

EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

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

June 30, 2005

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Independent Auditor's Report

To the Board of Education of  
Eastern Allamakee 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 Eastern Allamakee Community School District, Lansing, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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.

The financial statements of KHS Booster Club have not been audited, and we were not engaged to audit the Booster Club financial statements as part of our audit of the Eastern Allamakee Community School District's basic financial statements. The Booster Club's financial statements are included in the District's financial statements as a discretely presented component unit. Because we were not engaged to audit the Booster Club's financial statements and because we did not apply any auditing procedures to the Booster Club's financial statements, we do not express an opinion on the discretely presented component unit.

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 Eastern Allamakee Community School District as of 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 report dated October 18, 2005, on our consideration of Eastern Allamakee Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 37 through 39 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Eastern Allamakee Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004, (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BURTON E. TRACY & CO., P.C.  
Certified Public Accountants

October 18, 2005

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Eastern Allamakee Community School District's annual financial report presents its discussion and analysis of the district's financial performance during the fiscal year ended June 30, 2005. The analysis focuses on the district's financial performance as a whole.

Please read it in conjunction with District's financial statements, which immediately follow this section.

### 2005 FINANCIAL HIGHLIGHTS

The general fund revenues increased from \$3,356,467 in fiscal 2004 to \$3,641,695 in fiscal 2005 while the general fund expenditures increased from \$3,458,847 in fiscal 2004 to \$3,552,049 in fiscal 2005. This resulted in an increase in the district's general fund balance from \$739,974 in fiscal 2004 to a fund balance of \$844,944 in fiscal 2005 that is an increase of 14.19 percent from the previous year.

The increase in general fund revenues was attributed to an increase in local, state funds and federal funds that included a grant for Safe Schools. The increase in expenditures was attributed to an increase in the costs of the support services.

The district receives Local Option Sales Tax that is being used for building repairs, maintenance and the construction of the new additions.

On March 2, 2004, the voters of the Eastern Allamakee Community School District over-whelmingly approved a ten year extension to the instructional support levy. This money is used to support the educational program portion of the general fund.

On September 12, 2004 the constituents of the Eastern Allamakee Community School District passed \$5,320,000 bond issue for the construction of an addition to the elementary at New Albin and to construct a new middle school in Lansing. The bond referendum passed 67.6% yes and 32.4% no. The Eastern Allamakee Community School District was also in the process of constructing a physical fitness center. The total cost was not available on June 30, 2005. Of the total amount of the construction, various individuals and businesses donated \$125,000.

### USING THIS ANNUAL REPORT

Using this annual report, this report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the district:

The first two statements are *government-wide financial* statements that provide both short-term and long-term information about the district's overall financial status.

The remaining statements are *fund financial* statements that focus on the individual parts of the district, reporting the district's operations in more detail than the government-wide statements.

The *Government funds* statements explain how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.

*Proprietary funds* statements offer short-term and long-term financial information about the activities the district operates like businesses, such as food services.

Fiduciary fund statements provide financial information about activities for which Eastern Allamakee Community School District acts solely as an agent or custodian for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the district's budget for the year.

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

Figure A-1  
Eastern Allamakee Community School District's Annual Finance Report

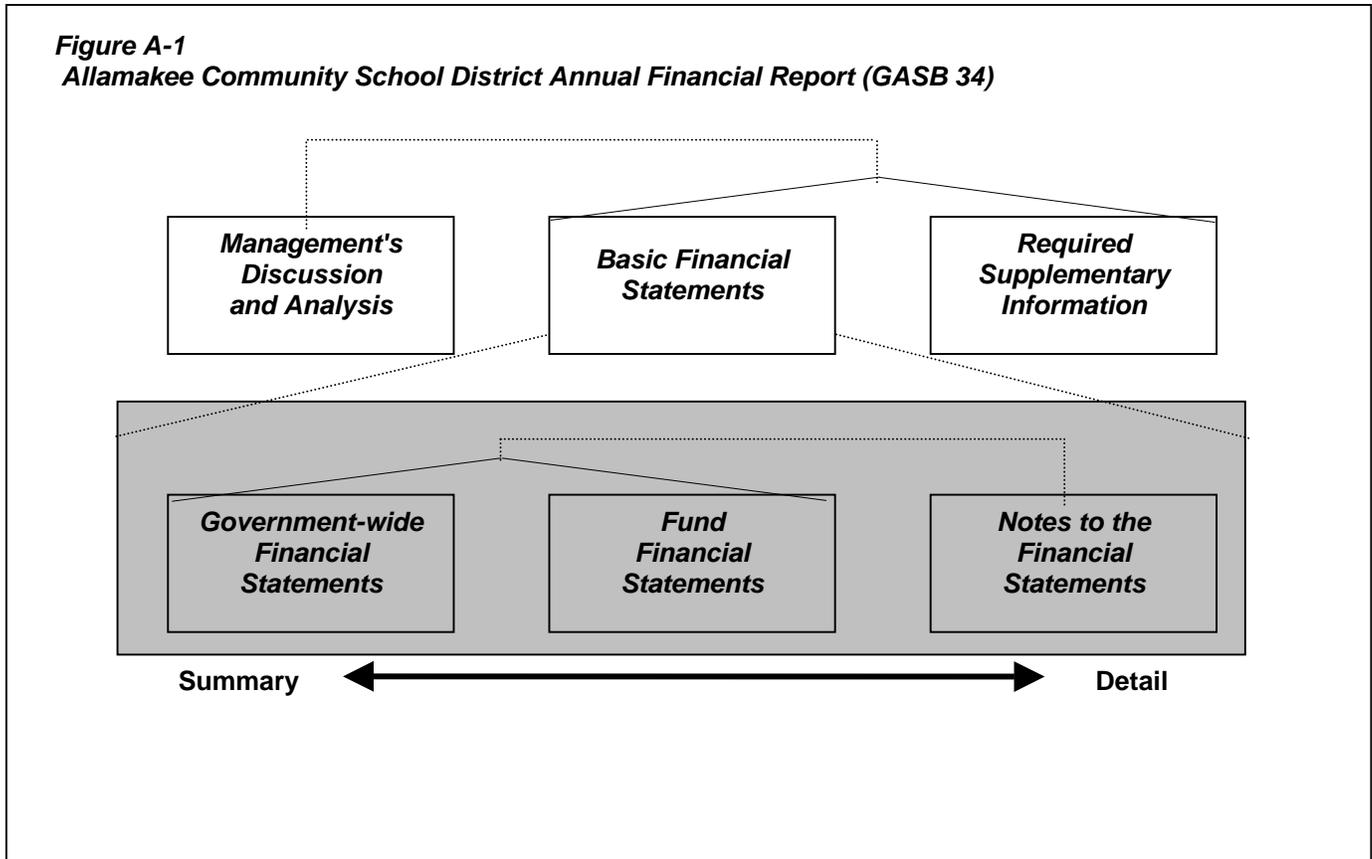


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2  
Major Features of the Government-Wide and Fund Financial Statements

<b>Figure A-2 Major Features of the Government-wide and Fund Financial Statements</b>				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
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 fund net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</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	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, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Statements

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

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

Overtime, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectfully.

To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

*Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.

*Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program would be included here.

### Fund Financial Statements

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

Some funds are required by state law and by bond covenants.

The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

*Government Funds:* Most of the District's basic services are included in government 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 the year-end that are available for spending. Consequently, the government funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information in exhibits following the governmental funds statements explains the relationship of differences between the two statements.

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

*Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the school nutrition fund.

*Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency Funds.

Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

### Financial Analysis of the District as a Whole

Net assets. The District's combined net assets showed an increase for the year ending June 30, 2005 compared to June 30, 2004. The increase was in three areas: assets, net liabilities and invested in capital assets net of related debt.

Figure A-3

Condensed Statement of Net Assets - (expressed in thousands)

	Governmental Activities		Business-Type Activities		Total Eastern Allamakee		Total Change %
	2004	2005	2004	2005	2004	2005	2004-2005
Current & Other assets	\$3,596	\$8,906	\$23	\$2	\$3,619	\$8,908	146.18
Capital assets	\$795	\$1,191	\$26	\$31	\$821	\$1,222	48.84
Total assets	\$4,391	\$10,097	\$49	\$33	\$4,440	\$10,130	128.15
Current liabilities	\$2,377	\$2,387	\$19	\$20	\$2,396	\$2,407	.42
Long-term obligations	\$16	\$5,462	\$0	\$0	\$16	\$5,462	340.37
Total liabilities	\$2,393	\$7,849	\$19	\$20	\$2,412	\$7,869	226.20
Net assets							
Invested capital assets	\$797	\$1047	\$27	\$31	\$824	\$1078	30.83
Net of debt							
Restricted	\$321	\$358	\$0	\$0	\$321	\$358	11.52
Unrestricted	\$880	\$843	\$3	\$(18)	\$883	\$825	
Total net assets	\$1,998	\$2,248	\$30	\$13	\$2028	\$2,261	11.49

The 2004 amounts were restated to reflect capital assets (a boiler) that was not included in last year's audited financial statements. This is explained in note 10 to the financial statements.

Current and other assets balance increase it due to bond money that had not been spent by year-end.

Long-term liabilities increased due to issuance of bonds during fiscal year 2005.

Invested in capital assets net of related debt increased due to fitness center construction costs and initial work on bond issue projects.

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 increased approximately \$37,462 or 12% over the prior year. The increase was primarily a result of local option sales tax monies that were not spent during fiscal year 2005.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day Operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreases approximately \$58,502 or 7%. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

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

Figure A-4  
Changes in Net Assets - (expressed in thousands)

	Governmental Activities		Business Type Activities		Total Eastern Allamakee CSD	
	2004	2005	2004	2005	2004	2005
Revenues:						
Program revenues						
Charges for service and sales	\$203	\$250	\$106	\$117	\$309	\$367
Operating grants, contributions and restricted interest	\$466	\$519	\$84	\$79	\$550	\$598
Capital grants, contributions and restricted interest	\$23	\$146	\$0	\$0	\$23	\$146
General Revenues						
Property tax levied for:						
General purposes	\$1,404	\$1,460	\$0	\$0	\$1,404	\$1,460
Capital outlay	\$50	\$49	\$0	\$0	\$50	\$49
Income surtax	\$136	\$121	\$0	\$0	\$136	\$121
Local option sales tax	\$208	\$245	\$0	\$0	\$208	\$245
Unrestricted state grants	\$1,285	\$1,460	\$0	\$0	\$1,285	\$1,460
Unrestricted investment earnings	\$35	\$27	\$0	\$0	\$35	\$27
Other	\$9	\$22	\$0	\$0	\$9	\$22
Total revenues	\$3,819	\$4,299	\$190	\$196	\$4,009	\$4,495
Program expenses:						
Governmental activities						
Instruction	\$2,441	\$2,370	\$0	\$0	\$2,441	\$2,370
Support services	\$1,094	\$1,342	\$0	\$0	\$1,094	\$1,342
Non-instructional programs	\$1	\$1	\$200	\$213	\$201	\$214
Other	\$215	\$335	\$0	\$0	\$215	\$335
Total expenses	\$3,751	\$4,048	\$200	\$213	\$3,951	\$4,261
Loss in sale of equipment	\$17	\$0	\$0	\$0	\$17	\$0
Change in net assets	\$51	\$251	\$(10)	\$(17)	\$41	\$234

For the 2004-2005 school year property tax and unrestricted state grants account for 70.3 percent of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 94.5 percent of total expenses.

Governmental Activities

Revenues for governmental activities were \$4,298,500 while expenses amounted to \$4,047,707.

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

Figure A-5  
Total and Net Cost of Governmental Activities - (Expressed in thousands)

	Total Cost Of Services		Net Cost of Services	
	2004	2005	2004	2005

Instruction	\$2,441	\$2,370	\$1,923	\$1,750
Support Services	\$1094	\$1,342	\$1,091	\$1,337
Non-instructional Support	\$1	\$1	\$1	\$1
Other Expenses	\$215	\$335	\$46	\$45

A portion of the cost financed by users of the District's programs was \$249,845.

The federal and state government subsidized certain programs with grants and contributions totaling \$519,270.

The net cost portion of governmental activities was financed with \$1,508,796 in property tax and \$1,459,861 in unrestricted state foundation aid.

### Business-Type Activities

Revenues of the District's business-type activities were \$196,348 and expenses were \$212,973 or loss of \$16,625. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income.

### Financial Analysis of the District's Funds

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

The total revenues increased from \$3,798,576 at the end of fiscal year 2004 to \$4,234,314 at the end of fiscal year 2005. The difference was created by an increases in the following areas of the General Fund: local taxes increased from \$1,481,722 at the end of fiscal 2004 to \$1,540,002 at the end of fiscal 2005, state sources increased from \$1,615,505 to \$1,782,328 during that same time period and the Capital Projects Fund increased from \$245,155 to \$340,371 during the same period.

During the same time total expenditures increased from \$4,033,961 at the end of fiscal 2004 to \$4,398,355 or an increase of \$364,398 or 9.03%. The increases were in the areas of administrative services, operation and maintenance and transportation services.

The reserved fund balance remained virtually the same for the talented and gifted program. The big increase was in the unreserved fund balance was due to an increase of \$5,306,680 in capital projects fund. The District issued bonds during fiscal year 2005, but had not spent the money by year-end.

### Business-Type Highlights

The school nutrition fund decreased by an amount of \$16,625 from June 30, 2004 to June 30, 2005. This left the account with a total net asset of \$13,213 or a decrease of 55.71%. Year 2005 saw higher revenues from sales of meals, but this increase was more than offset by lower revenues from the federal school lunch program and higher food costs.

### Budgetary Highlights

In accordance with the Code of Iowa, the Board of Directors annually adopts a budget following required public notice and hearing for all funds. The budget may be amended during the year utilizing statutorily prescribed procedures. The District's budget is prepared on the cash basis. Over the course of the year, the District amended its budget one time to reflect additional expenditures in the total other expenditures function and to increase the other functional expense areas to the maximum amount allowed. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General

Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

### Capital Assets

The Eastern Allamakee Community School District had a total of \$1,841,998 of governmental activity capital assets being depreciated. Of this amount \$1,044,593 was to total accumulated depreciation which left a net amount of \$797,405 total capital assets being depreciated. This was an increase of \$9,107 or 1.15%.

Figure A-6  
Capital Assets, net of depreciation

	Governmental Activities		Business-Type Activities		Total Eastern Allamakee CSD		Total Change %
	2004	2005	2004	2005	2004	2005	
Land	\$7,167	\$7,167	\$0	\$0	\$7,167	\$7,167	0.0%
Construction in Progress	\$0	\$386,479	\$0	\$0	\$0	\$386,479	
Building	\$689,558	\$692,668	\$0	\$0	\$689,558	\$692,668	.45%
Improvement other than Buildings	\$3,175	\$2,100	\$0	\$0	\$3,175	\$2,100	-33.86 %
Furniture and equipment	\$95,565	\$102,637	\$26,656	\$30,783	\$122,221	\$133,420	9.16 %
<b>Total</b>	<b>\$795,465</b>	<b>\$1,191,051</b>	<b>\$26,656</b>	<b>\$30,783</b>	<b>\$822,121</b>	<b>\$1,221,834</b>	<b>48.6%</b>

The District has entered into a \$5,377,803 construction contract for high school and elementary additions and improvements.

### Long Term Debt

At year-end, the District had \$5,327,059 in general obligation bonds, early retirement and compensated absences. This represents an increase of \$5,310,350. In September 2004 the district's voters authorized the issuance of \$5,320,000 in general obligation bonds and the bonds were sold in fiscal 2005.

Figure A-8  
Outstanding Long-Term Obligations

	Total Eastern Allamakee CSD		Total Change %
	2004	2005	
General Obligation Bonds	\$0	\$5,320,000	
Early Retirement	\$13,494	\$4,500	(66.7)%
Compensated Salaries	\$3,125	\$2,559	(18.2)%
<b>Total</b>	<b>\$16,709</b>	<b>\$5,327,059</b>	<b>317.81%</b>

### Factors Bearing on the District's Future

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

The official student enrollment count taken in September 2005 showed that the enrollment had decreased by 30.9 students.

The state of Iowa's settlement with Alliant Energy cost the District \$35,930.12 for the next three years.

The district will continue to use private transportation for another year.

#### Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers and private 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 any questions about this report or need additional financial information, contact Marion Verdon, School Board Secretary/Treasurer/Business Manager, Eastern Allamakee Community School District, 696 Main Street, Lansing, IA 52151

## BASIC FINANCIAL STATEMENTS

## EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2005

	Governmental Activities	Business Type Activities	Total	Component Unit - KHS Booster Club
	\$	\$	\$	\$
<b>Assets</b>				
Cash and cash equivalents	6,718,798	1,384	6,720,182	56,563
Receivables:				
Property tax:				
Delinquent	19,251	-	19,251	-
Succeeding year	1,829,609	-	1,829,609	-
Accounts	10,937	-	10,937	-
Accrued interest	131	-	131	-
Due from other governments	181,104	-	181,104	-
Inventories	-	1,085	1,085	-
Bond issue costs	145,834	-	145,834	-
Capital assets, net of accumulated depreciation	1,191,051	30,783	1,221,834	-
<b>Total assets</b>	<b>10,096,715</b>	<b>33,252</b>	<b>10,129,967</b>	<b>56,563</b>
<b>Liabilities</b>				
Accounts payable	94,975	-	94,975	-
Salaries and benefits payable	344,534	17,018	361,552	-
Accrued interest payable	117,860	-	117,860	-
Deferred revenue:				
Succeeding year property tax	1,829,609	-	1,829,609	-
Other	-	3,021	3,021	-
Long-term liabilities:				
Portion due within one year:				
General obligation bonds payable	95,000	-	95,000	-
Bond premium	6,948	-	6,948	-
Early retirement	4,500	-	4,500	-
Compensated absences	2,559	-	2,559	-
Portion due after one year:				
General obligation bonds payable	5,225,000	-	5,225,000	-
Bond premium	127,957	-	127,957	-
<b>Total liabilities</b>	<b>7,848,942</b>	<b>20,039</b>	<b>7,868,981</b>	<b>-</b>

## EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2005

	Governmental Activities	Business Type Activities	Total	Component Unit - KHS Booster Club
	\$	\$	\$	\$
<b>Net assets</b>				
Invested in capital assets, net of related debt	1,046,546	30,783	1,077,329	-
Restricted for:				
Gifted and talented program	9,022	-	9,022	-
Management levy	139,287	-	139,287	-
Physical plant and equipment levy	22,608	-	22,608	-
Other special revenue purposes	56,682	-	56,682	-
Local option sales tax capital projects	130,936	-	130,936	-
Unrestricted	842,692	(17,570)	825,122	56,563
<b>Total net assets</b>	<u>2,247,773</u>	<u>13,213</u>	<u>2,260,986</u>	<u>56,563</u>

## EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Governmental activities:</b>				
Instruction:				
Regular instruction	1,523,571	99,539	281,346	-
Special instruction	356,590	3,491	23,373	-
Other instruction	489,989	146,805	65,166	-
	<u>2,370,150</u>	<u>249,835</u>	<u>369,885</u>	<u>-</u>
Support services:				
Student services	82,832	-	3,069	-
Instructional staff services	155,797	-	-	-
Administration services	430,034	-	-	-
Operation and maintenance of plant services	322,990	10	1,455	-
Transportation services	349,875	-	-	-
	<u>1,341,528</u>	<u>10</u>	<u>4,524</u>	<u>-</u>
Non-instructional programs	<u>783</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	31,286	-	-	145,827
Long-term debt interest	113,807	-	-	-
AEA flowthrough	144,861	-	144,861	-
Depreciation (unallocated)*	45,292	-	-	-
	<u>335,246</u>	<u>-</u>	<u>144,861</u>	<u>145,827</u>
Total governmental activities	<u>4,047,707</u>	<u>249,845</u>	<u>519,270</u>	<u>145,827</u>
<b>Business type activities:</b>				
Non-instructional programs:				
Food service operations	212,973	117,309	78,743	-
Total primary government	<u>4,260,680</u>	<u>367,154</u>	<u>598,013</u>	<u>145,827</u>
<b>Component Units:</b>				
KHS Booster Club	72,223	72,225	35,671	-
Total	<u>4,332,903</u>	<u>439,379</u>	<u>633,684</u>	<u>145,827</u>
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				

**Change in net assets**

Net assets beginning of year, as restated

Net assets end of year

\*This amount excludes the depreciation that is included in the direct expense of the various programs.

## EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2005

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business Type Activities	Total	Component Unit
(1,142,686)	-	(1,142,686)	-
(329,726)	-	(329,726)	-
(278,018)	-	(278,018)	-
<u>(1,750,430)</u>	<u>-</u>	<u>(1,750,430)</u>	<u>-</u>
(79,763)	-	(79,763)	-
(155,797)	-	(155,797)	-
(430,034)	-	(430,034)	-
(321,525)	-	(321,525)	-
(349,875)	-	(349,875)	-
<u>(1,336,994)</u>	<u>-</u>	<u>(1,336,994)</u>	<u>-</u>
(783)	-	(783)	-
114,541	-	114,541	-
(113,807)	-	(113,807)	-
-	-	-	-
(45,292)	-	(45,292)	-
(44,558)	-	(44,558)	-
<u>(3,132,765)</u>	<u>-</u>	<u>(3,132,765)</u>	<u>-</u>
-	(16,921)	(16,921)	-
(3,132,765)	(16,921)	(3,149,686)	-
-	-	-	35,673
<u>(3,132,765)</u>	<u>(16,921)</u>	<u>(3,149,686)</u>	<u>35,673</u>
1,459,647	-	1,459,647	-
49,149	-	49,149	-
121,251	-	121,251	-
245,155	-	245,155	-
1,459,861	-	1,459,861	-
26,799	296	27,095	-
21,696	-	21,696	-
<u>3,383,558</u>	<u>296</u>	<u>3,383,854</u>	<u>-</u>
250,793	(16,625)	234,168	35,673
<u>1,996,980</u>	<u>29,838</u>	<u>2,026,818</u>	<u>20,890</u>
<u>2,247,773</u>	<u>13,213</u>	<u>2,260,986</u>	<u>56,563</u>

## EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2005

	General Fund	Capital Projects Fund	Debt Service	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
<b>Assets</b>					
Cash and pooled investments	1,177,945	5,313,145	-	227,708	6,718,798
Receivables:					
Property tax:					
Delinquent	18,007	-	-	1,244	19,251
Succeeding year	1,425,795	-	302,253	101,561	1,829,609
Accounts	10,704	-	-	233	10,937
Accrued interest	-	-	-	131	131
Due from other governments	141,750	39,354	-	-	181,104
<b>Total assets</b>	<b>2,774,201</b>	<b>5,352,499</b>	<b>302,253</b>	<b>330,877</b>	<b>8,759,830</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	42,917	45,819	-	6,239	94,975
Salaries and benefits payable	344,534	-	-	-	344,534
Deferred revenue:					
Succeeding year property tax	1,425,795	-	302,253	101,561	1,829,609
Other	116,011	-	-	-	116,011
Total liabilities	1,929,257	45,819	302,253	107,800	2,385,129
Fund balances:					
Reserved for:					
Gifted and talented program	9,022	-	-	-	9,022
Unreserved reported in:					
General fund	835,922	-	-	-	835,922
Special revenue funds	-	-	-	223,077	223,077
Capital projects funds	-	5,306,680	-	-	5,306,680
Total fund balances	844,944	5,306,680	-	223,077	6,374,701
<b>Total liabilities and fund balances</b>	<b>2,774,201</b>	<b>5,352,499</b>	<b>302,253</b>	<b>330,877</b>	<b>8,759,830</b>

## EASTERN ALLAMAKEE 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 (Exhibit C)</b>	6,374,701
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,191,051
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	116,011
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds	(117,860)
Bond issue costs are expensed when incurred in the governmental fund financial statements, but for the government-wide financial statements they are capitalized and amortized over the life of the bonds.	145,834
Long-term liabilities, including bonds payable, unamortized bond premiums, compensated absences and early retirement benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(5,461,964)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>2,247,773</u></u>

## EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds

Year ended June 30, 2005

	General Fund	Capital Projects Fund	Debt Service	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	1,540,002	245,155	-	98,166	1,883,323
Tuition	36,030	-	-	-	36,030
Other	86,599	95,216	-	154,015	335,830
Intermediate sources	1,820	-	-	-	1,820
State sources	1,782,328	-	-	67	1,782,395
Federal sources	194,916	-	-	-	194,916
Total revenues	<u>3,641,695</u>	<u>340,371</u>	<u>-</u>	<u>252,248</u>	<u>4,234,314</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	1,473,887	-	-	17,834	1,491,721
Special instruction	356,590	-	-	-	356,590
Other instruction	341,993	-	-	147,746	489,739
	<u>2,172,470</u>	<u>-</u>	<u>-</u>	<u>165,580</u>	<u>2,338,050</u>
Support services:					
Student services	81,940	-	-	892	82,832
Instructional staff services	128,393	-	-	27,404	155,797
Administration services	413,261	-	-	9,269	422,530
Operation and maintenance of plant services	271,660	-	-	48,758	320,418
Transportation services	339,318	-	-	4,504	343,822
	<u>1,234,572</u>	<u>-</u>	<u>-</u>	<u>90,827</u>	<u>1,325,399</u>
Non-instructional programs	146	-	-	637	783
Other expenditures:					
Facilities acquisition	-	589,262	-	-	589,262
AEA flowthrough	144,861	-	-	-	144,861
	<u>144,861</u>	<u>589,262</u>	<u>-</u>	<u>-</u>	<u>734,123</u>
Total expenditures	<u>3,552,049</u>	<u>589,262</u>	<u>-</u>	<u>257,044</u>	<u>4,398,355</u>
Excess (deficiency) of revenues over (under) expenditure:	<u>89,646</u>	<u>(248,891)</u>	<u>-</u>	<u>(4,796)</u>	<u>(164,041)</u>
Other financing sources (uses):					
Compensation for loss of fixed assets	15,117	-	-	-	15,117
Bonds issued	-	5,320,000	-	-	5,320,000
Premium on bond issue	-	138,958	-	-	138,958
Sales of materials and equipment	207	-	-	-	207
Operating transfers in	-	75,000	-	-	75,000
Operating transfers out	-	-	-	(75,000)	(75,000)
Total other financing sources (uses)	<u>15,324</u>	<u>5,533,958</u>	<u>-</u>	<u>(75,000)</u>	<u>5,474,282</u>
Net change in fund balances	104,970	5,285,067	-	(79,796)	5,310,241
Fund balances beginning of year	739,974	21,613	-	302,873	1,064,460
Fund balances end of year	<u>844,944</u>	<u>5,306,680</u>	<u>-</u>	<u>223,077</u>	<u>6,374,701</u>

See notes to financial statements.

## EASTERN ALLAMAKEE 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

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		5,310,241
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the year as follows:		
Expenditures for capital assets	455,302	
Depreciation expense	<u>(57,396)</u>	397,906
Capital assets with remaining basis in excess of the sales price were sold during the year. A loss on the sale is recorded for the Statement of Activities, while in the governmental funds a revenue for the sales price is recorded.		(2,320)
Income surtaxes and other receivables not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.		(37,753)
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.		(117,860)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Early retirement	8,994	
Compensated absences	<u>656</u>	9,650
Proceeds from issuing long-term liabilities are included in the governmental funds but increase long-term liabilities in the Statement of Net Assets.		(5,458,958)
For governmental fund financial statements bond premiums are recorded as revenue when received, but for the Statement of Activities bond premiums are amortized over the life of the bonds		4,053
For governmental fund financial statements bond issue costs are recorded as an expenditure when incurred, but for the Statement of Activities bond issue costs are capitalized and amortized over the life of the bonds		<u>145,834</u>
<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>250,793</u></u>

## EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Fund

June 30, 2005

	Nonmajor School Nutrition
	<u>\$</u>
<b>Assets</b>	
Cash and cash equivalents	1,384
Inventories	1,085
Capital assets, net of accumulated depreciation	<u>30,783</u>
<b>Total assets</b>	<u>33,252</u>
<b>Liabilities</b>	
Salaries and benefits payable	17,018
Deferred revenue	<u>3,021</u>
<b>Total liabilities</b>	<u>20,039</u>
<b>Net assets</b>	
Invested in capital assets, net of related debt	30,783
Unrestricted	<u>(17,570)</u>
<b>Total net assets</b>	<u><u>13,213</u></u>

EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenses, and Changes in Net Assets  
Proprietary Fund

Year ended June 30, 2005

	Nonmajor School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>117,309</u>
Operating expenses:	
Non-instructional programs:	
Salaries	65,857
Benefits	36,025
Purchased services	253
Supplies	106,453
Depreciation	<u>4,385</u>
	<u>212,973</u>
Operating gain (loss)	<u>(95,664)</u>
Non-operating revenue:	
State sources	2,727
Federal sources	76,016
Interest income	<u>296</u>
Total non-operating revenue	<u>79,039</u>
Change in net assets	(16,625)
Net assets beginning of year	<u>29,838</u>
Net assets end of year	<u><u>13,213</u></u>

## EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2005

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	117,240
Cash payments to employees for services	(101,412)
Cash payments to suppliers for goods or services	(82,639)
Net cash used by operating activities	<u>(66,811)</u>
Cash flows from non-capital financing activities:	
State grants received	2,727
Federal grants received	58,863
Net cash provided by non-capital financing activities	<u>61,590</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	<u>(8,512)</u>
Cash flows from investing activities:	
Interest on investments	<u>296</u>
Net increase (decrease) in cash and cash equivalents	(13,437)
Cash and cash equivalents at beginning of year	<u>14,821</u>
Cash and cash equivalents at end of year	<u><u>1,384</u></u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>	
Operating gain (loss)	(95,664)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	17,153
Depreciation	4,385
Decrease (increase) in inventories	6,914
Decrease (increase) in accounts receivable	57
(Decrease) increase in salaries and benefits payable	470
(Decrease) increase in deferred revenue	(126)
Net cash used in operating activities	<u><u>(66,811)</u></u>

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2005, the District received \$17,153 of federal commodities.

EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Fund

June 30, 2005

	Private Purpose Trust Scholarship <u>          </u> \$	<u>          </u> Agency <u>          </u> \$
<b>Assets</b>		
Cash and pooled investments	13,698	5,269
Accrued interest receivable	<u>40</u>	<u>-</u>
<b>Total Assets</b>	13,738	5,269
<b>Liabilities</b>		
Other payables	<u>-</u>	<u>5,269</u>
<b>Net Assets</b>		
Reserved for scholarships	<u><u>13,738</u></u>	<u><u>-</u></u>

## EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Fund

Year ended June 30, 2005

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Interest	311
Deductions	
Support services:	
Scholarships awarded	<u>1,000</u>
Change in net assets	(689)
Net assets beginning of year	<u>14,427</u>
Net assets end of year	<u><u>13,738</u></u>

# EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2005

### 1. Summary of Significant Accounting Policies

Eastern Allamakee Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Lansing and New Albin, Iowa and the predominately agricultural territory in a portion of Allamakee County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

#### A. Reporting Entity

For financial reporting purposes, Eastern Allamakee Community School District has included all funds, organizations, 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 KHS Booster Club is included in the financial statements as a discretely presented component unit.

The KHS Booster Club was established exclusively to benefit the activities of the Eastern Allamakee Community School District. The Booster Club's financial statements are shown in the Statement of Net Assets and the Statement of Activities in separate columns. As explained in the Independent Auditor's Opinion, the Booster Club's financial statements have not been audited.

#### 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 service.

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 asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* 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 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 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 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 revenues 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 expenditures, including instructional, support and other costs.

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

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

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

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

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

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations, and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

#### C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and 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 judgements, 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 the 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, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is 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 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 became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004, through June 30, 2005, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

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

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

Capital Assets – Capital assets, which include property, furniture and equipment are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair 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.

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	-
Buildings	5,000
Improvements other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	5,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	15-50 years
Improvements other than buildings	10-20 years
Furniture and equipment	5-25 years

The District's collection of library books and other similar materials are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to District policy that requires proceeds from the sale of these items, if any, to be used to acquire other collection items.

Salaries and Benefits Payable – Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are 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 in the Statement of Net Assets consists of unspent grant proceeds, amounts received in advance for meal sales and 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 days for subsequent use. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for used vacation days. 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.

## 2. **Cash and Pooled Investments**

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

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

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

	Amortized Cost
	\$
Diversified Portfolio	<u>5,119,678</u>

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

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

### 3. Interfund Transfers

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

Transfer to	Transfer from	Amount
		\$
Capital Projects Fund	Special Revenue: Physical Plant and Equipment Levy Fund	75,000

This transfer moved revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

### 4. Capital Assets

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

	Balance Beginning of Year, as Restated	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Construction in progress	-	386,479	-	386,479
Land	<u>7,167</u>	<u>-</u>	<u>-</u>	<u>7,167</u>
	<u>7,167</u>	<u>386,479</u>	<u>-</u>	<u>393,646</u>
Capital assets being depreciated:				
Buildings	1,602,479	47,327	-	1,649,806
Improvements other than buildings	23,500	-	-	23,500
Furniture and equipment	155,196	21,496	8,000	168,692
Total capital assets being deprec.	<u>1,781,175</u>	<u>68,823</u>	<u>8,000</u>	<u>1,841,998</u>
Less accumulated depreciation for:				
Buildings	912,921	44,217	-	957,138
Improvements other than buildings	20,325	1,075	-	21,400
Furniture and equipment	<u>59,631</u>	<u>12,104</u>	<u>5,680</u>	<u>66,055</u>
Total accumulated depreciation	<u>992,877</u>	<u>57,396</u>	<u>5,680</u>	<u>1,044,593</u>
Total capital assets being depreciated, net	<u>788,298</u>	<u>11,427</u>	<u>2,320</u>	<u>797,405</u>

Governmental activities capital assets, net	<u>795,465</u>	<u>397,906</u>	<u>2,320</u>	<u>1,191,051</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Business type activities:</b>				
Furniture and equipment	145,472	8,512	-	153,984
Less accumulated depreciation	<u>118,816</u>	<u>4,385</u>	<u>-</u>	<u>123,201</u>
Business type activities capital Assets, net	<u>26,656</u>	<u>4,127</u>	<u>-</u>	<u>30,783</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	2,520
Other	250
Support Services:	
Administration services	709
Operation and maintenance of plant services	2,572
Transportation	<u>6,053</u>
	12,104
Unallocated depreciation	<u>45,292</u>
Total depreciation expense – governmental activities	<u>57,396</u>
Business type activities:	
Food services	<u>4,385</u>

## 5. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2005, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
General obligation bonds	-	5,320,000	-	5,320,000	95,000
Early retirement	13,494	-	8,994	4,500	4,500
Compensated absences	<u>3,215</u>	<u>1,955</u>	<u>2,611</u>	<u>2,559</u>	<u>2,559</u>
Total	<u>16,709</u>	<u>5,321,955</u>	<u>11,605</u>	<u>5,327,059</u>	<u>102,059</u>

### Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed fifteen years of service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives are based on a percentage of the difference between current pay and base pay. Early retirement expenditures for the year ended June 30, 2005 totaled \$8,994.

## General Obligation Bonds Payable

Details of the District's June 30, 2005 general obligation bonded indebtedness are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Bond Issue of November 2004</u>			
	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	<u>%</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
2006	4.00	95,000	312,253	407,253
2007	4.00	200,000	214,614	414,614
2008	4.00	210,000	206,514	416,514
2009	4.00	215,000	198,114	413,114
2010	4.00	230,000	189,314	419,314
2011-2015	4.00-4.50	1,280,000	794,857	2,074,857
2016-2020	4.00-4.10	1,570,000	505,110	2,075,110
2021-2024	4.10-4.375	1,520,000	150,805	1,670,805
		<u>5,320,000</u>	<u>2,571,581</u>	<u>7,891,581</u>

## **6. Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$105,716, \$108,499, and \$118,604 respectively, equal to the required contributions for each year.

## **7. Risk Management**

Eastern Allamakee Community School District is a member in the Northeast Iowa Conference Schools 28E Retention Pool Trust, an Iowa Code Chapter 28E organization. The Northeast Iowa Conference school 28E Retention Pool Trust (Trust) is a local government risk-sharing pool whose members include various schools throughout northeast Iowa. The primary purpose of the Trust is to provide medical and dental benefits to the School employees and retirees, and their dependents.

Each member's contributions to the Trust fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Trust's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the Trust.

Payments from participating schools are the sole source for paying claims and establishing reserves for the Trust's self-funded programs. Stop loss insurance is purchased to cover claims in excess of \$80,000 per individual and aggregate stop loss insurance is purchased to limit the total cost to the group, but the potential exists for claims to exceed the premium payments made by members into the

program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2005, no liability has been recorded in the District's financial statements. As of June 30, 2005, settled claims have not exceeded the risk pool or reinsurance company coverage.

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

#### **8. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$144,861 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.

#### **9. Construction Commitment**

The District has entered into a contract totaling \$5,377,803 for high school and elementary construction projects. The project had not started at June 30, 2005

#### **10. Statement of Activities, Restatement of Beginning Net Assets**

The beginning net assets for the Statement of Activities was increased by \$27,674 for net capital assets that were omitted from the prior year financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances -  
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
<b>Receipts:</b>						
Local sources	2,236,528	117,536	2,354,064	2,335,086	2,335,086	18,978
Intermediate sources	1,820	-	1,820	500	500	1,320
State sources	1,784,747	2,727	1,787,474	1,712,602	1,712,602	74,872
Federal sources	185,851	76,016	261,867	185,200	185,200	76,667
Total receipts	<u>4,208,946</u>	<u>196,279</u>	<u>4,405,225</u>	<u>4,233,388</u>	<u>4,233,388</u>	<u>171,837</u>
<b>Disbursements:</b>						
Instruction	2,315,699	-	2,315,699	2,802,045	3,102,045	786,346
Support services	1,282,826	-	1,282,826	1,594,574	1,494,574	211,748
Non-instructional programs	783	209,716	210,499	253,500	303,500	93,001
Other expenditures	688,304	-	688,304	307,218	707,218	18,914
Total disbursements	<u>4,287,612</u>	<u>209,716</u>	<u>4,497,328</u>	<u>4,957,337</u>	<u>5,607,337</u>	<u>1,110,009</u>
Excess (deficiency) of receipts over (under) disbursements	(78,666)	(13,437)	(92,103)	(723,949)	(1,373,949)	1,281,846
Other financing sources (uses) net	<u>5,474,081</u>	<u>-</u>	<u>5,474,081</u>	<u>1,000</u>	<u>1,000</u>	<u>5,473,081</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements	5,395,415	(13,437)	5,381,978	(722,949)	(1,372,949)	6,754,927
Balance beginning of year	<u>1,323,383</u>	<u>14,821</u>	<u>1,338,204</u>	<u>1,149,135</u>	<u>1,149,135</u>	<u>189,069</u>
Balance end of year	<u><u>6,718,798</u></u>	<u><u>1,384</u></u>	<u><u>6,720,182</u></u>	<u><u>426,186</u></u>	<u><u>(223,814)</u></u>	<u><u>6,943,996</u></u>

EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2005

	<u>Governmental Funds</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Modified Accrual Basis</u>
	\$	\$	\$
Revenues	4,208,946	25,569	4,234,515
Expenditures	4,287,612	110,743	4,398,355
Net	(78,666)	(85,174)	(163,840)
Other financing sources (uses) net	5,474,081	-	5,474,081
Beginning fund balances	1,323,383	(258,923)	1,064,460
Ending fund balances	<u>6,718,798</u>	<u>(344,097)</u>	<u>6,374,701</u>

	<u>Proprietary Fund Enterprise</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
	\$	\$	\$
Revenues	196,279	69	196,348
Expenditures	209,716	3,257	212,973
Net	(13,437)	(3,188)	(16,625)
Beginning fund balances	14,821	15,017	29,838
Ending fund balances	<u>1,384</u>	<u>11,829</u>	<u>13,213</u>

EASTERN ALLAMAKEE 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 Internal Service, 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 the 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, the District adopted one budget amendment increasing budgeted disbursements by \$650,000.

OTHER SUPPLEMENTARY INFORMATION

## EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2005

Assets	Special Revenue Funds				Total
	Management	Student	Physical	District	
	Levy	Activity	Plant and	Support	
		Equipment	Trust		
	\$	\$	\$	\$	\$
Cash and pooled investments	143,175	28,621	24,758	31,154	227,708
Receivables:					
Property tax:					
Delinquent	612	-	632	-	1,244
Succeeding year	50,000	-	51,561	-	101,561
Accounts	-	233	-	-	233
Accrued interest	-	-	-	131	131
<b>Total assets</b>	<b>193,787</b>	<b>28,854</b>	<b>76,951</b>	<b>31,285</b>	<b>330,877</b>
<b>Liabilities &amp; Fund Balances</b>					
Liabilities:					
Accounts payable	-	3,457	2,782	-	6,239
Deferred revenue:					
Succeeding year property tax	50,000	-	51,561	-	101,561
Total liabilities	50,000	3,457	54,343	-	107,800
Fund balances:					
Unreserved reported in:					
Special revenue funds	143,787	25,397	22,608	31,285	223,077
<b>Total liabilities and fund balances</b>	<b>193,787</b>	<b>28,854</b>	<b>76,951</b>	<b>31,285</b>	<b>330,877</b>

## EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds

Year ended June 30, 2005

	Special Revenue Funds				Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	District Support Trust Funds	
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	48,342	-	49,824	-	98,166
Other	4,577	147,373	1,407	658	154,015
State sources	33	-	34	-	67
Total revenues	<u>52,952</u>	<u>147,373</u>	<u>51,265</u>	<u>658</u>	<u>252,248</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	17,834	-	-	-	17,834
Other instruction	-	147,746	-	-	147,746
Support services:					
Student services	892	-	-	-	892
Instructional staff services	382	-	27,022	-	27,404
Administration services	7,975	-	1,294	-	9,269
Operation and maintenance of plant services	36,322	-	12,436	-	48,758
Transportation services	4,504	-	-	-	4,504
Non-instructional programs	637	-	-	-	637
Total expenditures	<u>68,546</u>	<u>147,746</u>	<u>40,752</u>	<u>-</u>	<u>257,044</u>
Excess (deficiency) of revenues over (under) expenditures	(15,594)	(373)	10,513	658	(4,796)
Other financing sources (uses):					
Operating transfers out	-	-	(75,000)	-	(75,000)
Net change in fund balances	(15,594)	(373)	(64,487)	658	(79,796)
Fund balances beginning of year	<u>159,381</u>	<u>25,770</u>	<u>87,095</u>	<u>30,627</u>	<u>302,873</u>
Fund balances end of year	<u>143,787</u>	<u>25,397</u>	<u>22,608</u>	<u>31,285</u>	<u>223,077</u>

## EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Intra- Fund Transfers</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$	\$
<b>KHS</b>					
Class of 2004	1,627	-	1,627	-	-
Class of 2005	1,892	32,397	33,693	-	596
Class of 2006	1,315	5,576	3,918	-	2,973
Class of 2007	600	517	20	-	1,097
Class of 2008	-	889	-	-	889
Art club	497	37	-	-	534
Annual	1,699	8,153	9,016	-	836
Athletics	6,970	40,140	41,274	-	5,836
Cheerleaders	-	955	482	-	473
Band	34	2,581	2,196	-	419
FCCLA	103	-	-	-	103
Speech	18	1,245	1,234	-	29
Drama	627	2,598	1,831	-	1,394
Ecology club	543	-	-	-	543
Juice machine	2,112	4,961	2,577	-	4,496
Music parents	739	-	-	-	739
National Honor Society	1,060	1,739	1,627	-	1,172
SADD	196	-	(14)	-	210
Spanish club	2,989	15,132	17,086	-	1,035
Student council	814	2,621	2,579	-	856
Talon	131	41	-	-	172
Weightlifting	-	500	-	-	500
Vocal music	2,322	7,888	7,918	-	2,292
<b>LMS</b>					
Athletics	380	1,717	3,901	2,001	197
Music	187	18	270	180	115
Student council	69	6,786	8,012	1,197	40
Concessions	648	514	475	-	687
Magazine sales	101	8,612	4,735	(3,978)	-
Audubon Ark Adventure	80	400	200	-	280
Cheerleaders	1,309	1,123	2,924	600	108
Ending accruals 2005	-	233	3,457	-	(3,224)
Ending accruals 2004	(3,292)	-	(3,292)	-	-
<b>Total</b>	<b>25,770</b>	<b>147,373</b>	<b>147,746</b>	<b>-</b>	<b>25,397</b>

## EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Fund

Year ended June 30, 2005

		Balance Beginning of Year	Additions	Deductions	Balance End of Year
		\$	\$	\$	\$
	<b>Assets</b>				
Cash		-	5,269	-	5,269
	<b>Liabilities</b>				
Other liabilities		-	5,269	-	5,269

## EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function  
All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2005	2004	2003	2002
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,883,323	1,786,569	1,748,626	1,536,656
Tuition	36,030	30,613	25,045	26,603
Other	336,031	229,960	311,363	214,298
Intermediate sources	1,820	-	-	2,161
State sources	1,782,395	1,615,572	1,730,076	1,634,746
Federal sources	194,916	135,862	113,488	120,545
Total revenues	<u>4,234,515</u>	<u>3,798,576</u>	<u>3,928,598</u>	<u>3,535,009</u>
Expenditures:				
Instruction:				
Regular instruction	1,491,721	1,707,671	1,563,704	1,584,561
Special instruction	356,590	437,691	372,620	321,096
Other instruction	489,739	379,177	418,681	388,850
Support services:				
Student services	82,832	102,811	97,535	102,374
Instructional staff services	155,797	69,352	162,172	158,491
Administration services	422,530	343,133	430,014	362,722
Operation and maintenance of plant services	320,418	288,364	238,868	225,167
Transportation services	343,822	293,306	225,092	206,152
Non-instructional programs	783	1,280	1,205	1,276
Other expenditures:				
Facilities acquisition	589,262	264,333	100,550	6,817
Long-term debt:				
Principal	-	-	22,623	46,592
Interest and other charges	-	-	1,979	5,360
AEA flowthrough	144,861	146,843	158,186	153,819
Total expenditures	<u>4,398,355</u>	<u>4,033,961</u>	<u>3,793,229</u>	<u>3,563,277</u>

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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  
Eastern Allamakee 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 Eastern Allamakee 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 October 18, 2005. We did not issue an opinion on the KHS Booster Club, which is included as a discretely presented component unit, because we were not engaged to, and did not audit the Booster Club. 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 Eastern Allamakee Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items 05-I-A and 05-I-B are material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Eastern Allamakee 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. We noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Eastern Allamakee 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.

BURTON E. TRACY & CO., P.C.  
Certified Public Accountants

October 18, 2005

EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

05-I-A Segregation of Duties: The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although we noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

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

District Response: The District is aware of the lack of complete segregation of duties and will make changes as the opportunity arises.

Conclusion: Response accepted.

05-I-B School Expenditure Supporting Documentation and Board Approval: We noted the following items during our testing of District expenditures:

General Fund – We tested twenty expenditures. We noted one travel expense for \$26 that was missing detailed supporting documentation. We also noted two expenditures that were not on the list of bills approved by the board

Student Activity Fund – We tested fifteen expenditures. Three of the Student Activity Fund expenditures tested were missing detailed supporting documentation. We also noted one Student Activity Fund Credit Card expense for \$13 that was missing detailed supporting documentation.

Recommendation: All District payments should be supported by detailed invoices, receipts, contracts or other documents prepared by or signed by entities outside of the District. These documents should specify exactly what the District is paying for and the amount to be paid.

EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the Financial Statements (continued):

The District should also review its procedures for preparing the lists of bills for board approval. Chapter 179.29 of the Code of Iowa provides that "the Board shall audit all just claims against the corporation and no order shall be drawn upon the treasury until the claim therefore has been audited and allowed." Chapter 279.30 of the Code of Iowa allows payment of specific items, such as utilities, postage and printing, without prior Board approval. The Board may approve a resolution designating certain other disbursements that may be paid prior to a Board Meeting with the approval of the Board President. The Board's written policy should comply with Chapter 279.30 of the Code of Iowa. Then, except as expressly permitted, no checks should be prepared for claims that have not been properly audited and allowed. Any payments made prior to board approval, as allowed, should be approved by the board at the next meeting.

District Response: We are in the process of reviewing and changing our current procedures.

Conclusion: Response accepted.

EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting:

- 05-II-A Official Depositories: Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.
- 05-II-B Certified Budget: Disbursements for the year ended June 30, 2005, did not exceed the amounts budgeted.
- 05-II-C Questionable Expenditures: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 05-II-D Travel Expenses: 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.
- 05-II-E Business Transactions: Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
		\$
Phyllis Burmester, Board Member	Substitute Cook	396

The transaction does not appear to represent a conflict of interest since the employment was part-time and temporary and the dollar amount paid was less than \$2,500.

- 05-II-F Bond Coverage: Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of bond coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 05-II-G Board Minutes: See internal control comment 05-I-B.
- 05-II-H Certified Enrollment: The calculation for line 12 supplemental weighting, included 5 open enrollment in students

Recommendation: The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

District Response: We will contact these departments.

Conclusion: Response accepted.

- 05-II-I Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

- 05-II-J Certified Annual Report (CAR): The CAR was not filed with the Department of Education by the due date. We noted no significant deficiencies in the amounts reported.

Recommendation: The District should file their CAR in a timely manner.

EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting (continued):

District Response: Future filings will be timely.

Conclusion: Response accepted.

05-II-K Construction Contract Change Orders: We noted that the Board of Directors did not approve change orders.

Recommendation: All contract changes should be approved by the Board and documented in the minutes.

District Response: All future contract changes will be documented in the minutes.

Conclusion: Response accepted.

05-II-L Endowment at Community Foundation of Waterloo/Cedar Falls and Northeast Iowa: We noted that the District has a \$17,527 endowment fund in the Community Foundation of Waterloo/Cedar Falls and Northeast Iowa. The interest on the fund is being used for scholarships. Individuals may donate directly to these foundations, but school districts may not. It appears that this endowment was established several years ago with money that had been given directly to the school. Schools are not allowed to transfer ownership of funds already owned to a foundation or any third party money manager and there is no authorization under Iowa law for a school to pay any administrative fee to a third party for the management of funds. The investments that a private foundation may legally make may go beyond the type of investments that a school may make pursuant to Iowa Code Chapter 12B. A school may not invest public money indirectly (through a foundation) in ways in which it may not invest the public's money directly.

Recommendation: The District should consult with its attorney concerning the legality of the endowment with the Community Foundation of Waterloo/Cedar Falls and Northeast Iowa.

District Response: We will discuss this situation with our attorney and investigate the possibility of having the endowment funds returned to the District.

Conclusion: Response accepted.