

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

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Edgewood-Colesburg Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2004 Election)		
James Lueken	President	2004
Randall Mescher	Vice President	2004
Joan Kerns	Board Member	2006
Joe Johnson	Board Member	2006
Scot Christiansen	Board Member	2005

Board of Education (After September 2004 Election)		
Randall Mescher	President	2007
James Lueken	Vice President	2007
Joan Kerns	Board Member	2006
Joe Johnson	Board Member	2006
Scot Christiansen	Board Member	2005

School Officials

Galen Reinsmoen	Superintendent	2005
Martha Romig	District Secretary and Business Manager	2005
Marc Casey	Attorney	2005

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117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Edgewood-Colesburg Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Edgewood-Colesburg Community School District, Edgewood, Iowa as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

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

In accordance with Government Auditing Standards, we have also issued our report dated September 22, 2005 on our consideration of the Edgewood-Colesburg Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 36 and 39 are not required parts of the basic financial statements, but are supplementary

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Edgewood-Colesburg Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Robb Cornman
NOLTE, CORNMAN & JOHNSON, P.C.

September 22, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$4,154,377 in fiscal 2004 to \$4,225,157 in fiscal 2005, while General Fund expenditures decreased from \$4,264,293 in fiscal 2004 to \$4,224,310 in fiscal 2005. This resulted in an increase in the District's General Fund balance from \$630,403 in fiscal 2004 to a balance of \$631,250 in fiscal 2005.
- The increase in General Fund revenues was attributable to an increase in revenues received from tuition and other sources in fiscal 2005. The decrease in expenditures was due to a decrease in all expenditure functional areas except student services.
- For fiscal year 2005, the District issued \$31,424 in local option sales and services tax revenue bonds to pay for the playground surfacing project.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

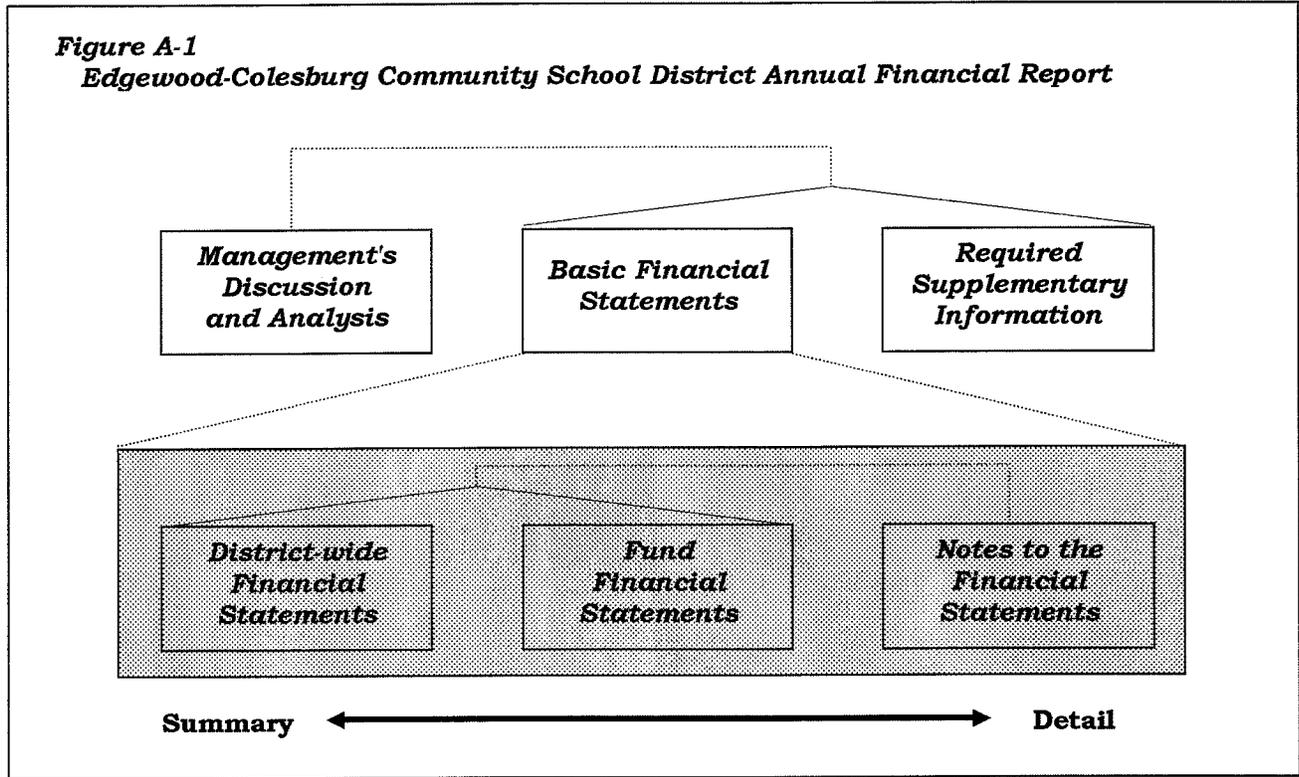


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	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"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

3) *Fiduciary fund*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include the Private-Purpose Trust Fund.

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2005 compared to June 30, 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change 2004-05
	2005	2004	2005	2004	2005	2004	
Current and other assets	\$ 3,755,534	3,546,984	28,421	46,458	3,783,955	3,593,442	5.3%
Capital Assets	5,056,128	5,081,205	18,434	19,594	5,074,562	5,100,799	-0.5%
Total assets	8,811,662	8,628,189	46,855	66,052	8,858,517	8,694,241	1.9%
Long-term obligations	3,495,824	3,716,250	0	0	3,495,824	3,716,250	-5.9%
Other liabilities	2,702,598	2,642,980	32,838	42,708	2,735,436	2,685,688	1.9%
Total liabilities	6,198,422	6,359,230	32,838	42,708	6,231,260	6,401,938	-2.7%
Net assets:							
Invested in capital assets, net of related debt	1,910,272	1,625,385	18,434	19,594	1,928,706	1,644,979	17.2%
Restricted	116,815	104,751	0	0	116,815	104,751	11.5%
Unrestricted	586,153	538,823	(4,417)	3,750	581,736	542,573	7.2%
Total net assets	\$ 2,613,240	2,268,959	14,017	23,344	2,627,257	2,292,303	14.6%

The District's combined net assets increased by \$334,954 or 14.6% over the prior year. The largest portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$12,064 or 11.5% over the prior year.

Unrestricted net assets-the part of net assets that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements- increased approximately \$39,163 or 7.2% over the prior year.

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

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Revenues:							
Program revenues:							
Charges for services	\$ 776,863	768,901	179,188	174,410	956,051	943,311	1.4%
Operating grants and contributions and restricted interest	648,188	572,075	96,459	93,961	744,647	666,036	11.8%
General revenues:							
Property tax	1,652,354	1,711,905	0	0	1,652,354	1,711,905	-3.5%
Local option sales and service tax	258,577	71,608	0	0	258,577	71,608	261.1%
Unrestricted state grants	1,751,599	1,784,005	0	0	1,751,599	1,784,005	-1.8%
Unrestricted investment earnings	31,890	28,669	247	243	32,137	28,912	11.2%
Total revenues	5,119,471	4,937,163	275,894	268,614	5,395,365	5,205,777	3.6%
Program expenses:							
Governmental activities:							
Instructional	2,936,770	2,698,669	0	0	2,936,770	2,698,669	8.8%
Support services	1,350,582	1,521,693	0	0	1,350,582	1,521,693	-11.2%
Non-instructional programs	1,000	2,942	285,221	264,207	286,221	267,149	7.1%
Other expenses	486,838	448,933	0	0	486,838	448,933	8.4%
Total expenses	4,775,190	4,672,237	285,221	264,207	5,060,411	4,936,444	2.5%
Change in net assets	344,281	264,926	(9,327)	4,407	334,954	269,333	24.4%
Net assets beginning of year	2,268,959	2,004,033	23,344	18,937	2,292,303	2,022,970	13.3%
Net asset end of year	\$ 2,613,240	2,268,959	14,017	23,344	2,627,257	2,292,303	14.6%

Property tax and unrestricted state grants account for approximately 63.1% of the total revenue. The District's expenses primarily relate to instruction and support services which account for approximately 84.7% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$5,119,471 and expenses were \$4,775,190.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 2,936,770	1,672,800
Support services	1,350,582	1,350,582
Non-instructional programs	1,000	1,000
Other expenses	486,838	325,757
Totals	\$ 4,775,190	3,350,139

- The cost financed by users of the District's programs was \$776,863.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$648,188.
- The net cost of governmental activities was financed with \$1,652,354 in property and other taxes, \$258,577 in local option sales tax services, and \$1,751,599 in unrestricted state grants and \$31,890 in investment earnings.

Business-Type Activities

Revenues of the District's business-type activities were \$275,894 and expenses were \$285,221. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$991,696, above last year's ending fund balances of a \$841,976.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. An increase in revenues and a decrease in expenditures resulted in the General Fund balance to increase.
- The Capital Projects Fund balance increased from \$117,723 in fiscal 2004 to a balance of \$217,753 for fiscal 2005. This increase is due primarily to the District receiving more in local option sales tax money than in the year previous.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$23,344 at June 30, 2004 to \$14,017 at June 30, 2005, representing a decrease of approximately 40%.

BUDGETARY HIGHLIGHTS

The District's receipts were \$198,290 more than budgeted receipts, a variance of 4.05%. The most significant variance resulted from the District receiving more from federal sources than originally anticipated.

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

During the year ended June 30, 2005, the District adopted one budget amendment increasing expenditures in each functional area. Disbursements in the other expenditures functional area still exceeded the amounts budgeted by the amendment.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$5,074,562, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$193,574.

The original cost of the District's capital assets was \$7,174,447. Governmental funds account for \$7,046,989 with the remainder of \$127,458 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$0 at June 30, 2005, compared to \$89,225 reported at June 30, 2004.

Figure A-6

	Capital Assets, Net of Depreciation						
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2003-04
Land	\$ 16,771	16,771	0	0	16,771	16,771	0.0%
Construction in progress	89,225	0	0	0	89,225	0	100.0%
Buildings	4,646,000	4,764,000	0	0	4,646,000	4,764,000	-2.5%
Improvements other than buildings	82,150	81,895	0	0	82,150	81,895	0.3%
Machinery and equipment	221,982	218,539	18,434	19,594	240,416	238,133	0.9%
Total	\$ 5,056,128	5,081,205	18,434	19,594	5,074,562	5,100,799	-0.5%

Long-Term Debt

At June 30, 2005, the District had \$3,495,824 in general obligation and other long-term debt outstanding. This represents a decrease of 5.9% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

Figure A-7

	Outstanding Long-Term Obligations		
	Total School District		Total Change
	2005	2004	
General obligation bonds	\$ 3,355,000	3,590,000	-6.5%
Revenue bonds	31,424	0	100.0%
Early retirement	109,400	126,250	-13.3%
Totals	\$ 3,495,824	3,716,250	-5.9%

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Martha Romig, Board Secretary, Edgewood-Colesburg Community School District, 403 W. Union St., P.O. Box 315, Edgewood, Iowa, 52042.

BASIC FINANCIAL STATEMENTS

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents:			
ISCAP(Note 5)	\$ 854,527	0	854,527
Other	1,198,979	24,141	1,223,120
Receivables			
Property tax:			
Delinquent	31,188	0	31,188
Succeeding year	1,487,857	0	1,487,857
Income surtax	71,846	0	71,846
Accounts	215	0	215
Accrued ISCAP interest(Note 5)	3,058	0	3,058
Interfund	31,050	0	31,050
Due from other governments	76,814	0	76,814
Inventories	0	4,280	4,280
Capital assets, net of accumulated depreciation(Note 6)	5,056,128	18,434	5,074,562
TOTAL ASSETS	8,811,662	46,855	8,858,517
LIABILITIES			
Interfund payable	0	31,050	31,050
Accounts payable	15,603	0	15,603
Salaries and benefits payable	324,436	0	324,436
ISCAP warrants payable(Note 5)	851,000	0	851,000
ISCAP accrued interest payable(Note 5)	3,276	0	3,276
ISCAP unamortized premium	9,820	0	9,820
Accrued interest payable	10,606	0	10,606
Deferred revenue:			
Succeeding year property tax	1,487,857	0	1,487,857
Other	0	1,788	1,788
Long-term liabilities(Note 7):			
Portion due within one year:			
General obligation bonds	230,000	0	230,000
Revenue bonds	6,285	0	6,285
Early Retirement	33,400	0	33,400
Portion due after one year:			
General obligation bonds	3,125,000	0	3,125,000
Revenue bonds	25,139	0	25,139
Early Retirement	76,000	0	76,000
TOTAL LIABILITIES	6,198,422	32,838	6,231,260
NET ASSETS			
Investment in capital assets, net of related debt	1,910,272	18,434	1,928,706
Restricted for:			
Salary improvement program	275	0	275
Other special revenue	116,540	0	116,540
Unrestricted	586,153	(4,417)	581,736
TOTAL NET ASSETS	\$ 2,613,240	14,017	2,627,257

SEE NOTES TO FINANCIAL STATEMENTS.

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Governmental activities:			
Instruction:			
Regular instruction	\$ 1,820,390	431,165	460,283
Special instruction	615,222	71,340	26,824
Other instruction	501,158	274,358	0
	<u>2,936,770</u>	<u>776,863</u>	<u>487,107</u>
Support services:			
Student services	142,973	0	0
Instructional staff services	55,633	0	0
Administration services	509,665	0	0
Operation and maintenance of plant services	347,189	0	0
Transportation services	295,122	0	0
	<u>1,350,582</u>	<u>0</u>	<u>0</u>
Non-instructional programs	1,000	0	0
Other expenditures:			
Facilities acquisitions	67,220	0	0
Long-term debt interest	135,143	0	0
AEA flowthrough	161,081	0	161,081
Depreciation(unallocated)*	123,394	0	0
	<u>486,838</u>	<u>0</u>	<u>161,081</u>
Total governmental activities	4,775,190	776,863	648,188
Business-Type activities:			
Non-instructional programs:			
Nutrition services	285,221	179,188	96,459
Total business-type activities	285,221	179,188	96,459
Total	\$ 5,060,411	956,051	744,647

General Revenues:

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

Changes in net assets

Net assets beginning of year

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(928,942)	0	(928,942)
(517,058)	0	(517,058)
(226,800)	0	(226,800)
<u>(1,672,800)</u>	<u>0</u>	<u>(1,672,800)</u>
(142,973)	0	(142,973)
(55,633)	0	(55,633)
(509,665)	0	(509,665)
(347,189)	0	(347,189)
(295,122)	0	(295,122)
<u>(1,350,582)</u>	<u>0</u>	<u>(1,350,582)</u>
(1,000)		(1,000)
(67,220)	0	(67,220)
(135,143)	0	(135,143)
0	0	0
(123,394)	0	(123,394)
<u>(325,757)</u>	<u>0</u>	<u>(325,757)</u>
(3,350,139)	0	(3,350,139)
0	(9,574)	(9,574)
0	(9,574)	(9,574)
<u>(3,350,139)</u>	<u>(9,574)</u>	<u>(3,359,713)</u>
\$ 1,270,486	0	1,270,486
346,469	0	346,469
35,399	0	35,399
258,577	0	258,577
1,751,599	0	1,751,599
31,890	247	32,137
<u>3,694,420</u>	<u>247</u>	<u>3,694,667</u>
344,281	(9,327)	334,954
2,268,959	23,344	2,292,303
<u>\$ 2,613,240</u>	<u>14,017</u>	<u>2,627,257</u>

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	Other Nonmajor Governmental Funds	Total
ASSETS			
Cash and pooled investments:			
ISCAP(Note 5)	\$ 854,527	0	854,527
Other	891,720	307,259	1,198,979
Receivables:			
Property tax:			
Delinquent	22,989	8,199	31,188
Succeeding year	1,162,436	325,421	1,487,857
Income surtax	71,846	0	71,846
Accounts	215	0	215
Accrued ISCAP interest (Note 5)	3,058	0	3,058
Interfund	58,569	0	58,569
Due from other governments	4,307	72,507	76,814
TOTAL ASSETS	\$ 3,069,667	713,386	3,783,053
LIABILITIES AND FUND BALANCES			
Liabilities:			
Interfund payable	\$ 0	27,519	27,519
Accounts payable	15,603	0	15,603
Salaries and benefits payable	324,436	0	324,436
ISCAP warrants payable (Note 5)	851,000	0	851,000
ISCAP accrued interest payable (Note 5)	3,276	0	3,276
ISCAP unamortized premium	9,820	0	9,820
Deferred revenue:			
Succeeding year property tax	1,162,436	325,421	1,487,857
Income surtax	71,846	0	71,846
Total liabilities	<u>2,438,417</u>	<u>325,421</u>	<u>2,763,838</u>
Fund balances:			
Reserved for:			
Debt Service	0	33,421	33,421
Salary improvement program	275	0	275
Unreserved:			
Undesignated	630,975	354,544	985,519
Total fund balances	<u>631,250</u>	<u>387,965</u>	<u>1,019,215</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,069,667	713,386	3,783,053

SEE NOTES TO FINANCIAL STATEMENTS.

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

Total fund balances of governmental funds (page 16)	\$ 991,696
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	5,056,128
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.	(10,606)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	71,846
Long-term liabilities, including bonds and early retirement, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(3,495,824)</u>
Net assets of governmental activites (page 13)	<u><u>\$ 2,613,240</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Other Nonmajor Governmental		Total
	General	Funds	
REVENUES:			
Local sources:			
Local tax	\$ 1,231,354	682,393	1,913,747
Tuition	502,505	0	502,505
Other	93,762	214,737	308,499
State sources	2,096,722	0	2,096,722
Federal sources	300,814	0	300,814
Total revenues	<u>4,225,157</u>	<u>897,130</u>	<u>5,122,287</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	1,823,042	24,126	1,847,168
Special instruction	615,222	0	615,222
Other instruction	300,172	200,147	500,319
	<u>2,738,436</u>	<u>224,273</u>	<u>2,962,709</u>
Support services:			
Student services	142,973	0	142,973
Instructional staff services	93,179	0	93,179
Administration services	515,504	10,359	525,863
Operation and maintenance of plant services	341,650	0	341,650
Transportation services	230,487	10,784	241,271
	<u>1,323,793</u>	<u>21,143</u>	<u>1,344,936</u>
Non-instructional programs	1,000	0	1,000
Other expenditures:			
Facilities acquisitions	0	162,094	162,094
Long-term debt:			
Principal	0	235,000	235,000
Interest and fiscal charges	0	137,171	137,171
AEA flowthrough	161,081	0	161,081
	<u>161,081</u>	<u>534,265</u>	<u>695,346</u>
Total expenditures	<u>4,224,310</u>	<u>779,681</u>	<u>5,003,991</u>
Excess of revenues over expenditures	847	117,449	118,296
Other financing sources(uses):			
Transfers in	0	28,081	28,081
Transfers out	0	(28,081)	(28,081)
Sale of bonds	0	31,424	31,424
Total other financing sources(uses)	<u>0</u>	<u>31,424</u>	<u>31,424</u>
Net change in fund balances	847	148,873	149,720
Fund balance beginning of year	630,403	211,573	841,976
Fund balance end of year	<u>\$ 631,250</u>	<u>360,446</u>	<u>991,696</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds (page 18) \$ 149,720

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

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

Capital outlays	\$ 165,287	
Depreciation expense	<u>(190,364)</u>	(25,077)

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

Issued	\$ (31,424)	
Repaid	<u>235,000</u>	203,576

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.

2,028

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds.

(2,816)

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		<u>16,850</u>
------------------	--	---------------

Changes in net assets of governmental activities (page 15) \$ 344,281

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2005

	School Nutrition
ASSETS	
Cash and pooled investments	\$ 24,141
Inventories	4,280
Capital assets, net of accumulated depreciation	18,434
Total assets	46,855
 LIABILITIES	
Interfund payable	31,050
Deferred revenue	1,788
Total liabilities	32,838
 NET ASSETS	
Invested in capital assets, net of related debt	18,434
Unrestricted	(4,417)
Total net assets	\$ 14,017

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
Operating revenues:	
Local sources:	
Charges for services	\$ 179,188
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	89,342
Benefits	13,159
Services	3,648
Supplies	175,381
Other	481
Depreciation	3,210
Total operating expenses	285,221
Operating loss	(106,033)
Non-operating revenues:	
State sources	3,432
Federal sources	93,027
Interest on investments	247
Total non-operating revenues	96,706
Change in net assets	(9,327)
Net assets beginning of year	23,344
Net assets end of year	\$ 14,017

SEE NOTES TO FINANCIAL STATEMENTS.

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2005

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 173,963
Cash received from miscellaneous operating activities	5,355
Cash payments to employees for services	(102,501)
Cash payments to suppliers for goods or services	(162,870)
Net cash used in operating activities	(86,053)
Cash flows from non-capital financing activities:	
State grants received	3,432
Federal grants received	83,234
Net cash provided by non-capital financing activities	86,666
Cash flows from capital and related financing activities:	
Transfer to General	(10,000)
Purchase of capital assets	(2,050)
Net cash used in capital and related financing activities	(12,050)
Cash flows from investing activities:	
Interest on investments	247
Net cash provided by investing activities	247
Net decrease in cash and cash equivalents	(11,190)
Cash and cash equivalents at beginning of year	35,331
Cash and cash equivalents at end of year	\$ 24,141
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (106,033)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	9,793
Depreciation	3,210
Decrease in inventories	6,847
Increase in deferred revenue	130
Net cash used in operating activities	\$ (86,053)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 24,141
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	

During the year ended June 30, 2005, the District received Federal commodities valued at \$9,793.

SEE NOTES TO FINANCIAL STATEMENTS.

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2005

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
Assets	
Cash and pooled investments	\$ 6,066
Total assets	<u>6,066</u>
Liabilities	
Total liabilities	<u>0</u>
Net assets	
Reserved for scholarships	<u>\$ 6,066</u>

SEE NOTES TO FINANCIAL STATEMENTS.

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2005

	<u>Private Purpose Trust Scholarship</u>
Additions:	<u>\$ 0</u>
Deductions:	<u>0</u>
Change in net assets	0
Net assets beginning of year	<u>6,066</u>
Net assets end of year	<u><u>\$ 6,066</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

For financial reporting purposes, Edgewood-Colesburg 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 Edgewood-Colesburg Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The District reports the following proprietary fund:

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

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

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

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

Asset Class	Amount
Land	\$ 1,500
Buildings	1,500
Improvements other than buildings	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,500

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

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

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

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

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

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, the District adopted one budget amendment increasing expenditures in each functional area. Disbursements in the other expenditures functional area exceeded the amounts budgeted by the amendment.

(2) **Cash and Pooled Investments**

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

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

At June 30, 2005, the district had investments in Certificates of Deposit as follows:

	<u>Amortized Cost</u>
Certificates of Deposit	<u>\$ 13,066</u>

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

Interest rate risk. The District's investment policy limits the investment of operation funds (fund expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

(3) Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2005 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	PPEL	\$ 27,519
General Fund	Nutrition	31,050
Total		<u>\$ 58,569</u>

(4) Interfund Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	<u>\$ 28,081</u>

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

(5) Iowa School Cash Anticipation Program (ISCAP)

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

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2004-05A	6/30/04	6/30/05	\$ 88	0	0	0
2004-05B	1/28/05	1/27/06	215,621	2,921	215,000	3,154
2005-06A	6/28/05	6/28/06	638,818	137	636,000	122
			<u>\$ 854,527</u>	<u>3,058</u>	<u>851,000</u>	<u>3,276</u>

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

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

Series	Interest Rates on Warrants	Interest Rates on Investments
2004-05A	3.000%	2.463%
2004-05B	3.500%	3.232%
2005-06A	3.500%	3.903%

(6) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 108,928	0	92,157	16,771
Construction in progress	0	89,225	0	89,225
Total capital assets not being depreciated	108,928	89,225	92,157	105,996
Capital assets being depreciated:				
Buildings	5,910,477	0	0	5,910,477
Improvements other than buildings	107,876	5,946	0	113,822
Machinery and equipment	772,017	162,273	17,596	916,694
Total capital assets being depreciated	6,790,370	168,219	17,596	6,940,993
Less accumulated depreciation for:				
Buildings	1,146,477	118,000	0	1,264,477
Improvements other than buildings	25,981	5,691	0	31,672
Machinery and equipment	645,635	66,673	17,596	694,712
Total accumulated depreciation	1,818,093	190,364	17,596	1,990,861
Total capital assets being depreciated, net	4,972,277	(22,145)	0	4,950,132
Governmental activities capital assets, net	\$ 5,081,205	67,080	92,157	5,056,128
Business-type activities:				
Machinery and equipment	\$ 125,408	2,050	0	127,458
Less accumulated depreciation	105,814	3,210	0	109,024
Business-type activities capital assets, net	\$ 19,594	(1,160)	0	18,434

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Other		\$ 839
Support services:		
Instructional		3,999
Administration		2,742
Operation and maintenance of plant		5,539
Transportation		53,851
		<u>66,970</u>
Unallocated depreciation		123,394
		<u>190,364</u>
Total governmental activities depreciation expense		\$ 190,364
Business-type activities:		
Food services		\$ 3,210
Total business-type activities depreciation expense		<u>\$ 3,210</u>

(7) 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	\$ 3,590,000	0	235,000	3,355,000	230,000
Revenue bonds	0	31,424	0	31,424	6,285
Early retirement	126,250	21,400	38,250	109,400	33,400
Total	<u>\$ 3,716,250</u>	<u>52,824</u>	<u>273,250</u>	<u>3,495,824</u>	<u>269,685</u>

General Obligation Bonds

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

Year Ending	Bond Issue of May 1, 2001			Bond Issue of May 1, 2003			Total		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
June 30,									
2006	4.00 %	\$ 230,000	44,385	-	-	\$ 82,880	\$ 230,000	127,265	357,265
2007	4.05	250,000	35,310	-	-	82,880	250,000	118,190	368,190
2008	4.10	270,000	25,185	-	-	82,880	270,000	108,065	378,065
2009	4.20	290,000	14,115	-	-	82,880	290,000	96,995	386,995
2010	4.30	45,000	1,935	3.50	170,000	82,880	215,000	84,815	299,815
2011				3.50	225,000	76,930	225,000	76,930	301,930
2012				3.50	235,000	69,055	235,000	69,055	304,055
2013				3.50	245,000	60,830	245,000	60,830	305,830
2014				3.65	255,000	52,255	255,000	52,255	307,255
2015				3.65	265,000	42,948	265,000	42,948	307,948
2016				3.70	280,000	33,275	280,000	33,275	313,275
2017				3.80	290,000	22,915	290,000	22,915	312,915
2018				3.90	305,000	11,895	305,000	11,895	316,895
Total		<u>\$ 1,085,000</u>	<u>120,930</u>		<u>\$ 2,270,000</u>	<u>784,503</u>	<u>\$ 3,355,000</u>	<u>905,433</u>	<u>4,260,433</u>

Revenue Bonds

On June 1, 2005, the District entered into a local option sales and services tax revenue bond for the playground surfacing project. Details of the District's revenue bond indebtedness as of the end of the fiscal year are as follows:

Year Ending June 30,	Bond Issue of June 1, 2005				
	Interest Rates		Principal	Interest	Total
2006	4.281	% \$	6,285	1,458	7,743
2007	4.281		6,285	1,076	7,361
2008	4.281		6,285	807	7,092
2009	4.281		6,285	538	6,823
2010	4.281		6,284	269	6,553
Total			\$ 31,424	4,148	35,572

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed ten years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to a \$30 per day of unused sick leave and subject to a maximum of \$4,000 per individual per year. Early retirement benefits paid during the year ended June 30, 2005, totaled \$38,250.

(8) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$147,983, \$144,011, and \$143,553, respectively, equal to the required contributions for each year.

(9) Risk Management

Edgewood-Colesburg 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.

(10) 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 \$161,081 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.

(11) Budget Overexpenditures

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2005, the District adopted one budget amendment increasing expenditures in each functional area. Disbursements in the other expenditures functional area exceeded the amounts budgeted by the amendment.

(12) Deficit Fund Balance

The District had a deficit fund balance in the Physical Plant and Equipment Levy (PEEL) of \$16,096 at June 30, 2005. There was also a deficit unrestricted fund balance in the School Nutrition Fund of \$4,417.

REQUIRED SUPPLEMENTARY INFORMATION

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

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 2,677,713	179,565
State sources	2,096,252	3,432
Federal sources	301,938	93,027
Total revenues	<u>5,075,903</u>	<u>276,024</u>
Disbursements:		
Instruction	2,946,669	0
Support services	1,339,332	0
Non-instructional programs	1,000	277,214
Other expenditures	695,346	0
Total expenditures	<u>4,982,347</u>	<u>277,214</u>
Excess(deficiency) of receipts over(under) disbursements	93,556	(1,190)
Other financing sources, net	<u>31,424</u>	<u>0</u>
Excess(deficiency) of receipts over(under) disbursements	124,980	(1,190)
Balance beginning of year	<u>1,105,049</u>	<u>(5,719)</u>
Balance end of year	<u>\$ 1,230,029</u>	<u>(6,909)</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
2,857,278	2,749,095	2,749,095	108,183
2,099,684	2,119,749	2,119,749	(20,065)
394,965	275,000	275,000	119,965
<u>5,351,927</u>	<u>5,143,844</u>	<u>5,143,844</u>	<u>208,083</u>
2,946,669	2,830,000	3,025,000	78,331
1,339,332	1,463,925	1,513,925	174,593
278,214	263,800	300,000	21,786
695,346	546,813	675,000	(20,346)
<u>5,259,561</u>	<u>5,104,538</u>	<u>5,513,925</u>	<u>254,364</u>
92,366	39,306	(370,081)	(462,447)
<u>31,424</u>	<u>0</u>	<u>0</u>	<u>(31,424)</u>
123,790	39,306	(370,081)	(493,871)
<u>1,099,330</u>	<u>731,915</u>	<u>731,915</u>	<u>367,415</u>
<u>1,223,120</u>	<u>771,221</u>	<u>361,834</u>	<u>861,286</u>

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

	Governmental Funds		
	Cash	Accrual	Modified
	Basis	Adjust- ments	Accrual Basis
Revenues	\$ 5,075,903	46,384	5,122,287
Expenditures	4,982,347	21,644	5,003,991
Net	93,556	24,740	118,296
Other financing sources, net	31,424	0	31,424
Beginning fund balances	1,105,049	(263,073)	841,976
Ending fund balances	\$ 1,230,029	(238,333)	991,696

	Proprietary Fund		
	Enterprise		
	Cash	Accrual	Modified
	Basis	Adjust- ments	Accrual Basis
Revenues	\$ 276,024	(130)	275,894
Expenditures	277,214	8,007	285,221
Net	(1,190)	(8,137)	(9,327)
Beginning fund balances	(5,719)	29,063	23,344
Ending fund balances	\$ (6,909)	20,926	14,017

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

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

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

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

During the year ended June 30, 2005, the District adopted one budget amendment increasing expenditures in each functional area by a total of \$409,387. Disbursements in the other expenditures functional area exceeded the amounts budgeted by the amendment.

OTHER SUPPLEMENTARY INFORMATION

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2005

	Special Revenue Funds							Total Nonmajor Governmental Funds	
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue	Debt Service	Capital Projects		
ASSETS									
Cash and pooled investments	\$ 7,989	106,516	10,741	10,024	135,270	26,743	145,246	307,259	
Receivables:									
Property tax:									
Current year delinquent		839	0	682	0	1,521	6,678	0	8,199
Succeeding year		65,195	0	35,876	0	101,071	224,350	0	325,421
Due from other governments		0	0	0	0	0	72,507	72,507	
TOTAL ASSETS	\$ 74,023	106,516	47,299	10,024	237,862	257,771	217,753	713,386	
LIABILITIES AND FUND EQUITY									
Liabilities:									
Interfund payable		0	0	27,519	0	27,519	0	0	27,519
Deferred revenue:									
Succeeding year property tax		65,195	0	35,876	0	101,071	224,350	0	325,421
Total Liabilities		65,195	0	63,395	0	128,590	224,350	0	352,940
Fund equity:									
Fund balances:									
Reserved:									
Debt Service		0	0	0	0	0	33,421	0	33,421
Unreserved:									
Undesignated		8,828	106,516	(16,096)	10,024	109,272	0	217,753	327,025
Total fund balances		8,828	106,516	(16,096)	10,024	109,272	33,421	217,753	360,446
TOTAL LIABILITIES AND FUND EQUITY	\$ 74,023	106,516	47,299	10,024	237,862	257,771	217,753	713,386	

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EDGEWOOD-COLESBURG 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 Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue	Debt Service	Capital Projects	
REVENUES:								
Local sources:								
Local tax	\$ 41,948	0	35,399	0	77,347	346,469	258,577	682,393
Other	61	209,885	381	2,285	212,612	1,951	174	214,737
TOTAL REVENUES	42,009	209,885	35,780	2,285	289,959	348,420	258,751	897,130
EXPENDITURES:								
Current:								
Instruction:								
Regular instruction	24,033	0	0	93	24,126	0	0	24,126
Other instruction	0	200,147	0	0	200,147	0	0	200,147
Support services:								
Administration services	10,359	0	0	0	10,359	0	0	10,359
Student transportation	10,784	0	0	0	10,784	0	0	10,784
Other expenditures:								
Facilities acquisitions	0	0	30	0	30	0	162,064	162,094
Long-term debt:								
Principal	0	0	0	0	0	235,000	0	235,000
Interest and fiscal charges	0	0	0	0	0	137,171	0	137,171
TOTAL EXPENDITURES	45,176	200,147	30	93	245,446	372,171	162,064	779,681
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(3,167)	9,738	35,750	2,192	44,513	(23,751)	96,687	117,449
OTHER FINANCING SOURCES (USES):								
Transfers in	0	0	0	0	0	28,081	0	28,081
Transfers out	0	0	0	0	0	0	(28,081)	(28,081)
Sale of bonds	0	0	0	0	0	0	31,424	31,424
Total other financing sources (uses)	0	0	0	0	0	28,081	3,343	31,424
NET CHANGE IN FUND BALANCES	(3,167)	9,738	35,750	2,192	44,513	4,330	100,030	148,873
FUND BALANCE BEGINNING OF YEAR	11,995	96,778	(51,846)	7,832	64,759	29,091	117,723	211,573
FUND BALANCE END OF YEAR	\$ 8,828	106,516	(16,096)	10,024	109,272	33,421	217,753	360,446

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2005

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 213	4,248	4,439	22
Friends of the Arts	1,454	2,962	813	3,603
ED-CO Partners	4,475	2,910	4,003	3,382
Elem. Band Student Purchase	(235)	850	947	(332)
Track	0	3,272	3,272	0
Golf	0	1,725	1,725	0
Boys Basketball	891	3,838	2,828	1,901
Boys Basketball Fundraising	345	966	1,150	161
Football	2,730	4,787	3,921	3,596
Baseball	0	7,558	7,590	(32)
Wrestling	0	2,139	1,943	196
Girls Basketball	733	4,321	3,385	1,669
Volleyball Fundraiser	649	5,288	5,298	639
Volleyball	84	1,959	1,771	272
Softball	49	6,710	6,143	616
Softball Fundraising	116	4,163	3,609	670
Elem. Perrinjaquet Asst.	1,232	32	0	1,264
Perrinjaquet Assistance	4,402	0	97	4,305
Perrinjaquet Income	19	0	0	19
HS Supplies	4,380	0	3,335	1,045
Elem. Activities	15,785	38,800	36,510	18,075
Concessions	3,326	10,919	12,687	1,558
Post Prom	3,238	10,826	11,002	3,062
Envir. First Grant/FFA	2,802	0	796	2,006
BOIC Grant/FFA	27	0	0	27
Cheerleading	775	316	236	855
FFA	(12)	29,031	27,249	1,770
Spanish Club	2,985	1,606	2,968	1,623
FFA CD	2,241	25	1	2,265
HS Student Council	434	1,044	922	556
Class of 2010	0	6,593	3,054	3,539
Class of 2005	2,315	0	2,315	0
Class of 2006	5,896	77	2,805	3,168
Class of 2007	7,137	0	55	7,082
Class of 2008	6,950	0	82	6,868
Class of 2009	3,508	8,908	6,244	6,172
Athletics General	126	1,208	729	605
Athletics Vending	245	59	304	0
JH Student Council	94	34	41	87
Yearbook	16,279	16,355	14,777	17,857
F.B.L.A.	679	12,112	11,959	832
Athletic Supplies	855	4,143	4,962	36
Band Resale	(819)	994	826	(651)
Band Fundraising	375	9,107	3,354	6,128
Total	\$ 96,778	209,885	200,147	106,516

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 1,913,747	1,783,513	1,676,469	1,607,550
Tuition	502,505	478,385	439,058	349,172
Other	308,499	319,185	298,629	266,719
State sources	2,096,722	2,133,576	2,181,788	2,240,314
Federal sources	300,814	222,504	189,388	158,250
Total	<u>\$ 5,122,287</u>	<u>4,937,163</u>	<u>4,785,332</u>	<u>4,622,005</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 1,847,168	1,727,156	1,766,710	1,710,088
Special instruction	615,222	589,104	530,872	505,019
Other instruction	500,319	414,213	429,223	386,080
Support services:				
Student services	142,973	110,208	111,590	109,397
Instructional staff services	93,179	131,528	180,611	166,844
Administration services	525,863	676,436	486,941	429,615
Operation and maintenance of plant services	341,650	433,954	362,641	344,954
Transportation services	241,271	273,619	289,882	257,260
Non-instructional programs	1,000	2,942	210	250
Other expenditures:				
Facilities acquisitions	162,094	2,116,448	280,466	160,067
Long-term debt:				
Principal	235,000	215,000	215,000	211,021
Interest and other charges	137,171	152,210	70,454	86,050
AEA flow-through	161,081	164,446	176,893	178,412
Total	<u>\$ 5,003,991</u>	<u>7,007,264</u>	<u>4,901,493</u>	<u>4,545,057</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

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

To the Board of Education of the
Edgewood-Colesburg 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 Edgewood-Colesburg Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 22, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Edgewood-Colesburg Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Members American Institute & Iowa Society of Certified Public Accountants

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 Edgewood-Colesburg Community School District and other parties to whom Edgewood-Colesburg Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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


NOLTE, CORNMAN & JOHNSON, P.C.

September 22, 2005

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

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

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- I-A-05 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

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

Conclusion - Response accepted.

- I-B-05 Checks Outstanding - We noted during our audit the District had checks included in the Nutrition Fund bank reconciliation which have been outstanding for over one year.

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

Response - We will work on this.

Conclusion - Response accepted.

- I-C-05 Free and Reduced Lunch Applications - We noted during our audit instances of free and reduced lunch applications that were calculated incorrectly. In our test sample we noted applications that were marked as free but should have been marked as reduced.

Recommendation - The District should review procedures in place for filing free and reduced lunch applications to ensure the applications are calculated and marked correctly. The District should contact the Department of Education to correct the necessary reports.

Response - We will monitor applications more closely.

Conclusion - Response accepted.

I-D-05 Supporting Documents for Payments with Credit Cards – The District has a policy in place for credit card usage that states the users of the credit cards need to provide detailed receipts for purchases made as well as the credit card receipt indicating the date, purpose, and nature of the expense for each claim item. Failure to do so makes the expense the responsibility of the employee that created the expense. Furthermore District policy states, in special circumstances the Superintendent or the Board can approve a claim without proper receipt but there needs to be written documentation explaining the circumstances.

We noted during our audit that payments made with the District credit card for meals during the IASEO conference do not always have detailed supporting documentation. For meal expenses, the credit card receipt was submitted but there was no detail on the receipt to indicate whether the expense was solely for the employee of the District or the employee and his/her spouse.

Recommendation - The District has a policy in place for credit card usage as part of the Expense Reimbursement policy. The users of the credit cards need to provide detailed receipts for purchases made. The District should review procedures in place to ensure the proper detailed documentation will be available with paid credit card statements.

Response - We will retain supporting documentation for credit cards.

Conclusion - Response accepted.

EDGEWOOD-COLESBURG COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS
 YEAR ENDED JUNE 30, 2005

Part II: Other Findings Related to Statutory Reporting

II-A-05 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

II-B-05 Certified Budget - Although the District made one amendment to the budget , disbursements for the year ended June 30, 2005 exceeded the amount budgeted in the other expenditures functional area.

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

Response - The District will monitor this in the future.

Conclusion - Response accepted.

II-C-05 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-05 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

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

Name, Title and Business Connection	Transaction Description	Amount
Randy Mescher, Board Member Owner of Edgewood Building Center	Supplies	\$ 1,764
Joan Kerns, Board Member Spouse Co-Owner of Edgewood Locker	Supplies	\$ 6,422

In accordance with the Attorney General's opinion dated November 9, 1976, the above transaction with the spouse of the Board Member does not appear to represent a conflict of interest.

In accordance with Chapter 279.7A of the Code of Iowa, the above transaction with the Board Member does not appear to represent a conflict of interest.

II-F-05 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-05 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-H-05 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-I-05 Deposits and Investments - We noted during our audit an investment by the District with MACC Private Equities Incorporated, which is an instance of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

Recommendation - The District should remove the funds from this account and deposit the funds into an investment that is allowable by Chapter 12B and Chapter 12C of the Code of Iowa.

Response - We will dispose of the stock.

Conclusion - Response accepted.

II-J-05 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-K-05 Financial Condition - The District had a deficit fund balance of \$16,096 in the Physical Plant and Equipment Levy Fund. We also noted Student Activity Accounts had deficit balances at June 30, 2005. The School Nutrition Fund had a deficit unrestricted fund balance of \$4,417.

Recommendation - The District should investigate alternatives to eliminate deficits in order to return these funds to a sound financial condition.

Response - The deficit in the PPEL fund is money borrowed from the General Fund and will be paid back with PPEL tax dollars. We will also monitor the Student Activity Fund to try and eliminate the deficit accounts.

Conclusion - Response accepted.

II-L-05 Notice of Public Hearing for Public Improvement - The District did not conduct a public hearing on the resurfacing of the elementary playground project and the football lighting project as required by Chapter 73A.2 of the Code of Iowa.

Recommendation - Before entering into any contract for public improvements where the net cost is \$25,000 or more, the District is required to hold a public hearing. The District should review Chapter 73A.2 of the Code of Iowa.

Response - We will comply with code section 73A.2 in the future.

Conclusion - Response accepted.