

ESSEX COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

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Essex Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(After September 2004 Election)		
Christy Johnson	President	2004
Larry Young	Vice President	2005
Tim Johnson	Board Member	2006
Dennis Liljedahl	Board Member	2006
Michael Almquist	Board Member	2004

Board of Education

(After September 2004 Election)

Larry Young	President	2005
Dennis Liljedahl	Vice President	2006
Tim Johnson	Board Member	2006
Anne Christine	Board Member	2007
Blake Jensen	Board Member	2007

School Officials

William Crilly	Superintendent	2005
Gloria McComb	District Secretary/ Treasurer	2005
Sue Seitz	District Attorney	2005

NOTLE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Essex 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 Essex Community School District, Essex, 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 Essex Community School District at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

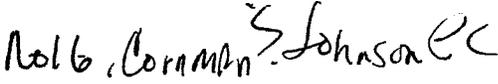
In accordance with Government Auditing Standards, we have also issued our report dated August 23, 2005 on our consideration of Essex Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant 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 through 39 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We

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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 Essex Community School District's basic financial statements. Another auditor 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 an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

August 23, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$2,195,897 in fiscal year 2004 to \$2,094,378 in fiscal year 2005, while General Fund expenditures increased from \$1,837,716 in fiscal 2004 to \$1,996,533 in fiscal 2005. This resulted in an increase in the District's General Fund balance from \$205,673 in fiscal 2004 to \$303,518 in fiscal 2005, a 47.6% increase from prior year.
- The decrease in General Fund revenues was attributable to a decrease in local tax revenues in fiscal 2005. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.
- Overall, the District increased net assets in the governmental activities by \$37,774, and increased in the business-type activities by \$14,369, respectively.

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 Essex 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 Essex 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 Essex 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.

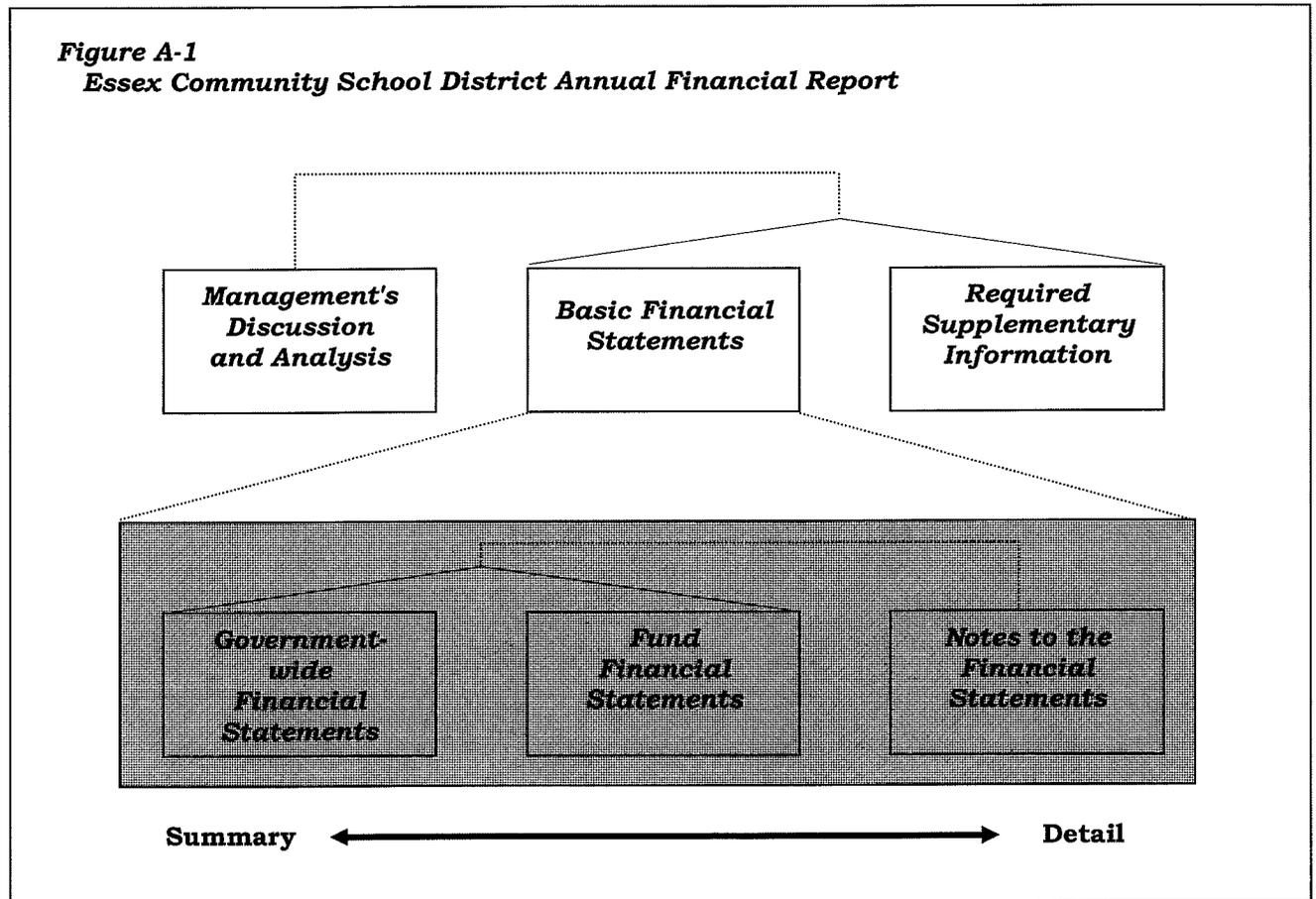


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

- 3) *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 Fund – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other entities and the Empowerment Program, whereby the District acts as the fiscal agent.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-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.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Current and other assets	\$ 2,340,195	2,279,964	\$ 13,687	1,819	\$ 2,353,882	2,281,783	3.16%
Capital assets	1,504,790	1,396,661	12,406	0	1,517,196	1,396,661	8.63%
Total assets	<u>3,844,985</u>	<u>3,676,625</u>	<u>26,093</u>	<u>1,819</u>	<u>3,871,078</u>	<u>3,678,444</u>	<u>5.24%</u>
Long-term obligations	624,041	176,460	0	0	624,041	176,460	253.64%
Other liabilities	1,744,409	2,368,925	11,012	1,107	1,755,421	2,370,032	-25.93%
Total liabilities	<u>2,368,450</u>	<u>2,545,385</u>	<u>11,012</u>	<u>1,107</u>	<u>2,379,462</u>	<u>2,546,492</u>	<u>-6.56%</u>
Net assets:							
Invested in capital assets, net of related debt	1,044,343	651,534	12,406	0	1,056,749	651,534	62.19%
Restricted	60,619	217,519	0	0	60,619	217,519	-72.13%
Unrestricted	371,573	262,187	2,675	712	374,248	262,899	42.35%
Total net assets	<u>\$ 1,476,535</u>	<u>1,131,240</u>	<u>\$ 15,081</u>	<u>712</u>	<u>\$ 1,491,616</u>	<u>1,131,952</u>	<u>31.77%</u>

The District’s combined net assets increased by nearly 32% over the prior year. The largest portion of the District’s net assets is the invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District’s restricted net assets decreased approximately 72% compared to prior year. The decrease was primarily a result of reclassifying the Capital Projects and Debt Service fund balances from prior year to the invested in capital assets line.

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 42% over the prior year.

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

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Revenues:							
Program revenues:							
Charges for services	\$ 275,341	289,149	\$ 82,372	65,545	357,713	354,694	0.85%
Operating grants and contributions and restricted interest	273,050	295,240	41,897	43,349	314,947	338,589	-6.98%
General revenues:							
Property tax	944,915	1,156,444	0	0	944,915	1,156,444	-18.29%
Local option sales and service tax	114,730	0	0	0	114,730	0	0.00%
Unrestricted state grants	860,467	873,727	0	0	860,467	873,727	-1.52%
Other	25,481	12,583	94	23	25,575	12,606	102.88%
Total revenues	2,493,984	2,627,143	124,363	108,917	2,618,347	2,736,060	-4.30%
Program expenses:							
Governmental activities:							
Instructional	1,334,069	1,365,620	0	0	1,334,069	1,365,620	-2.31%
Support services	603,704	569,309	0	0	603,704	569,309	6.04%
Non-instructional programs	0	0	109,994	107,450	109,994	107,450	2.37%
Other expenses	210,263	180,256	0	0	210,263	180,256	16.65%
Total expenses	2,148,036	2,115,185	109,994	107,450	2,258,030	2,222,635	1.59%
Excess(deficiency) of revenues over(under) expenses before other financing uses	345,948	511,958	14,369	1,467	360,317	513,425	-29.82%
Other financing sources(uses), net	(653)	0	0	0	(653)	0	-100.00%
Change in net assets	345,295	511,958	14,369	1,467	359,664	513,425	-29.95%
Net assets beginning of year	1,131,240	619,282	712	(755)	1,131,952	618,527	83.01%
Net assets end of year	\$ 1,476,535	1,131,240	\$ 15,081	712	1,491,616	1,131,952	31.77%

Property tax, local option sales and services tax and unrestricted state grants account for 73.3% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 85.8% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$2,493,984 and expenses were \$2,148,036.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 1,334,069	864,028
Support services	603,704	603,704
Other expenses	210,263	131,913
Totals	\$ 2,148,036	1,599,645

- The cost financed by users of the District’s programs was \$275,341.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$273,050.
- The net cost of governmental activities was financed with \$944,915 in property tax, \$114,730 in local option sales and services tax, \$860,467 in state foundation aid, \$22,307 in interest income and \$3,174 in other revenues.

Business-Type Activities

Revenues of the District’s business-type activities were \$124,363 and expenses were \$109,994. The District’s business-type activities include the School Nutrition Fund and the Resale 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 Essex 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 balances of \$506,696, above last year’s ending fund balances of \$468,922.

Governmental Fund Highlights

- The District’s General Fund financial position changed from \$205,673 to \$303,518. This was due to the controlled spending by the District. The increase in total expenditures was not enough to offset total revenues, despite the decrease of \$101,519 in revenues.
- The District’s Capital Projects Fund decreased \$48,086, to an ending fund balance of \$96,235. This was the result of an increase in expenditure of \$65,589.
- The Special Revenue, Physical Plant and Equipment Levy fund balance decreased \$16,971 from prior year to a final fund balance of \$13,063. This is the result of making the final payment of \$10,492 on the capital loan notes a year early than planned.

Proprietary Funds Highlights

The School Nutrition Fund net assets increased from \$712 at June 30, 2004 to \$15,081 at June 30, 2005. Business-type fixed assets were not reported in the prior year, therefore, \$12,167 of the increase is booking fixed assets, net of accumulated depreciation.

BUDGETARY HIGHLIGHTS

The District's revenues were \$7,156 less than budgeted revenues, a variance of less than 1%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

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

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$1.5 million, 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 \$248,926.

The original cost of the District's capital assets was \$3,124,576. Governmental funds account for \$3,067,928 with the remainder of \$56,648 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the improvements other than buildings category. The District's improvements other than buildings were fully depreciated as of June 30, 2004. The increase of \$35,734 is the addition of assets not previously recognized by the District.

Figure A-6

	Capital Assets, Net of Depreciation							
	Governmental		Business-type		Total		Total	
	Activities		Activities		School District		Change	
	2005	2004	2005	2004	2005	2004	2004-05	
Land	\$ 4,812	1,000	\$ 0	0	\$ 4,812	1,000	79.22%	
Buildings	1,318,173	1,352,075	0	0	1,318,173	1,352,075	-2.57%	
Improvements other than buildings	35,734	0	0	0	35,734	0	100.00%	
Machinery and equipment	146,071	43,586	12,406	0	158,477	43,586	72.50%	
Total	<u>\$ 1,504,790</u>	<u>1,396,661</u>	<u>\$ 12,406</u>	<u>0</u>	<u>\$ 1,517,196</u>	<u>1,396,661</u>	<u>7.94%</u>	

Long-Term Debt

At June 30, 2005, the District had \$625,041 in other long-term debt outstanding. This represents a decrease of 24.1% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had outstanding general obligation bonded indebtedness payable of \$575,000 at June 30, 2005.

The District had total outstanding early retirement payable from the Special Revenue, Management Fund of \$50,041 at June 30, 2005.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2005	2004	
General obligation bonds	\$ 575,000	725,000	-20.7%
Energy capital loan notes	0	20,127	-100.0%
Early retirement	50,041	78,000	-35.8%
Totals	\$ 625,041	823,127	-24.1%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Increases in health insurance premiums, along with salaries and benefits for the employees is always a concern for the District.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- Certified enrollment increased by 8.9 students in the 2004-05 year. The District expects enrollment to stay steady in the future years.

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 William Crilly, Superintendent, Essex Community School District, 111 Forbes Street,, Essex, Iowa, 51638.

BASIC FINANCIAL STATEMENTS

ESSEX COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP (Note 5)	\$ 683,656	0	683,656
Other	624,912	12,267	637,179
Receivables:			
Property tax:			
Delinquent	19,499	0	19,499
Succeeding year	859,848	0	859,848
Income surtax	92,846	0	92,846
Accounts	484	0	484
Accrued interest:			
ISCAP (Note 5)	3,791	0	3,791
Interfund	9,500	0	9,500
Due from other governments	45,659	0	45,659
Inventories	0	1,420	1,420
Capital assets, net of accumulated depreciation (Note 6)	1,504,790	12,406	1,517,196
TOTAL ASSETS	3,844,985	26,093	3,871,078
LIABILITIES			
Accounts payable	11,302	0	11,302
Interfund payable	0	9,500	9,500
Salaries and benefits payable	177,352	353	177,705
Accrued interest payable	2,756	0	2,756
ISCAP warrants payable (Note 5)	681,000	0	681,000
ISCAP interest payable (Note 5)	4,093	0	4,093
ISCAP unamortized premium	7,058	0	7,058
Deferred revenue:			
Succeeding year property tax	859,848	0	859,848
Other	0	1,159	1,159
Long-term liabilities (Note 7):			
Portion due within one year:			
General obligation bonds payable	155,000	0	155,000
Early retirement payable	18,012	0	18,012
Portion due after one year:			
General obligation bonds payable	420,000	0	420,000
Early retirement payable	32,029	0	32,029
TOTAL LIABILITIES	2,368,450	11,012	2,379,462
NET ASSETS			
Investment in capital assets, net of related debt	1,044,343	12,406	1,056,749
Restricted for:			
Salary improvement program	17	0	17
Physical plant and equipment levy	13,063	0	13,063
Other special revenue purposes	47,539	0	47,539
Unrestricted	371,573	2,675	374,248
TOTAL NET ASSETS	\$ 1,476,535	15,081	1,491,616

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
JUNE 30, 2005

	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 967,794	114,871	181,599
Special instruction	138,480	6,215	13,101
Other instruction	227,795	154,255	0
	<u>1,334,069</u>	<u>275,341</u>	<u>194,700</u>
Support services:			
Student services	42,331	0	0
Instructional staff services	80,640	0	0
Administration services	283,544	0	0
Operation and maintenance of plant services	155,719	0	0
Transportation services	41,470	0	0
	<u>603,704</u>	<u>0</u>	<u>0</u>
Other expenditures:			
Facilities acquisitions	23,906	0	0
Long-term debt interest	19,854	0	0
AEA flowthrough	78,350	0	78,350
Depreciation (unallocated)*	88,153	0	0
	<u>210,263</u>	<u>0</u>	<u>78,350</u>
Total governmental activities	2,148,036	275,341	273,050
Business-Type activities:			
Non-instructional programs:			
Nutrition services	99,446	75,048	41,897
Other enterprise	10,548	7,324	0
Total business-type activities	<u>109,994</u>	<u>82,372</u>	<u>41,897</u>
Total	<u>\$ 2,258,030</u>	<u>357,713</u>	<u>314,947</u>

General Revenues:

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

Change in net assets before other financing sources (uses)

Other Financing Sources (Uses):

Transfer in
Transfer out
Total other financing uses

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
(671,324)	0	(671,324)
(119,164)	0	(119,164)
(73,540)	0	(73,540)
(864,028)	0	(864,028)
(42,331)	0	(42,331)
(80,640)	0	(80,640)
(283,544)	0	(283,544)
(155,719)	0	(155,719)
(41,470)	0	(41,470)
(603,704)	0	(603,704)
(23,906)	0	(23,906)
(19,854)	0	(19,854)
0	0	0
(88,153)	0	(88,153)
(131,913)	0	(131,913)
(1,599,645)	0	(1,599,645)
0	17,499	17,499
0	(3,224)	(3,224)
0	14,275	14,275
(1,599,645)	14,275	(1,585,370)
\$ 811,755	0	811,755
18,668	0	18,668
114,492	0	114,492
114,730	0	114,730
3,174	0	3,174
860,467	0	860,467
22,307	94	22,401
1,945,593	94	1,945,687
345,948	14,369	360,317
5,361	0	5,361
(6,014)	0	(6,014)
(653)	0	(653)
345,295	14,369	359,664
1,131,240	712	1,131,952
\$ 1,476,535	15,081	1,491,616

ESSEX COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	Other Nonmajor Governmental Funds	Total
ASSETS			
Cash and pooled investments:			
ISCAP (Note 5)	\$ 683,656	0	683,656
Other	440,978	183,934	624,912
Receivables:			
Property tax			
Delinquent	15,695	3,804	19,499
Succeeding year	684,683	175,165	859,848
Income surtax	92,846	0	92,846
Accounts	484	0	484
Accrued interest:			
ISCAP (Note 5)	3,791	0	3,791
Interfund	10,500	0	10,500
Due from other governments	28,596	17,063	45,659
TOTAL ASSETS	\$ 1,961,229	379,966	2,341,195
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 10,679	623	11,302
Interfund payable	0	1,000	1,000
Salaries and benefits payable	177,352	0	177,352
ISCAP warrants payable (Note 5)	681,000	0	681,000
ISCAP interest payable (Note 5)	4,093	0	4,093
ISCAP unamortized premium	7,058	0	7,058
Deferred revenue:			
Succeeding year property tax	684,683	175,165	859,848
Income surtax	92,846	0	92,846
Total liabilities	1,657,711	176,788	1,834,499
Fund balances:			
Reserved for:			
Salary improvement program	17	0	17
Debt service	0	21,074	21,074
Unreserved:			
General	303,501	0	303,501
Capital projects	0	96,235	96,235
Management levy	0	25,267	25,267
Physical plant and equipment levy	0	13,063	13,063
Other special revenue purposes	0	47,539	47,539
Total fund balances	303,518	203,178	506,696
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,961,229	379,966	2,341,195

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX 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)	\$	506,696
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.		1,504,790
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		92,846
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.		(2,756)
Long-term liabilities, including revenue bonds payable, revenue bans payable, note payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(625,041)
Net assets of governmental activites (page 13)	\$	<u><u>1,476,535</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Other Nonmajor Governmental Funds	Total
REVENUES:			
Local sources:			
Local tax	\$ 782,040	163,109	945,149
Local option sales and service tax	0	114,730	114,730
Tuition	121,086	0	121,086
Other	54,720	121,842	176,562
Intermediate sources	3,174	0	3,174
State sources	1,037,898	159	1,038,057
Federal sources	95,460	0	95,460
Total revenues	<u>2,094,378</u>	<u>399,840</u>	<u>2,494,218</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	1,072,311	21,989	1,094,300
Special instruction	138,480	0	138,480
Other instruction	102,544	109,570	212,114
	<u>1,313,335</u>	<u>131,559</u>	<u>1,444,894</u>
Support services:			
Student services	42,331	0	42,331
Instructional staff services	63,508	0	63,508
Administration services	277,023	7,170	284,193
Operation and maintenance of plant services	148,876	6,929	155,805
Transportation services	73,110	4,376	77,486
	<u>604,848</u>	<u>18,475</u>	<u>623,323</u>
Other expenditures:			
Facilities acquisitions	0	117,703	117,703
Long-term debt:			
Principal	0	170,127	170,127
Interest and fiscal charges	0	21,394	21,394
AEA flowthrough	78,350	0	78,350
	<u>78,350</u>	<u>309,224</u>	<u>387,574</u>
Total expenditures	<u>1,996,533</u>	<u>459,258</u>	<u>2,455,791</u>
Excess (deficiency) of revenues over (under) expenditures	97,845	(59,418)	38,427
Other financing sources (uses):			
Transfer in	0	86,794	86,794
Transfer out	0	(87,447)	(87,447)
Total other financing sources (uses)	<u>0</u>	<u>(653)</u>	<u>(653)</u>
Net change in fund balances	97,845	(60,071)	37,774
Fund balance beginning of year	205,673	263,249	468,922
Fund balance end of year	<u>\$ 303,518</u>	<u>203,178</u>	<u>506,696</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds (page 18)	\$	37,774
 Amounts reported for governmental activities in the statement of activities are different because:		
<p>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:</p>		
Depreciation expense	\$ (242,480)	
Capital outlay expenditures	350,609	108,129
<p>Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.</p>		
		(234)
<p>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.</p>		
Early Retirement		27,959
<p>Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.</p>		
		170,127
<p>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.</p>		
		1,540
Changes in net assets of governmental activities (page 15)	\$	345,295

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

	School Nutrition
ASSETS	
Cash and pooled investments	\$ 12,267
Inventories	1,420
Capital assets, net of accumulated depreciation	12,406
Total assets	26,093
 LIABILITIES	
Interfund payable	9,500
Salaries and benefits payable	353
Deferred Revenue:	
Other	1,159
Total liabilities	11,012
 NET ASSETS	
Invested in capital assets, net of related debt	12,406
Unrestricted	2,675
Total net assets	\$ 15,081

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2005

	School Nutrition	Resale Fund	Total
OPERATING REVENUE:			
Local sources:			
Charges for services	\$ 75,048	7,324	82,372
TOTAL OPERATING REVENUES	<u>75,048</u>	<u>7,324</u>	<u>82,372</u>
OPERATING EXPENSES:			
Non-instructional programs:			
Food service operations:			
Salaries	34,614	0	34,614
Benefits	4,108	0	4,108
Services	3,949	10,548	14,497
Supplies	53,726	0	53,726
Depreciation	1,782	0	1,782
Other	1,267	0	1,267
Total non-instructional	<u>99,446</u>	<u>10,548</u>	<u>109,994</u>
TOTAL OPERATING EXPENSES	<u>99,446</u>	<u>10,548</u>	<u>109,994</u>
OPERATING LOSS	<u>(24,398)</u>	<u>(3,224)</u>	<u>(27,622)</u>
NON-OPERATING REVENUES:			
State sources	1,346	0	1,346
Federal sources	40,551	0	40,551
Interest income	94	0	94
TOTAL NON-OPERATING REVENUES	<u>41,991</u>	<u>0</u>	<u>41,991</u>
Changes in net assets	17,593	(3,224)	14,369
Net assets beginning of year	<u>(2,512)</u>	<u>3,224</u>	<u>712</u>
Net assets end of year	<u>\$ 15,081</u>	<u>0</u>	<u>15,081</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2005

	School Nutrition	Resale Fund	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 62,362	0	62,362
Cash received from miscellaneous operating activities	12,800	7,324	20,124
Cash payments to employees for services	(38,369)	0	(38,369)
Cash payments to suppliers for goods or services	(53,319)	(10,610)	(63,929)
Net cash used in operating activities	<u>(16,526)</u>	<u>(3,286)</u>	<u>(19,812)</u>
Cash flows from non-capital financing activities:			
State grants received	1,346	0	1,346
Federal grants received	37,356	0	37,356
Net cash provided by non-capital financing activities	<u>38,702</u>	<u>0</u>	<u>38,702</u>
Cash flows from capital and related financing activities:			
Purchase of capital assets	(14,188)	0	(14,188)
Net cash used in capital and related financing activities	<u>(14,188)</u>	<u>0</u>	<u>(14,188)</u>
Cash flows from investing activities:			
Interest on investments	94	0	94
Net cash provided by investing activities	<u>94</u>	<u>0</u>	<u>94</u>
Net increase(decrease) in cash and cash equivalents	8,082	(3,286)	4,796
Cash and cash equivalents at beginning of year	4,185	3,286	7,471
Cash and cash equivalents at end of year	<u>\$ 12,267</u>	<u>0</u>	<u>12,267</u>
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	\$ (24,398)	(3,224)	(27,622)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Commodities consumed	3,195	0	3,195
Depreciation	1,782	0	1,782
Decrease in inventories	2,428	0	2,428
Decrease in accounts payable	0	(62)	(62)
Increase in salaries and benefits payable	353	0	353
Increase in deferred revenue	114	0	114
Net cash used in operating activities	<u>\$ (16,526)</u>	<u>(3,286)</u>	<u>(19,812)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and pooled investments	<u>\$ 12,267</u>	<u>0</u>	<u>12,267</u>
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
During the year ended June 30, 2005, the District received Federal commodities valued at \$3,195.			
SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.			

ESSEX COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2005

	Private Purpose Trust	
	Scholarship	Agency
ASSETS		
Cash and pooled investments	\$ 45,000	5,562
TOTAL ASSETS	<u>45,000</u>	<u>5,562</u>
LIABILITIES		
Due to other groups	0	5,562
TOTAL LIABILITIES	<u>0</u>	<u>5,562</u>
NET ASSETS		
Reserved for scholarships	<u>\$ 45,000</u>	<u>0</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2005

	Private Purpose Trust
	Scholarship
Additions:	
Local sources:	
Interest	\$ 0
Total additions	0
Deductions:	
Non-instructional programs	0
Income before other financing uses	0
Other financing uses:	
Transfer out	(5,361)
Change in net assets	(5,361)
Net assets beginning of year	50,361
Net assets end of year	\$ 45,000

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(1) Summary of Significant Accounting Policies

The Essex 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 City of Essex, Iowa, and the predominate agricultural territory in a portion of Page and Montgomery 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, Essex 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 Essex 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 does 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 Page and Montgomery County Assessor's Conference Board.

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental fund:

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

The District's proprietary fund is the School Nutrition Fund and Resale Fund, which are used to account for the District's food service operations and resale operations.

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 operation.

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 the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

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

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

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

Asset Class	Amount
Land	\$ 500
Buildings	1,000
Land improvements	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,500

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

Asset Class	Estimated Useful Life (In Years)
Buildings	50 years
Land improvements	20-50 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, disbursements in the non-instructional functional area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

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

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

The District's investments at June 30, 2005, are as follows:

Type	Amortized Cost
Diversified Portfolio	\$ 472,225

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

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

(3) Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	\$ 60,000
Debt Service	Special Revenue: Physical Plant and Equipment Levy	21,433
Agency Fund	Special Revenue: Expendable Trust	6,014
Special Revenue: Expendable Trust	Nonexpendable Trust	<u>5,361</u>
Total		<u>\$ 92,808</u>

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

(4) Interfund Receivables and Payables

At June 30, 2005 the interfund receivables and payables consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nutrition Fund	\$ 9,500
General Fund	Special Revenue: Physical Plant and Equipment Levy	<u>1,000</u>
Total		<u>\$ 10,500</u>

(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. 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	\$ 69	0	0	0
2004-05B	1/28/05	1/27/05	279,806	3,791	279,000	4,093
2005-06A	6/28/05	6/28/06	403,781	0	402,000	0
Total			<u>\$ 683,656</u>	<u>3,791</u>	<u>681,000</u>	<u>4,093</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. ISCAP advance activity in the General Fund for the year ended June 30, 2005 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2004-05A	\$ 0	100,000	100,000	0
Total	<u>\$ 0</u>	<u>100,000</u>	<u>100,000</u>	<u>0</u>

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
Business-type activities:				
Machinery and equipment	\$ 0	57,252	604	56,648
Less accumulated depreciation	0	44,846	604	44,242
Business-type activities capital assets, net	<u>\$ 0</u>	<u>12,406</u>	<u>0</u>	<u>12,406</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,000	3,812	0	4,812
Total capital assets not being depreciated	1,000	3,812	0	4,812
Capital assets being depreciated:				
Buildings	2,296,390	5,708	0	2,302,098
Land improvements	73,222	84,277	0	157,499
Machinery and equipment	346,707	262,527	5,715	603,519
Total capital assets being depreciated	2,716,319	352,512	5,715	3,063,116
Less accumulated depreciation for:				
Buildings	944,315	39,610	0	983,925
Land improvements	73,222	48,543	0	121,765
Machinery and equipment	303,121	159,051	4,724	457,448
Total accumulated depreciation	1,320,658	247,204	4,724	1,563,138
Total capital assets being depreciated, net	1,395,661	105,308	991	1,499,978
Governmental activities capital assets, net	\$ 1,396,661	109,120	991	1,504,790

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 107,543
Other		15,681
Support services:		
Instructional support		17,653
Operation and maintenance of plant		3,235
Transportation		14,939
		<u>159,051</u>
Unallocated depreciation		<u>88,153</u>
Total governmental activities depreciation expense		<u>\$ 247,204</u>
Business-type activities:		
Food services		<u>\$ 1,782</u>

(7) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 725,000	0	150,000	575,000	155,000
Capital loan notes	20,127	0	20,127	0	0
Early retirement	78,000	0	27,959	50,041	18,012
Total	<u>\$ 823,127</u>	<u>0</u>	<u>198,086</u>	<u>625,041</u>	<u>173,012</u>

General Obligation Bonds Payable

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

Year Ending June 30,	Bond Issue of September, 2002				
	Interest Rates	Principal	Interest	Total	
2006	2.45	% \$ 155,000	16,538	171,538	
2007	2.80	160,000	12,740	172,740	
2008	3.10	160,000	8,260	168,260	
2009	3.30	100,000	3,300	103,300	
Total		\$ 575,000	40,838	615,838	

Capital Loan Notes Payable

The District issued \$38,126 of capital loan notes during the year ended June 30, 2001. The notes and interest were paid from the Special Revenue, Physical Plant and Equipment Levy Fund. During the year, the District paid an extra \$10,347 in principal, in order to the notes off a year early. The District saved \$448 in interest by making the final payment early.

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-nine and must have completed twenty-five years of continuous service to the District. Employees must complete an application, which is subject to be approval by the Board of Education. Early retirement benefits paid during the year ended June 30, 2005, totaled \$27,959. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(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 covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$65,422, \$62,386 and \$65,663 respectively, equal to the required contributions for each year.

(9) Risk Management

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

protection in the following categories: medical, dental, vision and prescription drugs.

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members continuing membership in the Association had their deficit recovery assessment included in their annual premium. The total amount of the deficit recoveries of current members is estimated to \$2.2 million. The District's share of this assessment is going to be 2% of the 2004-05 and 2005-06 premiums. As of June 30, 2005 the District had paid \$4,480 of the assessment. The remainder if the 2% assessment will be paid on a monthly basis along with the 2005-2006 premiums. Since the program is now fully insured, there will be no additional assessments due to claims exceeding premiums charged to members.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2005 were \$223,977.

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

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

(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 \$78,350 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(11) Budget Overexpenditure

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

REQUIRED SUPPLEMENTARY INFORMATION

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

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 1,339,485	82,580
Intermediate sources	3,174	0
State sources	1,039,057	1,346
Federal sources	97,923	40,551
Total receipts	<u>2,479,639</u>	<u>124,477</u>
Disbursements:		
Instruction	1,457,149	0
Support services	627,151	0
Non-instructional programs	0	119,681
Other expenditures	390,291	0
Total disbursements	<u>2,474,591</u>	<u>119,681</u>
Excess(deficiency) of receipts over(under) disbursements	5,048	4,796
Other financing sources, net	<u>(653)</u>	<u>0</u>
Excess(deficiency) of receipts and other financing sources over(under) disbursements and other financing uses	4,395	4,796
Balance beginning of year	<u>630,017</u>	<u>(2,029)</u>
Balance end of year	<u>\$ 634,412</u>	<u>2,767</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
1,422,065	1,409,309	1,409,309	12,756
3,174	0	0	3,174
1,040,403	1,061,963	1,061,963	(21,560)
138,474	140,000	140,000	(1,526)
<u>2,604,116</u>	<u>2,611,272</u>	<u>2,611,272</u>	<u>(7,156)</u>
1,457,149	1,517,842	1,517,842	60,693
627,151	700,699	700,699	73,548
119,681	99,800	105,000	(14,681)
390,291	273,038	400,000	9,709
<u>2,594,272</u>	<u>2,591,379</u>	<u>2,723,541</u>	<u>129,269</u>
9,844	19,893	(112,269)	122,113
(653)	2,000	2,000	(2,653)
9,191	21,893	(110,269)	119,460
627,988	459,376	459,376	168,612
<u>637,179</u>	<u>481,269</u>	<u>349,107</u>	<u>288,072</u>

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

	Governmental Fund Types		
	Cash Basis	Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 2,479,639	14,579	2,494,218
Expenditures	2,474,591	(18,800)	2,455,791
Net	5,048	33,379	38,427
Other financing sources	(653)	0	(653)
Beginning fund balances	630,017	(161,095)	468,922
Ending fund balances	\$ 634,412	(127,716)	506,696

	Proprietary Fund Type		
	Cash Basis	Enterprise	
		Adjust- ments	Accrual Basis
Revenues	\$ 124,477	(114)	124,363
Expenditures	119,681	(9,687)	109,994
Net	4,796	9,573	14,369
Beginning fund balances	(2,029)	2,741	712
Ending fund balances	\$ 2,767	12,314	15,081

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$132,162.

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

OTHER SUPPLEMENTARY INFORMATION

ESSEX COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2005

	Special Revenue Funds				
	Manage- ment	Physical Plant & Equipment Levy	Student Activity	Expendable Trust	Total Special Revenue
ASSETS					
Cash and pooled investments	\$ 24,604	13,650	42,205	5,139	85,598
Receivables:					
Property tax:					
Current year delinquent	663	413	0	0	1,076
Succeeding year	45,000	18,627	0	0	63,627
Accounts	0	0	195	0	195
Due from other governments	0	0	0	0	0
TOTAL ASSETS	\$ 70,267	32,690	42,400	5,139	150,496
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable	\$ 0	0	0	0	0
Interfund payable	0	1,000	0	0	1,000
Deferred revenue:					
Succeeding year property tax	45,000	18,627	0	0	63,627
	45,000	19,627	0	0	64,627
Fund equity:					
Fund balances:					
Reserved:					
Debt service	0	0	0	0	0
Unreserved:					
Undesignated	25,267	13,063	42,400	5,139	85,869
Total fund balances	25,267	13,063	42,400	5,139	85,869
TOTAL LIABILITIES AND FUND EQUITY	\$ 70,267	32,690	42,400	5,139	150,496

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 1

Capital Projects	Debt Service	Total Nonmajor Governmental Funds
79,795	18,541	183,934
0	2,533	3,609
0	111,538	175,165
0	0	195
17,063	0	17,063
<u>96,858</u>	<u>132,612</u>	<u>379,966</u>
623	0	623
0	0	1,000
0	111,538	175,165
623	111,538	176,788
0	21,074	21,074
96,235	0	182,104
96,235	21,074	203,178
<u>96,858</u>	<u>132,612</u>	<u>379,966</u>

ESSEX COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 OTHER NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2005

	Special Revenue Funds				Total Special Revenue Funds
	Manage- ment	Physical Plant and Equipment Levy	Student Activity	Expendable Trust	
REVENUES:					
Local sources:					
Local tax	\$ 29,949	18,668	0	0	48,617
Local option sales and service tax	0	0	0	0	0
Other	333	57	118,317	2,193	120,900
State sources	29	18	0	0	47
TOTAL REVENUES	30,311	18,743	118,317	2,193	169,564
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	21,989	0	0	0	21,989
Other instruction	0	0	107,155	2,415	109,570
Support services:					
Administration services	7,170	0	0	0	7,170
Operation and maintenance of plant services	6,929	0	0	0	6,929
Transportation services	4,376	0	0	0	4,376
Other expenditures:					
Facilities acquisitions	0	14,281	0	0	14,281
Long-term debt:					
Principal	0	0	0	0	0
Interest and fiscal charges	0	0	0	0	0
TOTAL EXPENDITURES	40,464	14,281	107,155	2,415	164,315
Excess(deficiency) of revenues over(under) expenditures	(10,153)	4,462	11,162	(222)	5,249
OTHER FINANCING SOURCES(USES):					
Transfer in	0	0	0	5,361	5,361
Transfer out	0	(21,433)	0	(6,014)	(27,447)
TOTAL OTHER FINANCING SOURCES(USES)	0	(21,433)	0	(653)	(22,086)
Excess(deficiency) of revenues and other financing sources over(under) expenditures and other financing uses	(10,153)	(16,971)	11,162	(875)	(16,837)
FUND BALANCES BEGINNING OF YEAR	35,420	30,034	31,238	6,014	102,706
FUND BALANCES END OF YEAR	\$ 25,267	13,063	42,400	5,139	85,869

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Capital Projects	Debt Service	Total Other Nonmajor Governmental Funds
0	114,492	163,109
114,730	0	114,730
606	336	121,842
0	112	159
<u>115,336</u>	<u>114,940</u>	<u>399,840</u>
0	0	21,989
0	0	109,570
0	0	7,170
0	0	6,929
0	0	4,376
103,422	0	117,703
0	170,127	170,127
0	21,394	21,394
<u>103,422</u>	<u>191,521</u>	<u>459,258</u>
11,914	(76,581)	(59,418)
0	81,433	86,794
(60,000)	0	(87,447)
<u>(60,000)</u>	<u>81,433</u>	<u>(653)</u>
(48,086)	4,852	(60,071)
144,321	16,222	263,249
<u>96,235</u>	<u>21,074</u>	<u>203,178</u>

ESSEX 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
Speech	\$ 1,327	1,270	1,213	1,384
Music	1,245	1,014	1,576	683
Band fundraiser	0	5,178	3,945	1,233
Vocal music	1,667	2,031	2,257	1,441
Athletics	1,433	41,223	35,739	6,917
Junior high uniforms	111	166	0	277
JH VB tourn.	3,094	2,276	3,845	1,525
JH BB tourn.	3,571	2,111	4,101	1,581
Softball field fund	300	526	0	826
Trophy case	500	0	0	500
Football fund	245	5,397	4,373	1,269
HS basketball	325	4,488	4,743	70
Athletics-girls	149	0	0	149
Softball girls	335	480	565	250
Elementary can drive	0	278	58	220
Class of 2004	1,720	0	1,720	0
Class of 2005	3,350	12,185	14,468	1,067
Class of 2006	371	14,362	9,610	5,123
Class of 2007	244	219	53	410
Class of 2008	146	75	59	162
Class of 2009	91	75	39	127
Class of 2010	0	59	21	38
Fine arts club	29	0	0	29
Pep club	940	2,350	1,865	1,425
Spanish club	35	0	0	35
School booster fund	364	71	0	435
E-Stars	464	544	595	413
Safety patrol	104	100	19	185
Annual	3,099	9,384	7,431	5,052
Elementary	1,001	2,080	863	2,218
Media center	1,047	36	0	1,083
Special projects	1,244	4,478	4,194	1,528
National honor society	128	412	529	11
Project class	2,146	2,862	650	4,358
Student council	413	2,587	2,624	376
Total	\$ 31,238	118,317	107,155	42,400

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, EXPENDABLE TRUST ACCOUNTS
YEAR ENDED JUNE 30, 2005

	Saunders Scholarship	Joan Hamilton Scholarship	Danielle Wallin Scholarship	ES&C Scholarship
Additions:				
Interest	\$ 1,025	634	162	372
Deductions:				
Scholarships	1,015	500	0	900
EXCESS(DEFICIENCY) OF ADDITIONS OVER(UNDER) DEDUCTIONS	10	134	162	(528)
Other financing sources(uses):				
Transfer in	1,995	286	1,760	1,320
Transfer out	0	0	0	0
	1,995	286	1,760	1,320
EXCESS(DEFICIENCY) OF ADDITIONS AND OTHER FINANCING SOURCES OVER(UNDER) DEDUCTIONS AND OTHER FINANCING USES	2,005	420	1,922	792
Balance beginning of year	0	0	0	0
Balance end of year	\$ 2,005	420	1,922	792

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Core School Boosters	Summer Recreation	Wellness Program	Nurse	Defibrillator	Total
0	0	0	0	0	2,193
0	0	0	0	0	2,415
0	0	0	0	0	(222)
0	0	0	0	0	5,361
(242)	(3,499)	(363)	(500)	(1,410)	(6,014)
(242)	(3,499)	(363)	(500)	(1,410)	(653)
(242)	(3,499)	(363)	(500)	(1,410)	(875)
242	3,499	363	500	1,410	6,014
0	0	0	0	0	5,139

ESSEX COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 NON-EXPENDABLE TRUST ACCOUNTS
 YEAR ENDED JUNE 30, 2005

	Saunders Scholarship	Joan Hamilton Scholarship	Danielle Wallin Scholarship	ES&C Scholarship	Total
Additions:	0	0	0	0	0
Deductions	0	0	0	0	0
EXCESS OF ADDITIONS OVER DEDUCTIONS	0	0	0	0	0
Other financing uses:					
Transfer out	(1,995)	(286)	(1,760)	(1,320)	(5,361)
DEFICIENCY OF ADDITIONS UNDER DEDUCTIONS AND OTHER FINANCING USES	(1,995)	(286)	(1,760)	(1,320)	(5,361)
Balance beginning of year	21,995	20,286	6,760	1,320	50,361
Balance end of year	\$ 20,000	20,000	5,000	0	45,000

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Beginning Balance	Increases	Decreases	Ending Balance
CORE SCHOOL BOOSTER				
Assets:				
Cash and other investments	\$ 0	242	0	242
Liabilities:				
Due to other groups	\$ 0	242	0	242
SUMMER RECREATION				
Assets:				
Cash and other investments	\$ 0	9,747	6,522	3,225
Liabilities:				
Due to other groups	\$ 0	9,747	6,522	3,225
WELLNESS PROGRAM				
Assets:				
Cash and other investments	\$ 0	363	0	363
Liabilities:				
Due to other groups	\$ 0	363	0	363
NURSE FUND				
Assets:				
Cash and other investments	\$ 0	650	66	584
Liabilities:				
Due to other groups	\$ 0	650	66	584
DEFIBRILLATOR FUND				
Assets:				
Cash and other investments	\$ 0	1,410	315	1,095
Liabilities:				
Due to other groups	\$ 0	1,410	315	1,095
TEACHER'S BOOK FUND				
Assets:				
Cash and other investments	\$ 0	53	0	53
Liabilities:				
Due to other groups	\$ 0	53	0	53
TOTAL				
Assets:				
Cash and other investments	\$ 0	12,465	6,903	5,562
Liabilities:				
Due to other groups	\$ 0	12,465	6,903	5,562

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX 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	\$ 1,059,879	1,162,114	1,015,911	874,017
Tuition	121,086	153,736	122,781	110,479
Other	176,562	143,036	142,142	146,041
Intermediate sources	3,174	0	0	0
State sources	1,038,057	1,060,391	1,093,728	1,031,805
Federal sources	95,460	108,576	96,187	59,664
Total	<u>\$ 2,494,218</u>	<u>2,627,853</u>	<u>2,470,749</u>	<u>2,222,006</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 1,094,300	1,023,146	976,479	1,046,080
Special instruction	138,480	167,814	209,897	246,665
Other instruction	212,114	184,216	169,837	148,819
Support services:				
Student services	42,331	24,112	57,907	39,368
Instructional staff services	63,508	34,772	34,687	28,641
Administration services	284,193	253,979	293,880	268,977
Operation and maintenance of plant services	155,805	139,977	132,215	181,683
Transportation services	77,486	97,851	62,503	78,276
Central support services	0	0	0	19,199
Other expenditures:				
Facilities acquisition	117,703	38,705	65,537	97,581
Long-term debt:				
Principal	170,127	154,251	158,748	125,000
Interest and other charges	21,394	24,215	55,431	54,142
AEA flowthrough	78,350	73,674	79,160	77,542
Total	<u>\$ 2,455,791</u>	<u>2,216,712</u>	<u>2,296,281</u>	<u>2,411,973</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
Essex 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 Essex 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 August 23, 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 Essex Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

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

Compliance and Other Matters

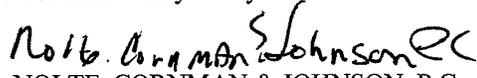
As part of obtaining reasonable assurance about whether Essex Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements non-compliance with which could have a direct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

August 23, 2005

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

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

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

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

Response - With our limited staff we have divided the Child Nutrition receipts, and deposits to one of our secretaries, athletics and activities receipts and deposits are handled by another secretary and the Board Secretary. The general funds are the responsibility of the Board Secretary with review by the Superintendent. With our limited staff this is as segregated as possible.

Conclusion - Response accepted.

I-B-05 Check Signatures - We noted during our audit instances of signatures other than the Board Presidents on District's checks. Per the Code of Iowa, there has to be two signatures on all checks, one being the Board President and the other being the Board Secretary. The Board President can designate a person to sign in their absence. We did not note any designation in the board minutes.

Recommendation - The District should designate a person in the minutes to sign on behalf of the board president in order to assure that all checks are properly signed.

Response - A Board action will be in place to designate a person to sign checks in the future.

Conclusion - Response accepted.

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

Part II: Other Findings Related to Statutory Reporting

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

II-B-05 Certified Budget - District disbursements for the year ended June 30, 2005, exceeded the amount budgeted in the non-instructional 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 - There was an amended budget, however the changing of the Enterprise Fund classification made our amended budget insufficient.

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 - No business transactions between the District and District officials were noted.

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

II-G-05 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - We did have a meeting that the minutes were not published in a timely manner. It had been sent by email promptly, but they were not published. We, now, keep the email response that they have been received by the newspaper as proof that they were sent in a timely manner.

Conclusion - Response accepted.

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

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

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