NORTHEAST COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

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Northeast Community School District

Officials

Name	Title	Term Expires
	Board of Education (Before September 2004 election)	
Charles Corr	President	2004
Mark Neblung	Vice President	2006
Mark Mahmens	Board Member	2004
Bill Costello	Board Member	2005
Mary Smith	Board Member	2006
	Board of Education (After September 2004 election)	
Charles Corr	President	2007
Mark Neblung	Vice President	2006
Bill Costello	Board Member	2005
Mary Smith	Board Member	2006
Mark Mahmens	Board Member	2007
	School Officials	
Jim Cox	Superintendent	2005
Cindy McAleer	District Secretary/Treasurer	2005
Brian Gruhn	Attorney	2005

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Northeast Community School District:

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

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

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

In accordance with Government Auditing Standards, we have also issued our report dated September 15, 2005 on our consideration of the Northeast Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts 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 33 and 35 are not required parts of the basic financial statements, but are supplementary

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

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

Nolte, Cornman & Johnson P.C.

NOLTE, CORNMAN & JOHNSON, P.C.

September 15, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Northeast 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 $5,302,951 in fiscal 2004 to $5,201,282 in fiscal 2005, while General Fund expenditures decreased from $5,326,815 in fiscal 2004 to $5,279,714 in fiscal 2005. This resulted in a decrease in the District's General Fund balance from $1,439,953 in fiscal 2004 to a balance of $1,368,097 in fiscal 2005, a 5% decrease from the prior year.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Northeast 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 Northeast 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 Northeast 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-1
Northeast Community School District Annual Financial Report

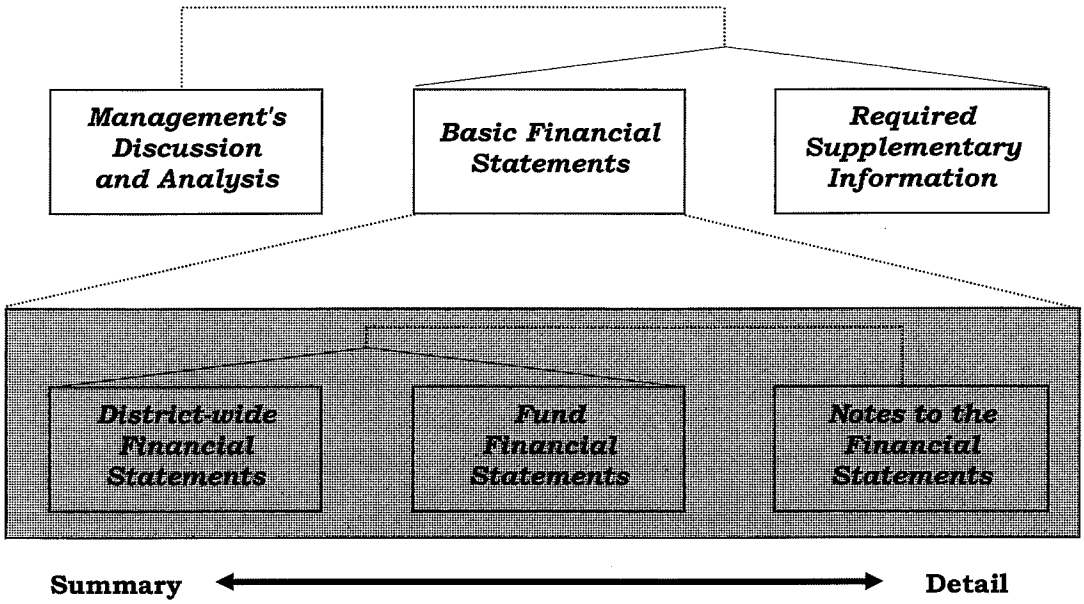

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

	District-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	• Statement of net assets • Statement of activities	• Balance sheet • Statement of revenues, expenditures, and changes in fund balances	• Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Current and other assets	$ 4,266,099	7,143,739	61,569	75,894	4,327,668	7,219,633	-40.06%
Capital Assets	5,815,933	5,920,399	48,788	57,446	5,864,721	5,977,845	-1.89%
Total assets	10,082,032	13,064,138	110,357	133,340	10,192,389	13,197,478	-22.77%
Long-term liabilities	3,460,274	6,375,077	0	0	3,460,274	6,375,077	-45.72%
Other liabilities	2,580,422	2,742,224	14,480	14,103	2,594,902	2,756,327	-5.86%
Total liabilities	6,040,696	9,117,301	14,480	14,103	6,055,176	9,131,404	-33.69%
Net assets:							
Invested in capital assets, net of related debt	2,455,792	2,321,486	48,788	57,446	2,504,580	2,378,932	5.28%
Restricted	56,027	21,456	0	0	56,027	21,456	161.13%
Unrestricted	1,529,517	1,603,895	47,089	61,791	1,576,606	1,665,686	-5.35%
Total net assets	$ 4,041,336	3,946,837	95,877	119,237	4,137,213	4,066,074	1.75%

The District's combined net assets increased by 1.75%, or $71,139, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased $34,571, or 161.13% over the prior year. The increase was primarily a result of increased in the Special Revenue, Management Fund balance.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased $89,080, or 5.35%. This decrease in unrestricted net assets was a result of the District's decrease in the General Fund balance.

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

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Revenues:							
Program revenues:							
Charges for services	$ 791,391	802,138	149,218	153,932	940,609	956,070	-1.62%
Operating grants and contributions and restricted interest	635,829	607,637	82,816	81,817	718,645	689,454	4.23%
General revenues:							
Property tax	2,200,425	2,332,030	0	0	2,200,425	2,332,030	-5.64%
Local option sales and service tax	370,625	366,707	0	0	370,625	366,707	1.07%
Unrestricted state grants	2,278,131	2,161,482	0	0	2,278,131	2,161,482	5.40%
Unrestricted investment earnings	38,928	46,953	766	1,031	39,694	47,984	-17.28%
Other	0	5,710	0	0	0	5,710	-100.00%
Total revenues	6,315,329	6,322,657	232,800	236,780	6,548,129	6,559,437	-0.17%
Program expenses:							
Governmental activities:							
Instructional	3,590,464	3,842,468	0	0	3,590,464	3,842,468	-6.56%
Support services	1,846,523	1,838,812	0	0	1,846,523	1,838,812	0.42%
Non-instructional programs	1,386	774	256,160	242,208	257,546	242,982	5.99%
Other expenses	782,457	884,476	0	0	782,457	884,476	-11.53%
Total expenses	6,220,830	6,566,530	256,160	242,208	6,476,990	6,808,738	-4.87%
Change in net assets	94,499	(243,873)	(23,360)	(5,428)	71,139	(249,301)	128.54%
Beginning net assets	3,946,837	4,190,710	119,237	124,665	4,066,074	4,315,375	-5.78%
Ending net assets	$ 4,041,336	3,946,837	95,877	119,237	4,137,213	4,066,074	1.75%

Property tax, local option sales and services tax and unrestricted state grants account for 74% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 84% of the total expenses.

Governmental Activities

Revenues for governmental activities were $6,315,329 and expenses were $6,220,830.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	$ 3,590,464	2,351,885
Support services	1,846,523	1,843,782
Non-instructional programs	1,386	1,386
Other expenses	782,457	596,557
Totals	$ 6,220,830	4,793,610

- The cost financed by users of the District's programs was $791,391.
- Federal and state governments subsidized certain programs with grants and contributions totaling $635,829.
- The net cost of governmental activities was financed with $2,200,425 in property and other taxes, $370,625 in local option sales and services tax, $2,278,131 in unrestricted state grants, and $38,928 in interest on investments.

Business-Type Activities

Revenues of the District's business-type activities were $232,800 and expenses were $256,160. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of $1,537,761, below last year's ending fund balances of $4,298,556. This decrease is due primarily to the Debt Service Fund eliminating the 1995 G.O. Bond issue which is now completely paid off.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. An increase in revenues was more than offset by an increase in expenditures, resulting in the General Fund balance to decrease.
- The General Fund balance decreased from $1,439,953 to $1,368,097, due in part to the increase in expenditures.
- The Debt Service Fund balance decreased from $2,785,631 at June 30, 2004 to $17,021 at June 30, 2005, representing a decrease of 99% due to the payoff of bonds.

Proprietary Fund Highlights

- School Nutrition Fund net assets decreased from $119,237 at June 30, 2004, to $95,877 at June 30, 2005, representing a decrease of 20%.

BUDGETARY HIGHLIGHTS

The District's receipts were $385,319 more than budgeted receipts, a variance of 6.24%. The District received more in local, state, federal and intermediate sources than originally anticipated.

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

During the year ended June 30, 2005, the District adopted one budget amendment to increase total other expenditures from $985,951 to $3,700,000 to account for final payment of the District's 1995 bond issuance. Although the District adopted this budget amendment, disbursements in the non-instructional programs functional area exceeded the amount budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested $5,864,721, 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 4 to the financial statements. Depreciation expense for the year was $419,487.

The original cost of the District's capital assets was $10,335,943. Governmental funds account for $10,194,441 with the remainder of $141,502 in the Proprietary, School Nutrition Fund.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Land	$ 116,677	116,677	0	0	116,677	116,677	0%
Construction in progress	75,551	678,839	0	0	75,551	678,839	-798.52%
Buildings	4,385,103	4,501,186	0	0	4,385,103	4,501,186	-2.65%
Improvements other than buildings	847,327	171,809	0	0	847,327	171,809	79.72%
Machinery and equipment	391,275	451,798	48,788	57,446	440,063	509,244	-15.72%
Total	$ 5,815,933	5,920,309	48,788	57,446	5,864,721	5,977,755	-1.93%

Long-Term Debt

At June 30, 2005, the District had $3,460,274 in general obligation and other long-term debt outstanding. This represents a decrease of 45.7% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2005	2004	
General obligation bonds	$ 2,800,000	5,700,000	-50.9%
Revenue bonds	610,000	650,000	100.0%
Early retirement	50,274	25,077	100.5%
Totals	$ 3,460,274	6,375,077	-45.7%

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:

- Potential substantial increases in gasoline/diesel fuel will impact the District's efforts to control expenditures.

- Continued declining enrollment could result in additional reduction of staff and/or program reductions.

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 Cindy McAleer, Business Manager, Northeast Community School District, Box 66, 1450 370th Avenue, Goose Lake, Iowa, 52750.

BASIC FINANCIAL STATEMENTS

Exhibit A

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	$ 1,909,510	57,707	1,967,217
Receivables:			
Property tax:			
Delinquent	102,762	0	102,762
Succeeding year	1,984,356	0	1,984,356
Income surtax	161,420	0	161,420
Due from other governments	108,051	0	108,051
Inventories	0	3,862	3,862
Capital assets, net of accumulated depreciation (Note 4)	5,815,933	48,788	5,864,721
TOTAL ASSETS	10,082,032	110,357	10,192,389
LIABILITIES			
Accounts payable	133,542	0	133,542
Salaries and benefits payable	449,020	11,052	460,072
Interest payable	13,504	0	13,504
Deferred revenue:			
Succeeding year property tax	1,984,356	0	1,984,356
Other	0	3,428	3,428
Long-term liabilities (Note 5):			
Portion due within one year:			
General obligation bonds	245,000	0	245,000
Revenue bonds	115,000	0	115,000
Early retirement	33,346	0	33,346
Portion due after one year:			
General obligation bonds	2,555,000	0	2,555,000
Revenue bonds	495,000	0	495,000
Early retirement	16,928	0	16,928
TOTAL LIABILITIES	6,040,696	14,480	6,055,176
NET ASSETS			
Investment in capital assets, net of related debt	2,455,792	48,788	2,504,580
Restricted for:			
Management levy	27,714	0	27,714
Physical plant and equipment levy	1,232	0	1,232
Other special revenue purposes	27,081	0	27,081
Unrestricted	1,529,517	47,089	1,576,606
TOTAL NET ASSETS	$ 4,041,336	95,877	4,137,213

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants, Contributions and Restricted Interest
Governmental activities:			
Instruction:			
Regular instruction	$ 2,322,668	401,529	446,011
Special instruction	615,999	120,917	1,177
Other instruction	651,797	268,945	0
	3,590,464	791,391	447,188
Support services:			
Student services	198,822	0	0
Instructional staff services	147,828	0	0
Adminstration services	677,704	0	0
Operation and maintenance of plant services	463,375	0	0
Transportation services	358,794	0	2,741
	1,846,523	0	2,741
Non-instructional programs	1,386	0	0
Other expenditures:			
Facilities acquisitions	199,472	0	0
Long-term debt interest	209,084	0	0
AEA flowthrough	185,900	0	185,900
Depreciation(unallocated)*	188,001	0	0
	782,457	0	185,900
Total governmental activities	6,220,830	791,391	635,829
Business-Type activities:			
Non-instructional programs:			
Nutrition services	256,160	149,218	82,816
Total business-type activities	256,160	149,218	82,816
Total	$ 6,476,990	940,609	718,645
General Revenues:			
Property tax levied for:			
General purposes			
Debt service			
Capital outlay			
Local option sales and services			
Unrestricted state grants			
Unrestricted investment earnings			
Total general revenues			
Changes in net assets			
Net assets beginning of year			
Net assets end of year			

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

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(1,475,128)	0	(1,475,128)
(493,905)	0	(493,905)
(382,852)	0	(382,852)
(2,351,885)	0	(2,351,885)
(198,822)	0	(198,822)
(147,828)	0	(147,828)
(677,704)	0	(677,704)
(463,375)	0	(463,375)
(356,053)	0	(356,053)
(1,843,782)	0	(1,843,782)
(1,386)		(1,386)
(199,472)	0	(199,472)
(209,084)	0	(209,084)
0	0	0
(188,001)	0	(188,001)
(596,557)	0	(596,557)
(4,793,610)	0	(4,793,610)
0	(24,126)	(24,126)
0	(24,126)	(24,126)
(4,793,610)	(24,126)	(4,817,736)
$ 1,923,935	0	1,923,935
231,691	0	231,691
44,799	0	44,799
370,625	0	370,625
2,278,131	0	2,278,131
38,928	766	39,694
4,888,109	766	4,888,875
94,499	(23,360)	71,139
3,946,837	119,237	4,066,074
$ 4,041,336	95,877	4,137,213

Exhibit C

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

	General	Debt Service	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments:	$ 1,765,580	11,432	132,498	1,909,510
Receivables:				
Property tax:				
Delinquent	38,412	5,589	58,761	102,762
Succeeding year	1,549,694	201,423	233,239	1,984,356
Income surtax	161,420	0	0	161,420
Due from other governments	108,051	0	0	108,051
TOTAL ASSETS	$ 3,623,157	218,444	424,498	4,266,099
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 94,926	0	38,616	133,542
Salaries and benefits payable	449,020	0	0	449,020
Deferred revenue:				
Succeeding year property tax	1,549,694	201,423	233,239	1,984,356
Income surtax	161,420	0	0	161,420
Total liabilities	2,255,060	201,423	271,855	2,728,338
Fund balances:				
Reserved for:				
Debt service	0	17,021	0	17,021
Unreserved:				
Undesignated	1,368,097	0	152,643	1,520,740
Total fund balances	1,368,097	17,021	152,643	1,537,761
TOTAL LIABILITIES AND FUND BALANCES	$ 3,623,157	218,444	424,498	4,266,099

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Exhibit D

NORTHEAST 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)	$	1,537,761
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		5,815,933
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.		(13,504)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		161,420
Long-term liabilities, including bonds payable and early retirement are not due and payable in the current period and, therefore, are not reported in the funds.		(3,460,274)
Net assets of governmental activites (page 13)	$	4,041,336

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

	General	Debt Service	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	$ 1,744,525	231,691	603,976	2,580,192
Tuition	522,446	0	0	522,446
Other	92,022	23,695	263,508	379,225
Intermediate sources	36,975	0	0	36,975
State sources	2,654,562	159	160	2,654,881
Federal sources	150,752	0	0	150,752
Total revenues	5,201,282	255,545	867,644	6,324,471
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	2,251,440	0	58,706	2,310,146
Special instruction	615,999	0	0	615,999
Other instruction	506,007	0	145,790	651,797
	3,373,446	0	204,496	3,577,942
Support services:				
Student services	198,018	0	804	198,822
Instructional staff services	147,426	0	402	147,828
Administration services	601,716	0	5,530	607,246
Operation and maintenance of plant services	423,247	0	41,203	464,450
Transportation services	348,776	0	71,376	420,152
Central services	0	0	0	0
	1,719,183	0	119,315	1,838,498
Non-instructional programs:				
Community service and other enterprise operations	1,185	0	0	1,185
Food service operations	0	0	201	201
	1,185	0	201	1,386
Other expenditures:				
Facilities acquisitions	0	0	284,933	284,933
Long-term debt:				
Principal	0	2,940,000	0	2,940,000
Interest and fiscal charges	0	263,183	0	263,183
AEA flowthrough	185,900	0	0	185,900
	185,900	3,203,183	284,933	3,674,016
Total expenditures	5,279,714	3,203,183	608,945	9,091,842
Excess(deficiency) of revenues over(under) expenditures	(78,432)	(2,947,638)	258,699	(2,767,371)
Other financing sources(uses):				
Transfers in	0	179,028	0	179,028
Transfers out	0	0	(179,028)	(179,028)
Sale of equipment	6,576	0	0	6,576
Total other financing sources(uses)	6,576	179,028	(179,028)	6,576
Net change in fund balances	(71,856)	(2,768,610)	79,671	(2,760,795)
Fund balance beginning of year	1,439,953	2,785,631	72,972	4,298,556
Fund balance end of year	$ 1,368,097	17,021	152,643	1,537,761

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds (page 18)		$ (2,760,795)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:		
Capital outlays	$ 278,047	
Depreciation expense	(410,830)	
Gain on sale of capital assets	28,317	(104,466)
Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liablilities in the Statement of Net Assets.		2,940,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it was due.		54,099
Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		(9,142)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in the governmental funds, as follows:		
Early Retirement		(25,197)
Changes in net assets of governmental activities (page 15)		$ 94,499

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Exhibit G

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

	School Nutrition
ASSETS	
Cash and pooled investments	$ 57,707
Inventories	3,862
Capital assets, net of accumulated depreciation (Note 4)	48,788
Total assets	110,357
LIABILITIES	
Salaries and benefits payable	11,052
Deferred revenue:	
Other	3,428
Total liabilities	14,480
NET ASSETS	
Investment in capital assets	48,788
Unrestricted	47,089
Total net assets	$ 95,877

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Exhibit H

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

	School Nutrition
Operating revenues:	
Local sources:	
Charges for services	$ 149,218
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	91,678
Benefits	23,297
Services	9,477
Supplies	123,050
Depreciation	8,658
Total operating expenses	256,160
Operating loss	(106,942)
Non-operating revenues:	
State sources	3,422
Federal sources	79,394
Interest on investments	766
Total non-operating revenues	83,582
Change in net assets	(23,360)
Net assets beginning of year	119,237
Net assets end of year	$ 95,877

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Exhibit I

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

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	$ 148,942
Cash received from miscellanous operating activities	634
Cash payments to employees for services	(114,956)
Cash payments to suppliers for goods or services	(116,185)
Net cash provided by operating activities	(81,565)
Cash flows from non-capital financing activities:	
State grants received	3,422
Federal grants received	66,433
Net cash provided by non-capital financing activities	69,855
Cash flows from investing activities:	
Interest on investments	766
Net cash provided by investing activities	766
Net decrease in cash and cash equivalents	(10,944)
Cash and cash equivalents at beginning of year	68,651
Cash and cash equivalents at end of year	$ 57,707
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (106,942)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	12,961
Depreciation	8,658
Decrease in inventories	3,381
Increase in salaries and benefits payable	19
Increase in deferred revenue	358
Net cash used in operating activities	$ (81,565)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	$ 57,707

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2005, the District received Federal commodities valued at $12,961.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

The District reports the following nonmajor proprietary fund:

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

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary 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	$ 2,500
Buildings	2,500
Land improvements	2,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,000

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

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

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

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

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

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements in the non-instructional programs functional area exceeded the amount budgeted.

(2) Cash and Pooled Investments

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

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

The District had no investments at June 30, 2005.

(3) Interfund Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	$ 179,028

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

(4) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 116,677	0	0	116,677
Construction in progress	678,839	113,880	717,168	75,551
Total capital assets not being depreciated	795,516	113,880	717,168	192,228
Capital assets being depreciated:				
Buildings	6,551,858	16,177	0	6,568,035
Land improvements	490,493	753,213	87,816	1,155,890
Machinery and equipment	2,261,464	187,586	170,762	2,278,288
Total capital assets being depreciated	9,303,815	956,976	258,578	10,002,213
Less accumulated depreciation for:				
Buildings	2,050,672	132,260	0	2,182,932
Land improvements	318,684	55,741	65,862	308,563
Machinery and equipment	1,809,666	222,828	145,481	1,887,013
Total accumulated depreciation	4,179,022	410,829	211,343	4,378,508
Total capital assets being depreciated, net	5,124,793	546,147	47,235	5,623,705
Governmental activities capital assets, net	$ 5,920,309	660,027	764,403	5,815,933

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	$ 141,502	0	0	141,502
Less accumulated depreciation	84,056	8,658	0	92,714
Business-type activities capital assets, net	$ 57,446	(8,658)	0	48,788

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	$ 51,150
Support services:	
Administration	70,458
Operation and maintenance of plant	14,202
Transportation	87,018
	222,828
Unallocated depreciation	188,001
Total governmental activities depreciation expense	$ 410,829
Business-type activities:	
Food services	$ 8,658
Total business-type activities depreciation expense	$ 8,658

(5) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	$ 5,700,000	0	2,900,000	2,800,000	245,000
Revenue bonds	650,000	0	40,000	610,000	115,000
Early retirement	25,077	44,356	19,159	50,274	33,346
Total	$ 6,375,077	44,356	2,959,159	3,460,274	393,346

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 dated May 1, 2004 Interest Rates	Principal	Interest	Total
2006	2.00 %	$ 245,000	81,022	326,022
2007	2.25	250,000	76,123	326,123
2008	2.50	255,000	70,498	325,498
2009	2.75	265,000	64,123	329,123
2010	3.00	275,000	56,835	331,835
2011	3.00	280,000	48,585	328,585
2012	3.10	290,000	40,185	330,185
2013	3.25	300,000	31,195	331,195
2014	3.30	315,000	21,445	336,445
2015	3.40	325,000	11,050	336,050
Total		$ 2,800,000	501,061	3,301,061

Revenue Bonds Payable

Details of the District's revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond issue dated April 1, 2004 Interest Rates	Principal	Interest	Total
2006	2.25 %	$ 115,000	12,000	127,000
2007	2.25	120,000	9,336	129,336
2008	2.25	125,000	6,564	131,564
2009	2.25	125,000	3,748	128,748
2010	2.25	125,000	936	125,936
Total		$ 610,000	32,584	642,584

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed twenty-five years of service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to $30,000. Early retirement benefits that were paid during the year ended June 30, 2005, totaled $19,159.

(6) Property Lease

During the year ended June 30, 1999, the District entered into a lease for property containing a bus barn. Payments are $200 per month until either the District or the landlord terminate the lease.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the year 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 $177,766, $173,577 and $167,158, respectively, equal to the required contributions for each year.

(8) Risk Management

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

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

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled $185,900 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Budget Overexpenditure

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

REQUIRED SUPPLEMENTARY INFORMATION

NORTHEAST COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (GAAP BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Revenues:		
Local sources	$ 3,481,863	149,984
Intermediate sources	36,975	0
State sources	2,654,881	3,422
Federal sources	150,752	79,394
Total revenues	6,324,471	232,800
Expenditures:		
Instruction	3,577,942	0
Support services	1,838,498	0
Non-instructional programs	1,386	256,160
Other expenditures	3,674,016	0
Total expenditures	9,091,842	256,160
Deficiency of revenues under expenditures	(2,767,371)	(23,360)
Other financing sources, net	6,576	0
Deficiency of revenues and other financing sources under expenditures	(2,760,795)	(23,360)
Balance beginning of year	4,298,556	119,237
Balance end of year	$ 1,537,761	95,877

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts Original	Budgeted Amounts Final	Final to Actual Variance - Positive (Negative)
3,631,847	3,320,625	3,320,625	311,222
36,975	7,000	7,000	29,975
2,658,303	2,646,727	2,646,727	11,576
230,146	197,600	197,600	32,546
6,557,271	6,171,952	6,171,952	385,319
3,577,942	3,769,200	3,769,200	191,258
1,838,498	1,843,400	1,843,400	4,902
257,546	250,200	250,200	(7,346)
3,674,016	985,951	3,700,000	25,984
9,348,002	6,848,751	9,562,800	214,798
(2,790,731)	(676,799)	(3,390,848)	600,117
6,576	3,000	3,000	3,576
(2,784,155)	(673,799)	(3,387,848)	603,693
4,417,793	1,739,409	1,739,409	2,678,384
1,633,638	1,065,610	(1,648,439)	3,282,077

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

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

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

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

During the year ended June 30, 2005, the District adopted one budget amendment to increase total other expenditures from $985,951 to $3,700,000 to account for refunding of the District's 1995 bond issuance. Although the District adopted this budget amendment, disbursements in the non-instructional programs functional area exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

Schedule 1

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

	Special Revenue Funds					Total Other Nonmajor Governmental Funds
	Management	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Projects	
ASSETS						
Cash and pooled investments	$ 73,344	30,543	132	104,019	28,479	132,498
Receivables:						
Property tax:						
Current year delinquent	4,644	0	1,100	5,744	53,017	58,761
Succeeding year	188,000	0	45,239	233,239	0	233,239
TOTAL ASSETS	$ 265,988	30,543	46,471	343,002	81,496	424,498
LIABILITIES AND FUND EQUITY						
Liabilities:						
Accounts payable	$ 0	3,462	0	3,462	35,154	38,616
Deferred revenue:						
Succeeding year property tax	188,000	0	45,239	233,239	0	233,239
Total liabilities	188,000	3,462	45,239	236,701	35,154	271,855
Fund equity:						
Fund balances:						
Unreserved:						
Undesignated	77,988	27,081	1,232	106,301	46,342	152,643
Total fund balances	77,988	27,081	1,232	106,301	46,342	152,643
TOTAL LIABILITIES AND FUND EQUITY	$ 265,988	30,543	46,471	343,002	81,496	424,498

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 2

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

	Special Revenue Funds					Total
	Manage-ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Projects	Other Nonmajor Governmental Funds
REVENUES:						
Local sources:						
Local tax	$ 188,552	0	44,799	233,351	370,625	603,976
Other	3,761	153,128	0	156,889	106,619	263,508
State sources	129	0	31	160	0	160
TOTAL REVENUES	192,442	153,128	44,830	390,400	477,244	867,644
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	58,706	0	0	58,706	0	58,706
Other instruction	0	145,790	0	145,790	0	145,790
Support services:						
Student support services	804	0	0	804	0	804
Instructional staff	402	0	0	402	0	402
Administration services	5,530	0	0	5,530	0	5,530
Operation and maintenance of plant services	41,203	0	0	41,203	0	41,203
Student transportation	26,476	0	44,900	71,376	0	71,376
Non-instructional programs:						
Food service operations	201	0	0	201	0	201
Other expenditures:						
Facilities acquisitions	0	0	0	0	284,933	284,933
TOTAL EXPENDITURES	133,322	145,790	44,900	324,012	284,933	608,945
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	59,120	7,338	(70)	66,388	192,311	258,699
OTHER FINANCING USES:						
Transfers out	0	0	0	0	(179,028)	(179,028)
TOTAL OTHER FINANCING USES	0	0	0	0	(179,028)	(179,028)
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES AND OTHER FINANCING USES	59,120	7,338	(70)	66,388	13,283	79,671
FUND BALANCE BEGINNING OF YEAR	18,868	19,743	1,302	39,913	33,059	72,972
FUND BALANCE END OF YEAR	$ 77,988	27,081	1,232	106,301	46,342	152,643

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Activity General Activities	0	8,370	8,370	0
HS Pop Machine	0	3,530	3,530	0
Post Prom	164	3,327	3,115	376
Concessions	0	19,425	19,425	0
Elem Pop Sales	0	3,329	3,329	0
Drama	2,832	4,173	4,334	2,671
Golf	(4,220)	884	1,645	(4,981)
MS Boys Basketball	0	418	418	0
HS Boys Basketball	2,572	6,043	5,099	3,516
HS Boys BB Tournament	1,569	810	882	1,497
MS Football	0	292	292	0
HS Football	9,201	6,710	2,605	13,306
HS FB Fundraising	0	2,750	2,626	124
Baseball	(8,699)	728	(2,290)	(5,681)
Baseball Fundraising	0	409	477	(68)
MS Boys Track	124	482	285	321
HS Boys Track	(9,016)	958	3,248	(11,306)
Boys Track Fundraising	195	1,565	1,521	239
MS Wrestling	2,669	299	610	2,358
HS Wrestling	3,776	5,588	5,141	4,223
Wrestling Fundraising	0	8,208	8,037	171
Student Leadership	(147)	1,376	1,239	(10)
MS Girls Basketball	0	273	273	0
HS Girls Basketball	9,369	5,709	3,532	11,546
MS Volleyball	76	397	382	91
HS Volleyball	(1,942)	3,278	3,853	(2,517)
HS VB Fundraising	81	565	546	100
MS Girls Softball	0	124	124	0
HS Softball	(6,944)	795	3,682	(9,831)
HS Softball Fundraising	346	5,302	4,502	1,146
MS Girls Track	139	482	525	96
HS Girls Track	(2,481)	5,583	3,102	0
Elem Pop Sales	0	3,660	3,183	477
HS Lounge Pop Sales	0	1,086	118	968
Library Capachino	0	3,340	2,956	384
Activity Cheerleading	0	310	209	101
Dance Team	0	342	344	(2)
FBLA	723	11,541	11,785	479
FTA	1,064	3,106	3,185	985
FFA	7,197	19,588	19,816	6,969
MS Student Council	774	100	400	474
HS Student Council	639	831	1,892	(422)
Class of 2004	350	0	350	0
Class of 2005	623	120	743	0
Class of 2006	2,663	100	1,956	807
Class of 2007	2,682	0	60	2,622
Class of 2008	2,366	0	0	2,366
Class of 2009	998	5,035	4,039	1,994
Class of 2010	0	1,492	0	1,492
Total	$ 19,743	153,128	145,790	27,081

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHEAST 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	$ 2,580,192	2,686,990	2,312,474	2,212,662
Tuition	522,446	549,462	511,819	403,357
Other	379,225	267,975	618,112	473,540
Intermediate sources	36,975	31,654	7,000	14,953
State sources	2,654,881	2,551,781	2,762,566	2,672,357
Federal sources	150,752	217,338	155,085	178,219
Total	$ 6,324,471	6,305,200	6,367,056	5,955,088
Expenditures:				
Current:				
Instruction:				
Regular instruction	$ 2,310,146	2,512,182	2,132,811	2,115,138
Special instruction	615,999	828,275	779,628	740,360
Other instruction	651,797	545,153	620,602	629,872
Support services:				
Student services	198,822	167,693	163,248	162,556
Instructional staff services	147,828	91,353	152,368	137,139
Adminstration services	607,246	565,233	529,277	433,704
Operation and maintenance of plant services	464,450	441,993	448,459	439,436
Transportation services	420,152	410,255	378,924	363,859
Other support services	0	0	20	(348)
Non-instructional programs	1,386	774	21,575	19,672
Other expenditures:				
Facilities acquisitions	284,933	949,633	249,434	119,723
Long-term debt:				
Principal	2,940,000	208,000	165,000	155,000
Interest and other charges	263,183	204,897	191,153	202,468
AEA flow-through	185,900	189,565	203,882	199,431
Total	$ 9,091,842	7,115,006	6,036,381	5,718,010

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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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
Northeast 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 Northeast Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 15, 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 Northeast Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northeast Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not

express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Northeast Community School District and other parties to whom Northeast 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 Northeast 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.

NOLTE, CORNMAN & JOHNSON, P.C.

September 15, 2005

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

Part I: Findings Related to the Basic Financial Statements:

REPORTABLE CONDITIONS:

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

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

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

Conclusion - Response accepted.

I-B-05 Student Activity Fund - We noted during our audit that library books and a refrigerator for the teacher's lounge were purchased from the Activity Fund. These purchases would have been better suited from the General Fund.

Recommendation - The District should review guidelines for allowability of expenditures from each fund.

Response - We will review guidelines.

Conclusion - Response accepted.

NORTHEAST 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 programs functional area.

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

Response - We will amend the budget in the future.

Conclusion - Response accepted.

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

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

II-E-05 Business Transactions - We noted no business transactions between the District and District officials or employees.

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 will submit the minutes within the required time.

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.

II-K-05 Notice of Public Hearing for Public Improvement - The District did not conduct a public hearing on the District's water system hookup to the City of Goose Lake costing $28,871 which is required by Chapter 73A.2 of the Code of Iowa.

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

Response - We will conduct public hearings in the future.

Conclusion - Response accepted.

II-L-05 Activity Fund Accounts - The District had several accounts in the Student Activity Fund with deficit balances at June 30, 2005.

Recommendation - The District should review purchase approval procedures for the Student Activity Fund and may wish to require additional approval before ordering goods or services from these accounts. The District should investigate alternatives to eliminate these deficit balances.

Response - We will continue to implement budget restrictions for these particular activities.

Conclusion - Response accepted.