16,142)	0	(16,142)
(386,933)	0	(386,933)
(274,116)	0	(274,116)
(154,463)	0	(154,463)
<u>(890,987)</u>	<u>0</u>	<u>(890,987)</u>
0	0	0
(75,912)	0	(75,912)
0	0	0
(41,013)	0	(41,013)
<u>(116,925)</u>	<u>0</u>	<u>(116,925)</u>
(2,901,373)	0	(2,901,373)
0	16,205	16,205
0	16,205	16,205
<u>(2,901,373)</u>	<u>16,205</u>	<u>(2,885,168)</u>
\$ 1,700,234	0	1,700,234
33,454	0	33,454
354,088	0	354,088
1,799,631	0	1,799,631
48,166	152	48,318
1,100	0	1,100
<u>3,936,673</u>	<u>152</u>	<u>3,936,825</u>
1,035,300	16,357	1,051,657
1,426,026	14,074	1,440,100
<u>\$ 2,461,326</u>	<u>30,431</u>	<u>2,491,757</u>

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

	General	Capital Projects	Debt Service	Other Governmental Funds	Total
<b>ASSETS</b>					
Cash and pooled investments					
ISCAP (Note 4)	\$ 873,854	0	0	0	873,854
Other	740,777	386,245	325,235	188,578	1,640,835
Receivables:					
Property tax					
Delinquent	44,001	0	0	2,097	46,098
Succeeding year	1,540,825	0	0	78,742	1,619,567
Income surtax	183,143	0	0	0	183,143
Accounts	11,777	0	0	731	12,508
Due from other governments	46,086	54,673	0	0	100,759
<b>TOTAL ASSETS</b>	<b>\$ 3,440,463</b>	<b>440,918</b>	<b>325,235</b>	<b>270,148</b>	<b>4,476,764</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	91,913	113	0	4,441	96,467
Salaries and benefits payable	44,030	0	0	0	44,030
ISCAP warrants payable (Note 4)	870,000	0	0	0	870,000
ISCAP premiums payable	11,684	0	0	0	11,684
Deferred revenue:					
Succeeding year property tax	1,540,825	0	0	78,742	1,619,567
Income surtax	183,143	0	0	0	183,143
Total liabilities	2,741,595	113	0	83,183	2,824,891
Fund balances:					
Reserved for:					
Debt service	0	0	325,235	0	325,235
Talented and gifted	53,777	0	0	0	53,777
Unreserved:					
General	645,091	0	0	0	645,091
Capital projects	0	440,805	0	0	440,805
Physical plant and equipment levy	0	0	0	62,469	62,469
Management levy	0	0	0	15,072	15,072
Other special revenue	0	0	0	109,424	109,424
Total fund balances	698,868	440,805	325,235	186,965	1,651,873
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 3,440,463</b>	<b>440,918</b>	<b>325,235</b>	<b>270,148</b>	<b>4,476,764</b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

<b>Total fund balances of governmental funds (page 16)</b>	\$ 1,651,873
 <b>Amounts reported for governmental activities in the statement of net assets are different because:</b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	2,057,441
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(24,174)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	183,143
Long-term liabilities, including bonds payable, compensated absences payable, and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(1,406,957)</u>
<b>Net assets of governmental activites (page 13)</b>	<u><u>\$ 2,461,326</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Debt Service	Other Governmental Funds	Total
<b>REVENUES:</b>					
Local sources:					
Local tax	\$ 1,480,086	0	0	70,459	1,550,545
LOSST	0	354,088	0	0	354,088
Tuition	45,634	0	0	0	45,634
Other	310,173	7,798	2,968	140,413	461,352
State sources	2,189,605	0	0	55	2,189,660
Federal sources	660,075	0	0	0	660,075
Total revenues	4,685,573	361,886	2,968	210,927	5,261,354
<b>EXPENDITURES:</b>					
Current:					
Instruction:					
Regular instruction	1,661,487	0	0	33,168	1,694,655
Special instruction	453,198	0	0	0	453,198
Other instruction	869,467	0	0	193,580	1,063,047
	2,984,152	0	0	226,748	3,210,900
Support services:					
Student services	59,332	0	0	7,536	66,868
Instructional staff services	99,174	0	0	0	99,174
Administration services	386,224	0	0	0	386,224
Operation and maintenance of plant services	329,124	0	0	2,650	331,774
Transportation services	245,561	0	0	0	245,561
	1,119,415	0	0	10,186	1,129,601
Other expenditures:					
Facilities acquisitions	0	480,552	0	0	480,552
Long-term debt:					
Principal	0	0	105,000	0	105,000
Interest and fiscal charges	0	1,500	50,238	0	51,738
AEA flowthrough	153,203	0	0	0	153,203
	153,203	482,052	155,238	0	790,493
Total expenditures	4,256,770	482,052	155,238	236,934	5,130,994
Excess(deficiency) of revenues over(under) expenditures	428,803	(120,166)	(152,270)	(26,007)	130,360
Other financing sources(uses):					
Transfers in	0	0	193,347	0	193,347
Transfers out	0	(193,347)	0	0	(193,347)
Sale of equipment and materials	1,100	0	0	0	1,100
Total other financing sources(uses)	1,100	(193,347)	193,347	0	1,100
Net change in fund balances	429,903	(313,513)	41,077	(26,007)	131,460
Fund balance beginning of year	268,965	754,318	284,158	212,972	1,520,413
Fund balance end of year	\$ 698,868	440,805	325,235	186,965	1,651,873

SEE NOTES TO FINANCIAL STATEMENTS.

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

**Net change in fund balances - total governmental funds (page 18)** \$ 131,460

**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 useful lives as depreciation expense in the Statement of Activities. Capital outlays expenditures and depreciation expense in the current year are as follows:

Capital expenditures	\$ 805,083	
Depreciation expense	<u>(171,033)</u>	634,050

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 105,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. (24,174)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 183,143

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

Early retirement	\$ 7,535	
Compensated absences	<u>(1,714)</u>	5,821

**Changes in net assets of governmental activities (page 15)** \$ 1,035,300

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

	<u>School</u> <u>Nutrition</u>
ASSETS	
Cash and cash equivalents	\$ 25,400
Inventories	1,772
Capital assets, net of accumulated depreciation	<u>5,768</u>
TOTAL ASSETS	<u>32,940</u>
LIABILITIES	
Deferred revenues	<u>2,509</u>
NET ASSETS	
Invested in capital assets	5,768
Unrestricted	<u>24,663</u>
TOTAL NET ASSETS	<u>\$ 30,431</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Other local sources:	
Sale of lunches and breakfasts:	
Students	\$ 80,834
Adults	7,538
Ala carte	28,311
Miscellaneous	476
TOTAL OPERATING REVENUES	117,159
OPERATING EXPENSES:	
Food service operations:	
Salaries	93,862
Benefits	14,109
Services	1,895
Supplies	87,622
Depreciation	1,213
TOTAL OPERATING EXPENSES	198,701
OPERATING LOSS	(81,542)
NON-OPERATING REVENUES:	
Interest	152
State sources	2,935
Federal sources	94,812
TOTAL NON-OPERATING REVENUES	97,899
Change in net assets	16,357
Net assets at beginning of year	14,074
Net assets end of year	\$ 30,431

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 117,639
Cash received from miscellaneous operating activities	476
Cash payments to employees for services	(107,971)
Cash payments to suppliers for goods or services	(80,809)
Net cash used in operating activities	(70,665)
Cash flows from non-capital financing activities:	
State grants received	2,935
Federal grants received	87,231
Net cash provided by non-capital financing activities	90,166
Cash flows from investing activities:	
Interest on investments	152
Net cash provided by investing activities	152
Cash flows from capital financing activities:	
Interest on investments	(2,095)
Net cash used in capital financing activities	(2,095)
Net increase in cash and cash equivalents	17,558
Cash and cash equivalents at beginning of year	7,842
Cash and cash equivalents at end of year	\$ 25,400
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (81,542)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	7,581
Depreciation	1,213
Decrease in inventories	1,202
Decrease in accounts receivables	610
Decrease in accounts payable	(75)
Increase in deferred revenue	346
Net cash used in operating activities	\$ (70,665)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 25,400
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	

During the year ended June 30, 2005, the District received Federal commodities valued at \$7,581.

SEE NOTES TO FINANCIAL STATEMENTS.

EAST UNION COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

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

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

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

**A. Reporting Entity**

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

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

**B. Basis of Presentation**

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt.

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 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	\$ 1,500
Buildings	1,500
Improvements other than buildings	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,500

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

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

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

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

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

Compensated absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, no disbursements in the non-instructional functional area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2005 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 1,424,686

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

**(3) Transfers**

The detail of transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 193,347

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

**(4) Iowa School Cash Anticipation Program (ISCAP)**

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

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2005-06A	6/28/2005	6/28/2006	\$ 873,854	0	870,000	0

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

(5) **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
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 14,205	0	0	14,205
Construction in progress	723,553	552,379	1,275,932	0
Total capital assets not being depreciated	<u>737,758</u>	<u>552,379</u>	<u>1,275,932</u>	<u>14,205</u>
Capital assets being depreciated:				
Buildings	2,224,614	1,279,932	0	3,504,546
Land improvements	109,900	1,965	0	111,865
Machinery and equipment	747,563	246,739	59,307	934,995
Total capital assets being depreciated	<u>3,082,077</u>	<u>1,528,636</u>	<u>59,307</u>	<u>4,551,406</u>
Less accumulated depreciation for:				
Buildings	1,653,789	35,970	0	1,689,759
Land improvements	75,350	5,043	0	80,393
Machinery and equipment	667,305	130,020	59,307	738,018
Total accumulated depreciation	<u>2,396,444</u>	<u>171,033</u>	<u>59,307</u>	<u>2,508,170</u>
Total capital assets being depreciated, net	<u>685,633</u>	<u>1,357,603</u>	<u>0</u>	<u>2,043,236</u>
Governmental activities capital assets, net	<u>\$ 1,423,391</u>	<u>1,909,982</u>	<u>1,275,932</u>	<u>2,057,441</u>
<b>Business-type activities:</b>				
Machinery and equipment	\$ 31,355	2,095	1,551	31,899
Less accumulated depreciation	26,469	1,213	1,551	26,131
Business-type activities capital assets, net	<u>\$ 4,886</u>	<u>882</u>	<u>0</u>	<u>5,768</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 57,044
Support services:		
Instructional staff services		5,520
Transportation service		67,456
		<u>130,020</u>
Unallocated depreciation		<u>41,013</u>
		<u>\$ 171,033</u>
Business-type activities:		
Food services		<u>\$ 1,213</u>

**(6) 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
General obligation bonds	\$ 1,500,000	0	105,000	1,395,000	145,000
Early retirement	15,071	0	7,535	7,536	7,536
Compensated absences	2,707	4,421	2,707	4,421	4,421
Total	<u>\$ 1,517,778</u>	<u>4,421</u>	<u>115,242</u>	<u>1,406,957</u>	<u>156,957</u>

General Obligation Bonds Payable

Details of the District's June 30, 2005 General Obligation bonds indebtedness is as follows:

Year Ending June 30,	Interest Rate	Bond issue January 1, 2004		
		Principal	Interest	Total
2006	3.60 %	\$ 145,000	45,738	190,738
2007	3.60	155,000	40,338	195,338
2008	3.60	165,000	34,578	199,578
2009	2.90	170,000	29,143	199,143
2010	3.15	180,000	23,842	203,842
2011	3.40	185,000	17,862	202,862
2012	3.65	195,000	11,158	206,158
2013	3.80	200,000	3,800	203,800
Total		<u>\$ 1,395,000</u>	<u>206,459</u>	<u>1,601,459</u>

Early Retirement

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

**(7) Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$145,339, \$143,220, and \$146,508, respectively, equal to the required contributions for each year.

**(8) 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 July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: life and long-term disability.

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-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members continuing membership in the Association had their deficit recovery assessment included in their annual premium. The total amount of the deficit recoveries of current members is estimated to \$2.2 million. The District's share of this assessment is going to be 2% of the 2004-05 and 2005-06 premiums. As of June 30, 2005 the District had paid \$154 of the assessment. The remainder of the 2% assessment will be paid on a monthly basis along with the 2005-2006 premiums. Since the program is now fully insured, there will be no additional assessments due 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 \$7,681.

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

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District

assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$153,203 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.

**(10) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2005, disbursements in the non-instructional functional areas exceeded the amount budgeted.

REQUIRED SUPPLEMENTAL INFORMATION

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

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 2,379,971	117,657
State sources	2,188,318	2,935
Federal sources	635,634	95,422
Total receipts	<u>5,203,923</u>	<u>216,014</u>
Disbursements:		
Instruction	3,177,654	0
Support services	1,107,784	0
Non-instructional programs	0	198,456
Other expenditures	1,039,274	0
Total disbursements	<u>5,324,712</u>	<u>198,456</u>
Excess(deficiency) of receipts over(under) disbursements	(120,789)	17,558
Other financing sources, net	<u>1,100</u>	<u>0</u>
Excess(deficiency) of receipts and other financing sources over(under) disbursements	(119,689)	17,558
Balance beginning of year	<u>1,760,524</u>	<u>7,842</u>
Balance end of year	<u>\$ 1,640,835</u>	<u>25,400</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
2,497,628	2,565,191	2,565,191	(67,563)
2,191,253	2,224,587	2,224,587	(33,334)
731,056	530,000	530,000	201,056
<u>5,419,937</u>	<u>5,319,778</u>	<u>5,319,778</u>	<u>100,159</u>
3,177,654	3,539,359	3,539,359	361,705
1,107,784	1,423,968	1,423,968	316,184
198,456	190,155	190,155	(8,301)
<u>1,039,274</u>	<u>1,876,122</u>	<u>1,876,122</u>	<u>836,848</u>
<u>5,523,168</u>	<u>7,029,604</u>	<u>7,029,604</u>	<u>1,506,436</u>
(103,231)	(1,709,826)	(1,709,826)	1,606,595
<u>1,100</u>	<u>0</u>	<u>0</u>	<u>1,100</u>
(102,131)	(1,709,826)	(1,709,826)	1,607,695
<u>1,768,366</u>	<u>1,709,826</u>	<u>1,709,826</u>	<u>58,540</u>
<u>1,666,235</u>	<u>0</u>	<u>0</u>	<u>1,666,235</u>

EAST UNION COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE-  
 BUDGET TO GAAP RECONCILIATION  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2005

	Governmental Fund Types		
	Cash Basis	Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 5,203,923	57,431	5,261,354
Expenses	5,324,712	(193,718)	5,130,994
Net	(120,789)	251,149	130,360
Other financing sources, net	1,100	0	1,100
Beginning fund balances	1,760,524	(240,111)	1,520,413
Ending fund balances	\$ 1,640,835	11,038	1,651,873

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Accrual	
Adjust- ments		Accrual Basis	
Revenues	\$ 216,014	(956)	215,058
Expenses	198,456	245	198,701
Net	17,558	(1,201)	16,357
Beginning net assets	7,842	6,232	14,074
Ending net assets	\$ 25,400	5,031	30,431

EAST UNION 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 cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as 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 that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2005, disbursements in the non-instructional programs exceeded the amount budgeted.

OTHER SUPPLEMENTAL INFORMATION

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

	Manage- ment	Physical Plant & Equipment Levy	Student Activity	Total Nonmajor Governmental Funds
<b>ASSETS</b>				
Cash and pooled investments	\$ 18,132	61,473	108,973	188,578
Receivables:				
Property tax:				
Current year delinquent	1,101	996	0	2,097
Succeeding year	45,000	33,742	0	78,742
Accounts	0	0	731	731
<b>TOTAL ASSETS</b>	<b>\$ 64,233</b>	<b>96,211</b>	<b>109,704</b>	<b>270,148</b>
<b>LIABILITIES AND FUND EQUITY</b>				
Liabilities:				
Accounts payable	\$ 4,161	0	280	4,441
Deferred revenue:				
Succeeding year property tax	45,000	33,742	0	78,742
	49,161	33,742	280	83,183
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	15,072	62,469	109,424	186,965
Total fund balances	15,072	62,469	109,424	186,965
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 64,233</b>	<b>96,211</b>	<b>109,704</b>	<b>270,148</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Physical Plant & Manage- ment	Equipment Levy	Student Activity	Total Nonmajor Governmental Funds
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 37,005	33,454	0	70,459
Other	183	840	139,390	140,413
State sources	29	26	0	55
<b>TOTAL REVENUES</b>	<b>37,217</b>	<b>34,320</b>	<b>139,390</b>	<b>210,927</b>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular instruction	33,168	0	0	33,168
Other instruction	0	73,821	119,759	193,580
	<b>33,168</b>	<b>73,821</b>	<b>119,759</b>	<b>226,748</b>
Support services:				
Student support services	7,536	0	0	7,536
Operation and maintainance of plant services	0	2,650	0	2,650
	<b>7,536</b>	<b>2,650</b>	<b>0</b>	<b>10,186</b>
<b>TOTAL EXPENDITURES</b>	<b>40,704</b>	<b>76,471</b>	<b>119,759</b>	<b>236,934</b>
Excess (deficiency) of revenues over (under) expenditures	(3,487)	(42,151)	19,631	(26,007)
Fund balance beginning of year	18,559	104,620	89,793	212,972
Fund balance end of year	\$ 15,072	62,469	109,424	186,965

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Class of 2005	\$ 4,754	13,527	18,281	0
Class of 2006	490	16,128	9,527	7,091
Class of 2007	435	993	216	1,212
Class of 2008	0	767	50	717
Concessions	1,397	338	172	1,563
Drama	2,349	2,491	1,699	3,141
FFA	10,743	11,691	11,903	10,531
FCCLA	2,305	4,120	4,090	2,335
Instrumental music	2,883	6,156	4,309	4,730
Investments	0	1,081	1,081	0
National honor society	572	0	261	311
Now account	0	267	267	0
PTO	81	3,300	3,351	30
Science club	1,454	838	261	2,031
Spanish club	1,289	0	0	1,289
Student council	5,689	14,752	12,654	7,787
Vocal music	6,308	13,562	8,692	11,178
Vocational agriculture	184	0	9	175
2005 yearbook	0	8,414	5,595	2,819
2004 yearbook	2,593	213	2,806	0
General athletics	22,280	31,219	21,346	32,153
MS student council	3,644	355	1,831	2,168
Drill team	191	550	663	78
MS boys basketball	793	0	37	756
MS football	1,324	0	383	941
MS baseball	284	124	114	294
MS boys track	420	0	54	366
MS wrestling	520	0	0	520
MS girls basketball	959	0	37	922
MS volleyball	359	0	80	279
MS softball	485	631	665	451
MS girls track	358	0	54	304
HS boys basketball	1,020	399	461	958
HS football	1,932	310	705	1,537
HS baseball	946	187	546	587
HS boys track	537	281	733	85
HS golf	1,235	0	115	1,120
HS wrestling	380	807	772	415
HS girls basketball	1,755	80	139	1,696
HS volleyball	355	1,958	1,916	397
HS softball	1,454	3,058	3,061	1,451
HS girls track	871	250	340	781
HS girls golf	1,224	223	327	1,120
Cross country	533	0	0	533
Weight room	1,801	0	135	1,666
Cheerleaders	607	320	21	906
<b>Total</b>	<b>\$ 89,793</b>	<b>139,390</b>	<b>119,759</b>	<b>109,424</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 1,904,633	1,802,600	1,588,327	1,257,040
Tuition	45,634	62,243	73,670	75,600
Other	461,352	426,612	425,941	258,386
State sources	2,189,660	2,134,366	2,297,998	2,378,916
Federal sources	660,075	593,982	531,003	427,149
Total	<u>\$ 5,261,354</u>	<u>5,019,803</u>	<u>4,916,939</u>	<u>4,397,091</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 1,694,655	1,660,307	1,713,182	1,721,908
Special instruction	453,198	1,111,379	1,120,994	849,404
Other instruction	1,063,047	304,524	334,655	286,856
Support services:				
Student services	66,868	102,410	109,199	230,457
Instructional staff services	99,174	84,091	130,410	116,543
Administration services	386,224	419,226	432,822	387,466
Operation and maintenance of plant services	331,774	321,013	399,059	396,350
Transportation services	245,561	260,617	324,195	241,964
Non-instructional	0	0	749	27,772
Other expenditures:				
Facilities acquisitions	480,552	979,330	61,790	0
Long Term Debt:				
Principal	105,000	0	0	0
Interest	51,738	560	0	0
AEA flow-through	153,203	155,177	167,690	169,735
Total	<u>\$ 5,130,994</u>	<u>5,398,634</u>	<u>4,794,745</u>	<u>4,428,455</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST UNION COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2005

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DIRECT:			
DEPARTMENT OF EDUCATION:			
TWENTY-FIRST CENTURY COMMUNITY			
LEARNING CENTERS	84.287	FY 04	\$ <u>384,340</u>
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION (non-cash)	10.550	FY 05	<u>7,581</u>
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 05	20,001
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 05	<u>67,230</u>
			<u>87,231</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1970-G	115,884
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1970-GC	<u>51,038</u>
			<u>166,922</u>
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)	84.298	FY 05	<u>2,299</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 05	<u>31,136</u>
RURAL EDUCATION ACHIEVEMENT PROGRAM (REAP)	84.358	FY 05	<u>17,372</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 04	1,101
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 05	<u>2,694</u>
			<u>3,795</u>
SPECIAL EDUCATION - GRANTS TO STATES (SENIOR SURVEY)	84.027	FY 05	<u>570</u>
CHILD CARE DEVELOPEMENT BLOCK GRANTS	93.575	FY 05	<u>37,500</u>

EAST UNION COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2005

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
NATIONAL ENDOWMENT FOR THE ARTS:			
PROMOTION OF THE ARTS			
(YELLOW SCHOOL BUS GRANT)	45.025	FY 05	200
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC			
GRANTS TO STATES	84.048	FY 05	7,168
SPECIAL EDUCATION - GRANTS TO			
STATES (PART B)	84.027	FY 05	24,370
TOTAL			\$ 770,484

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
117 West 3rd Street North, Newton, Iowa 50208-3050  
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 Union 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 Union 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 28, 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 Union Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide 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 II 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 items I-A-05 is a material weakness.

Compliance and Other Matters

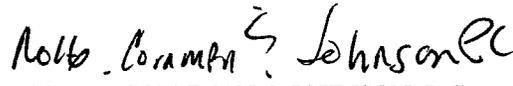
As part of obtaining reasonable assurance about whether East Union Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements non-compliance with which could have 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 such 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 IV of the accompanying Schedule of Findings.

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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 Union Community School District and other parties to East Union 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 Union Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

September 28, 2005

**NOLTE, CORNMAN & JOHNSON P.C.**

**Certified Public Accountants**

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Independent Auditor's Report on Compliance with Requirements Applicable  
to Each Major Program and Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Board of Education of  
East Union Community School District

Compliance

We have audited the compliance of East Union Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. East Union Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants agreements applicable to each of its major federal programs is the responsibility of East Union Community School District's management. Our responsibility is to express an opinion on East Union Community School District's compliance based on our audit.

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

In our opinion, East Union Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

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

We noted a matter involving the internal control over compliance and its operations that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in

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our judgment, could adversely affect East Union Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-A-05 in the accompanying Schedule of Findings and Questioned Costs.

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 non-compliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-A-05 is a material weakness.

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

  
NOLTE, CORNMAN & JOHNSON, P.C.

September 28, 2005

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

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
  - Clustered
    - CFDA Number 10.553 - School Breakfast Program
    - CFDA Number 10.555 - National School Lunch Program
  - Individual
    - CFDA Number 84.287 - Twenty First Century Community Learning Centers
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) East Union Community School District did not qualify as a low-risk auditee.

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

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

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-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. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

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

Conclusion - Response accepted.

II-B-05 Checks Outstanding - We noted during our audit that the District had checks included in the Activity Fund bank reconciliation which have been outstanding for over a year.

Recommendation - The District should research the outstanding checks to determine if they should be re-issued, voided or submitted to the Treasurer of Iowa as unclaimed property.

Response - We are going to comply with the recommendation.

Conclusion - Response accepted.

II-C-05 Student Activity Disbursements - We noted during our audit a bill paid for FFA dues from a purchase order rather than an invoice.

Recommendation - The District should review their procedures that are in place to ensure that all bills are supported, approved and paid from an invoice with a purchase order. The District should adopt processes and procedures to use when an invoice may not be available, such as requiring additional approval or requiring support document other than an invoice.

Response - In the future, there will be an invoice or registration form to be included with the purchase orders.

Conclusion - Response accepted.

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

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 10.553: School Breakfast Program and  
CFDA Number 10.555: National School Lunch Program  
Federal Award Year: 2005  
U.S. Department of Agriculture  
Passed through the Iowa Department of Education

CFDA Number 84.287: 21<sup>st</sup> Century Community Learning Center  
Federal Award Year: 2005  
U.S. Department of Education

III-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. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

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

Conclusion - Response accepted.

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

Part IV: Other Findings Related to Statutory Reporting

- IV-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.
- IV-B-05 Certified Budget - District disbursements for the year ended June 30, 2005, exceeded the amount budgeted in the non-instructional and other expenditures functional area.
- Recommendation-The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.
- Response - We will watch this issue more closely in the future.
- Conclusion - Response accepted.
- IV-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.
- IV-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.
- IV-E-05 Business Transactions - No business transactions between the District and District officials were noted.
- IV-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.
- IV-G-05 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- IV-H-05 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- IV-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.
- IV-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.
- IV-K-05 PPEL Expenditures - According to Chapter 298.3 of the Code of Iowa, a purchase, lease, or lease-purchase of a single unit of equipment or technology exceeding five hundred dollars in value per unit is allowable from the Special Revenue, Physical Plant and Equipment Levy (PPEL) Fund. It was noted during the audit that the PPEL Fund purchased mini-blinds in the amount of \$19.96.

Recommendation - To comply with Chapter 298.3 of the Code of Iowa, the District should make a corrective transfer from the General Fund to the PPEL Fund in the amount of \$19.96 to cover the cost of the mini-blinds.

Response - We will make the corrective transfer.

Conclusion - Response accepted.