

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

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Elk Horn-Kimballton Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Donald Christoffersen	President	2004
Tom Cannon	Board Member	2005
Mike Howard	Board Member	2005
Tom Wall	Board Member	2003
Lori Robertson	Board Member	2004
Board of Education (After September 2003 Election)		
Donald Christoffersen	President	2004
Tom Cannon	Board Member	2005
Mike Howard	Board Member (Resigned)	2005
Doug Parker	Board Member (Appointed)	2004
Tom Wall	Board Member	2006
Lori Robertson	Board Member	2004
School Officials		
J. Allan Hjelle	Superintendent	2004
Lois Christensen	District Secretary/ Treasurer	2004
Sue Seitz	Attorney	2004

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
Elk Horn-Kimballton Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Elk Horn-Kimballton Community School District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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 that 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, business-type activities, each major fund, and the aggregate remaining fund information of the Elk Horn-Kimballton Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with U.S. generally accepted accounting principles.

As described in Note 9 to the financial statements, during the year ended June 30, 2004, Elk Horn-Kimballton Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments; Statement No. 37, Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule- Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated September 29, 2004 on our consideration of the Elk Horn-Kimballton Community School District's internal control over financial reporting and our tests of its compliance with certain

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provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 36 through 39 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Elk Horn-Kimballton Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental 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 PC

NOLTE, CORNMAN & JOHNSON, P.C.

September 29, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Elk Horn-Kimballton 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, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$2,213,038 in fiscal 2003 to \$2,260,293 in fiscal 2004, while General Fund expenditures increased from \$2,168,060 in fiscal 2003 to \$2,252,598 in fiscal 2004. This resulted in an increase in the District's General Fund balance from \$592,583 in fiscal 2003 to a balance of \$600,303 in fiscal 2004.
- The increase in General Fund revenues was attributable to a increase federal grant revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits. One reason the General Fund balance increased is because the negotiated salary and benefits settlement was less than the District's General Fund increase in revenue for fiscal 2004.

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 Elk Horn-Kimballton 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 Elk Horn-Kimballton 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 Elk Horn-Kimballton Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

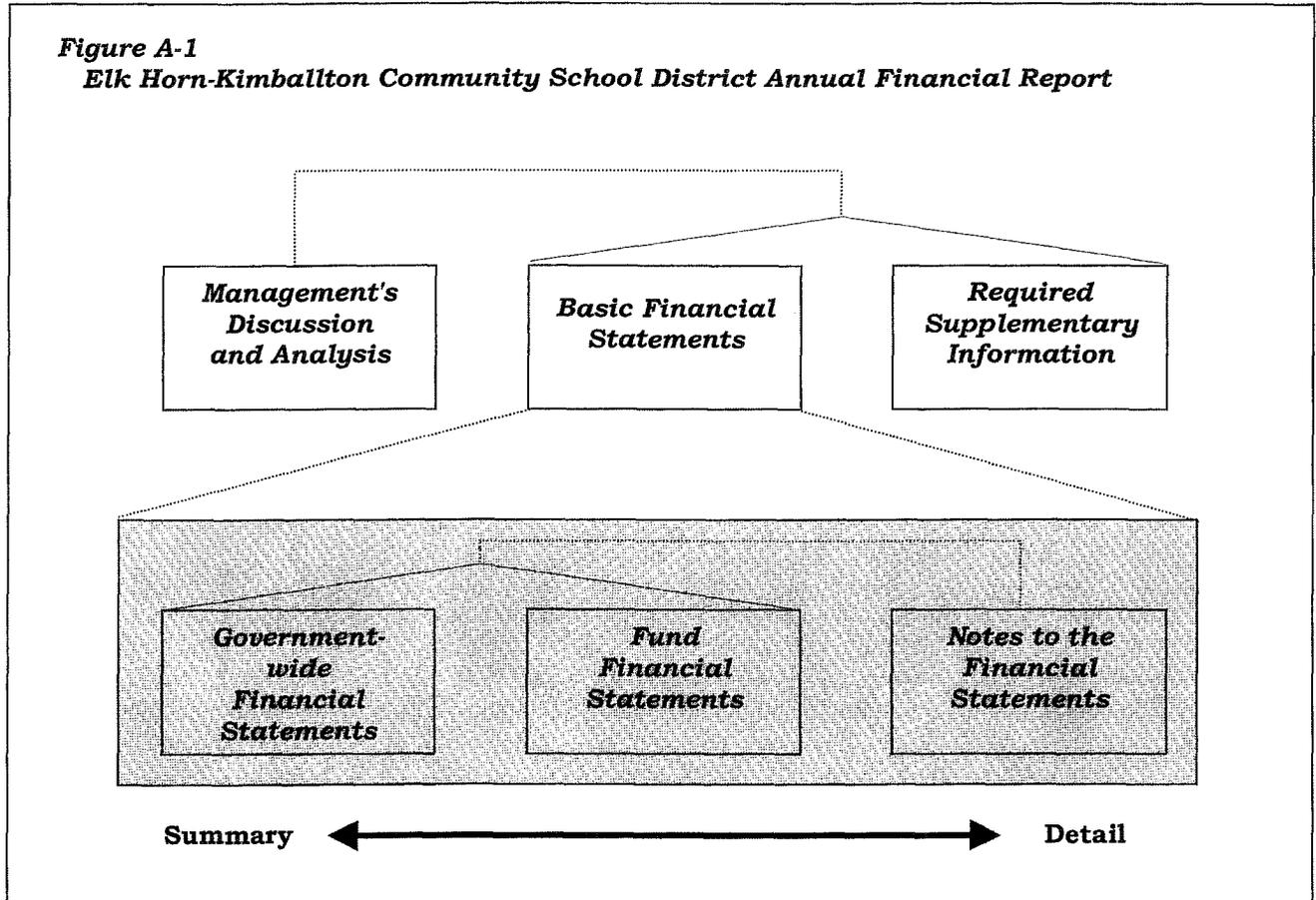


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs 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, and Debt Service Fund.

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

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

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

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

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

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Funds - These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

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 Government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include the statement of fiduciary net assets and the 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, 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Current and other assets	\$ 1,809,372	31,047	1,840,419
Capital assets	4,112,520	17,550	4,130,070
Total assets	<u>5,921,892</u>	<u>48,597</u>	<u>5,970,489</u>
Long-term obligations	1,686,423	0	1,686,423
Other liabilities	860,971	1,116	862,087
Total liabilities	<u>2,547,394</u>	<u>1,116</u>	<u>2,548,510</u>
Net assets:			
Invested in capital assets, net of related debt	2,506,562	17,550	2,524,112
Restricted	220,681	0	220,681
Unrestricted	647,255	29,931	677,186
Total net assets	<u>\$ 3,374,498</u>	<u>47,481</u>	<u>3,421,979</u>

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

Figure A-4
Changes of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Revenues:			
Program revenues:			
Charges for services	\$ 239,702	66,076	305,778
Operating grants and contributions and restricted interest	310,278	48,819	359,097
Capital grants and contributions and restricted interest	23,975	0	23,975
General revenues:			
Local tax	1,048,702	0	1,048,702
Unrestricted state grants	1,067,145	0	1,067,145
Other	17,866	93	17,959
Total revenues	2,707,668	114,988	2,822,656
Program expenses:			
Governmental activities:			
Instructional	1,583,817	0	1,583,817
Support services	816,560	0	816,560
Non-instructional programs	6,156	115,701	121,857
Other expenses	294,209	0	294,209
Total expenses	2,700,742	115,701	2,816,443
Changes in net assets	6,926	(713)	6,213
Net assets beginning of year	3,367,572	48,194	3,415,766
Net assets end of year	\$ 3,374,498	47,481	3,421,979

Property tax and unrestricted state grants account for 75% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 85% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$2,707,668 and expenses were \$2,700,742. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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	\$ 1,583,817	1,119,984
Support services	816,560	816,560
Non-instruction	6,156	6,156
Other expenses	294,209	184,087
Totals	\$ 2,700,742	2,126,787

-
- The cost financed by users of the District's programs was \$239,702.
 - Federal and state governments subsidized certain programs with grants and contributions totaling \$334,253.
 - The net cost of governmental activities was financed with \$1,048,702 in local tax, \$1,067,145 in unrestricted state grants, and \$17,841 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$114,988 and expenses were \$115,701. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Elk Horn-Kimballton 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 \$905,106, above last year's ending fund balances of \$828,683. However, the primary reason for the increase was the controlled spending in the General Fund.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. Increase in federal grant revenue resulted in an increase in revenues. However, the increase in revenues was less than offset by the District's increase in General Fund expenditures ensuring the increase in the financial position of the District.
- The Student Activity and Expendable Trust Fund combined balance increased from \$47,054 in 2003, to \$61,549 in 2004, due to the increase in revenues in the Student Activity Fund.
- The Physical Plant and Equipment Levy (PPEL) fund balance increased from \$47,509 to \$99,825, due to an increase in federal revenue.
- The Management fund balance decreased from \$66,017 to \$58,363, due to an increase in expenditures.
- The Capital Projects and Debt Service combined fund balance increased from \$75,520 in 2003, to \$85,066, due to an increase in revenue in the Capital Projects Fund.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$48,194 at June 30, 2003 to \$47,481 at June 30, 2004, representing a decrease of approximately 1.4%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$35,299 more than budgeted revenues, a variance of 1%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$4.1 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) This amount represents a net decrease of 3.2% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$171,544.

The original cost of the District's capital assets was \$5,783,054. Governmental funds account for \$5,694,448 with the remainder of \$88,606 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$563,059 at June 30, 2004, compared to \$629,290 reported at June 30, 2003. This decrease resulted from the current year depreciation expense.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities	Business-type Activities	Total School District
	2004	2004	2004
Land	\$ 45,000	0	45,000
Buildings	3,485,679	0	3,485,679
Improvements other than buildings	36,332	0	36,332
Machinery and equipment	545,509	17,550	563,059
Total	\$ 4,112,520	17,550	4,130,070

Long-Term Debt

At June 30, 2004, the District had long-term debt outstanding of \$1,686,423 in general obligation bonds, early retirement, and loans. This represents a decrease of approximately 4.7% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding general obligation bonds payable of \$1,675,000 at June 30, 2004.

The District also had total outstanding early retirement payable of \$11,423 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
General obligation bonds	\$ 1,675,000	1,770,000	-5.4%
Early retirement	11,423	0	100.0%
Total	\$ 1,686,423	1,770,000	-4.7%

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:

- Although the District has experienced declining enrollment for a few years, the District expects a slight increase in enrollment.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lois Christensen, District Board Secretary, Elk Horn-Kimballton Community School District, 4114 Madison Street, Elk Horn, Iowa, 51531.

BASIC FINANCIAL STATEMENTS

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 864,303	23,332	887,635
Receivables:			
Property tax:			
Delinquent	19,893	0	19,893
Succeeding year	844,947	0	844,947
Income surtax	59,319	0	59,319
Accounts	5,986	0	5,986
Accrued interest	1,070	0	1,070
Due from other governments	13,854	0	13,854
Inventories	0	7,715	7,715
Capital assets, net of accumulated depreciation(Note 4)	4,112,520	17,550	4,130,070
TOTAL ASSETS	5,921,892	48,597	5,970,489
LIABILITIES			
Interest payable	16,024	0	16,024
Deferred revenue:			
Succeeding year property tax	844,947	0	844,947
Other	0	1,116	1,116
Long-term liabilities(Note 5):			
Portion due within one year:			
General obligation bonds	100,000	0	100,000
Early retirement	3,916	0	3,916
Portion due after one year:			
General obligation bonds	1,575,000	0	1,575,000
Early retirement	7,507	0	7,507
TOTAL LIABILITIES	2,547,394	1,116	2,548,510
NET ASSETS			
Investment in capital assets, net of related debt	2,506,562	17,550	2,524,112
Restricted for:			
Early intervention	6,370	0	6,370
Phase III	5,997	0	5,997
Physical plant & equipment levy	99,825	0	99,825
Management levy	46,940	0	46,940
Other special revenue purposes	61,549	0	61,549
Unrestricted	647,255	29,931	677,186
TOTAL NET ASSETS	\$ 3,374,498	47,481	3,421,979

SEE NOTES TO FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

Functions/Programs	Expenses	Charges for Services	Program Revenues	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	\$ 1,058,300	58,649	224,131	0
Special instruction	200,496	5,971	0	0
Other instruction	325,021	175,082	0	0
	<u>1,583,817</u>	<u>239,702</u>	<u>224,131</u>	<u>0</u>
Support services:				
Student services	56,258	0	0	0
Instructional staff services	51,224	0	0	0
Administration services	323,288	0	0	0
Operation and maintenance of plant services	231,127	0	0	0
Transportation services	133,318	0	0	0
Central services	13,602	0	0	0
Other	7,743	0	0	0
	<u>816,560</u>	<u>0</u>	<u>0</u>	<u>0</u>
Non-instruction services:				
Food service	6,156	0	0	0
Other expenditures:				
Facilities acquisitions	6,670	0	0	23,975
Long-term debt interest	100,941	0	0	0
AEA flowthrough	86,147	0	86,147	0
Depreciation(unallocated)*	100,451	0	0	0
	<u>294,209</u>	<u>0</u>	<u>86,147</u>	<u>23,975</u>
Total governmental activities	2,700,742	239,702	310,278	23,975
Business-Type activities:				
Non-instructional programs:				
Nutrition services	115,701	66,076	48,819	0
Total business-type activities	115,701	66,076	48,819	0
Total	\$ 2,816,443	305,778	359,097	23,975

General Revenues:

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

Changes in net assets

Net assets beginning of year, as restated Note 9

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
(775,520)	0	(775,520)
(194,525)	0	(194,525)
(149,939)	0	(149,939)
(1,119,984)	0	(1,119,984)
(56,258)	0	(56,258)
(51,224)	0	(51,224)
(323,288)	0	(323,288)
(231,127)	0	(231,127)
(133,318)	0	(133,318)
(13,602)	0	(13,602)
(7,743)	0	(7,743)
(816,560)	0	(816,560)
(6,156)	0	(6,156)
17,305	0	17,305
(100,941)	0	(100,941)
0	0	0
(100,451)	0	(100,451)
(184,087)	0	(184,087)
(2,126,787)	0	(2,126,787)
0	(806)	(806)
0	(806)	(806)
(2,126,787)	(806)	(2,127,593)
\$ 811,847	0	811,847
133,142	0	133,142
31,626	0	31,626
72,087	0	72,087
1,067,145	0	1,067,145
17,841	93	17,934
25	0	25
2,133,713	93	2,133,806
6,926	(713)	6,213
3,367,572	48,194	3,415,766
\$ 3,374,498	47,481	3,421,979

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Physical		Total
		Plant & Equipment Levy	Other Governmental Funds	
ASSETS				
Cash and pooled investments	\$ 570,546	99,556	194,201	864,303
Receivables:				
Property tax				
Delinquent	9,112	269	10,512	19,893
Succeeding year	664,896	21,609	158,442	844,947
Income surtax	59,319	0	0	59,319
Accounts	5,746	0	240	5,986
Accrued interest	1,045	0	25	1,070
Due from other governments	13,854	0	0	13,854
TOTAL ASSETS	\$ 1,324,518	121,434	363,420	1,809,372
LIABILITIES AND FUND BALANCES				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	\$ 664,896	21,609	158,442	844,947
Income surtax	59,319	0	0	59,319
Total liabilities	724,215	21,609	158,442	904,266
Fund balances:				
Reserved for:				
Debt service	0	0	20,672	20,672
Early intervention	6,370	0	0	6,370
Phase III	5,997	0	0	5,997
Unreserved:				
Undesignated	587,936	99,825	184,306	872,067
Total fund balances	600,303	99,825	204,978	905,106
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,324,518	121,434	363,420	1,809,372

SEE NOTES TO FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2004

Total fund balances of governmental funds (page 17)	\$	905,106
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.		4,112,520
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(16,024)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		59,319
Long-term liabilities, including bonds payable and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(1,686,423)
Net assets of governmental activites (page 14)	\$	<u>3,374,498</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	General	Physical Plant & Equipment Levy	Other Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 775,551	69,944	158,016	1,003,511
LOSST	0	0	72,087	72,087
Tuition	64,620	0	0	64,620
Other	38,975	588	149,636	189,199
Intermediate sources	3,724	0	0	3,724
State sources	1,258,812	0	0	1,258,812
Federal sources	118,611	23,975	0	142,586
Total revenues	2,260,293	94,507	379,739	2,734,539
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	1,041,208	0	0	1,041,208
Special instruction	200,496	0	0	200,496
Other instruction	184,213	0	132,592	316,805
	1,425,917	0	132,592	1,558,509
Support services:				
Student services	49,912	0	0	49,912
Instructional staff services	51,224	0	0	51,224
Administration services	320,360	0	0	320,360
Operation and maintenance of plant services	200,773	0	33,919	234,692
Transportation services	90,764	0	0	90,764
Central services	13,602	0	0	13,602
Other	7,743	0	0	7,743
	734,378	0	33,919	768,297
Non-instructional:				
Food service	6,156	0	0	6,156
Other expenditures:				
Facilities acquisitions	0	42,191	0	42,191
Long-term debt:				
Principal	0	0	95,000	95,000
Interest and fiscal charges	0	0	101,841	101,841
AEA flowthrough	86,147	0	0	86,147
	86,147	42,191	196,841	325,179
Total expenditures	2,252,598	42,191	363,352	2,658,141
Excess of revenues over expenditures	7,695	52,316	16,387	76,398
Other financing sources (uses):				
Transfers in	0	0	63,000	63,000
Transfers out	0	0	(63,000)	(63,000)
Sale of equipment and materials	25	0	0	25
Total other financing sources (uses)	25	0	0	25
Net change in fund balances	7,720	52,316	16,387	76,423
Fund balance beginning of year	592,583	47,509	188,591	828,683
Fund balance end of year	\$ 600,303	99,825	204,978	905,106

SEE NOTES TO FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON 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, 2004

Net change in fund balances - total governmental funds (page 19) \$ 76,423

*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 are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlays expenditures exceeded depreciation expense in the current year, as follows:

Capital expenditures	\$ 41,736	
Depreciation expense	(168,814)	(127,078)

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. 95,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 900

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund. (11,423)

Early retirement

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. (26,896)

Changes in net assets of governmental activities (page 16) \$ 6,926

SEE NOTES TO FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	<u>School</u> <u>Nutrition</u>
ASSETS	
Cash and cash equivalents	\$ 23,332
Inventories	7,715
Capital assets, net of accumulated depreciation	17,550
TOTAL ASSETS	<u>48,597</u>
LIABILITIES	
Deferred revenues	1,116
TOTAL LIABILITES	<u>1,116</u>
NET ASSETS	
Invested in capital assets, net of related debt	17,550
Unrestricted	29,931
TOTAL NET ASSETS	<u>\$ 47,481</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2004

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Other local sources:	
Sale of lunches and breakfasts:	
Students	\$ 54,182
Adults	3,805
Ala carte	7,112
Miscellaneous	977
TOTAL OPERATING REVENUES	66,076
OPERATING EXPENSES:	
Food service operations:	
Salaries	39,730
Benefits	16,004
Services	3,703
Supplies	53,383
Depreciation	2,730
Other	151
TOTAL OPERATING EXPENSES	115,701
OPERATING LOSS	(49,625)
NON-OPERATING REVENUES (EXPENSES):	
Loss on disposal of assets	(1,353)
Interest	93
State sources	1,800
Federal sources	48,372
TOTAL NON-OPERATING REVENUES	48,912
Net loss	(713)
Retained earnings at beginning of year	48,194
Retained earnings end of year	\$ 47,481

SEE NOTES TO FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 65,233
Cash received from miscellaneous operating activities	977
Cash payments to employees for services	(55,734)
Cash payments to suppliers for goods or services	(42,731)
Net cash used in operating activities	(32,255)
Cash flows from non-capital financing activities:	
State grants received	1,800
Federal grants received	35,998
Net cash provided by non-capital financing activities	37,798
Cash flows from investing activities:	
Interest on investments	93
Net cash provided by investing activities	93
Net increase in cash and cash equivalents	5,636
Cash and cash equivalents at beginning of year	17,696
Cash and cash equivalents at end of year	\$ 23,332
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (49,625)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	12,374
Depreciation	2,730
Decrease in inventories	2,132
Increase in deferred revenue	134
Net cash used in operating activities	\$ (32,255)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 23,332

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2004, the District received Federal commodities valued at \$12,374.

SEE NOTES TO FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2004

	Private Purpose Trust	
	Scholarship	Agency
ASSETS		
Cash and pooled investments	\$ 99,561	45,261
TOTAL ASSETS	\$ 99,561	45,261
 LIABILITIES AND FUND EQUITY		
Liabilities:		
Due to other groups	\$ 0	45,261
Fund equity:		
Fund balances:		
Reserved for scholarships	12,412	0
Unreserved	87,149	0
Total fund equity	99,561	0
TOTAL LIABILITES AND FUND EQUITY	\$ 99,561	0

SEE NOTES TO FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2004

	<u>Total Private- Purpose Trust Scholarship</u>
ADDITIONS:	
Local sources:	
Interest income	\$ 1,376
DEDUCTIONS:	
Instruction:	
Scholarship awarded	2,000
Change in net assets	(624)
Net assets beginning of year	<u>100,185</u>
Net assets end of year	<u>\$ 99,561</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(1) Summary of Significant Accounting Policies

The Elk Horn-Kimballton Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Elk Horn and Kimballton, Iowa, and the predominate agricultural territory in Cass, Audubon and Shelby 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, Elk Horn-Kimballton Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Elk Horn-Kimballton 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 Cass, Audubon and Shelby County Assessors' Conference Board.

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The Special Revenue - Physical Plant and Equipment Levy (PPEL) Fund is used to account for resources used in building improvements and equipment purchases.

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

C. Measurement Focus and Basis of Accounting

The Government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

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

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

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

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

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

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

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, 2004, no disbursements exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2004 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.

No investments were noted for the year ended June 30, 2004.

(3) **Transfers**

The detail of transfers for the year ended June 30, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	\$ 63,000

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, 2004 is as follows:

	<u>Balance</u>			<u>Balance</u>
	<u>Beginning of</u>			<u>End</u>
	<u>Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>of Year</u>
Business-type activities:				
Machinery and equipment	\$ 88,606	0	0	88,606
Less accumulated depreciation	66,973	2,730	(1,353)	71,056
Business-type activities capital assets, net	\$ 21,633	(2,730)	1,353	17,550

	Balance Beginning of Year, as restated (Note 9)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 45,000	0	0	45,000
Total capital assets not being depreciated	45,000	0	0	45,000
Capital assets being depreciated:				
Buildings	4,864,079	35,521	0	4,899,600
Land improvements	49,168	0	0	49,168
Machinery and equipment	694,465	6,215	0	700,680
Total capital assets being depreciated	5,607,712	41,736	0	5,649,448
Less accumulated depreciation for:				
Buildings	1,315,928	97,993	0	1,413,921
Land improvements	10,378	2,458	0	12,836
Machinery and equipment	86,808	68,363	0	155,171
Total accumulated depreciation	1,413,114	168,814	0	1,581,928
Total capital assets being depreciated, net	4,194,598	(127,078)	0	4,067,520
Governmental activities capital assets, net \$	4,239,598	(127,078)	0	4,112,520

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 7,028
Other		8,216
Support services:		
Student services		6,346
Administration services		2,928
Operation and maintenance of plant services		1,291
Transportation		42,554
		68,363
Unallocated depreciation		100,451
Total governmental activities depreciation expense		\$ 168,814
Business-type activities:		
Food services		\$ 2,730

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation	\$ 1,770,000	0	95,000	1,675,000	100,000
Early retirement	0	11,423	0	11,423	3,916
Total	\$ 1,770,000	11,423	95,000	1,686,423	103,916

Early Retirement

The District offers a voluntary early retirement plan to its full-time employees. Eligible employees must be at least age fifty-five and must have completed fifteen years of continuous service to the District. Employees must complete an application

which is subject to approval by the Board of Education. Early retirement incentives paid by the District include the premiums for a single health insurance coverage policy, with a maximum of \$350 per month.

General Obligation

Details of the District's June 30, 2004 General Obligation bonds indebtedness is as follows:

Year Ending June 30,	Interest Rate	Issue dated May 1, 2000		
		Principal	Interest	Total
2005	6.000 %	\$ 100,000	96,141	196,141
2006	6.000	110,000	90,141	200,141
2007	6.000	115,000	83,541	198,541
2008	6.000	120,000	76,641	196,641
2009	6.000	130,000	69,441	199,441
2010	5.625	105,000	61,641	166,641
2011	5.300	75,000	55,735	130,735
2012	5.400	80,000	51,760	131,760
2013	5.500	85,000	47,440	132,440
2014	5.600	90,000	42,765	132,765
2015	5.600	95,000	37,725	132,725
2016	5.600	100,000	32,405	132,405
2017	5.600	110,000	26,805	136,805
2018	5.700	115,000	20,645	135,645
2019	5.700	120,000	14,090	134,090
2020	5.800	125,000	7,250	132,250
Total		\$ 1,675,000	814,166	2,489,166

(6) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$73,338, \$75,559, and \$70,668 respectively, equal to the required contributions for each year.

(7) Risk Management

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

ISEBA provides coverage and protection in the following categories: medical, dental, life and long-term disability.

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

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$133,944.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the District's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

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. ISEBA will pay claims incurred before the termination date.

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

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$86,147 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Accounting Change and Restatements

Governmental Accounting Standards Board Interpretation No.6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement

liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No.38, Certain Financial Statement Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended June 30, 2004. The statement create new basic financial statements for reporting the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements separate the District's programs between governmental and business type activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

Beginning capital assets for governmental activities of \$6,073,253 were restated to \$5,652,712. The restatement primarily removed assets below the District's capitalization threshold.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	General	Physical Plant and Equipment Levy	Other Governmental Funds	Total
Net assets, June 30, 2003, as previously reported \$	592,583	47,509	188,591	828,683
GASB Interpretation 6 adjustments	0	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	\$ 592,583	47,509	188,591	828,683
GASB 34 adjustments:				
Capital assets, net of accumulated depreciation of \$1,413,114				4,239,598
Income surtax				86,215
Long-term liabilities:				
General obligation bonds				(1,770,000)
Accrued interest				(16,924)
Net assets July 1, 2003, as restated				\$ 3,367,572

REQUIRED SUPPLEMENTAL INFORMATION

ELK HORN-KIMBALLTON 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, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 1,325,773	66,303
Intermediate sources	7,800	0
State sources	1,259,488	1,800
Federal sources	145,698	48,372
Total receipts	<u>2,738,759</u>	<u>116,475</u>
Disbursements:		
Instruction	1,555,940	0
Support services	769,299	0
Non-instructional programs	7,800	110,839
Other expenditures	325,179	0
Total disbursements	<u>2,658,218</u>	<u>110,839</u>
Excess(deficiency) of receipts over(under) disbursements	80,541	5,636
Other financing sources, net	25	0
Excess(deficiency) of receipts and other financing sources over(under) disbursements	80,566	5,636
Balance beginning of year	783,737	17,696
Balance end of year	<u>\$ 864,303</u>	<u>23,332</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
1,392,076	1,410,036	1,410,036	(17,960)
7,800	8,500	8,500	(700)
1,261,288	1,310,399	1,310,399	(49,111)
194,070	91,000	91,000	103,070
2,855,234	2,819,935	2,819,935	35,299
1,555,940	1,680,000	1,680,000	124,060
769,299	1,020,000	1,020,000	250,701
118,639	171,000	171,000	52,361
325,179	339,479	339,479	14,300
2,769,057	3,210,479	3,210,479	441,422
86,177	(390,544)	(390,544)	476,721
25	63,000	0	63,025
86,202	(327,544)	(390,544)	539,746
801,433	856,216	856,216	(54,783)
887,635	528,672	465,672	484,963

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE-
 BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types		
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 2,738,759	(4,220)	2,734,539
Expenses	2,658,218	(77)	2,658,141
Net	80,541	(4,143)	76,398
Other financing sources, net	25	0	25
Beginning fund balances	783,737	44,946	828,683
Ending fund balances	\$ 864,303	40,803	905,106

	Proprietary Fund Type		
	Enterprise		
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 116,475	(134)	116,341
Expenses	110,839	6,215	117,054
Net	5,636	(6,349)	(713)
Beginning retained earnings	17,696	30,498	48,194
Ending retained earnings	\$ 23,332	24,149	47,481

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2004

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 functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

OTHER SUPPLEMENTAL INFORMATION

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2004

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Expendable Trust	Total Special Revenue	Capital Projects	Debt Service	
ASSETS							
Cash and pooled investments	\$ 58,042	49,341	11,943	119,326	55,913	18,962	194,201
Receivables:							
Property tax:							
Current year delinquent	321	0	0	321	8,481	1,710	10,512
Succeeding year	25,000	0	0	25,000	0	133,442	158,442
Accounts	0	240	0	240	0	0	240
Accrued interest	0	0	25	25	0	0	25
TOTAL ASSETS	\$ 83,363	49,581	11,968	144,912	64,394	154,114	363,420
LIABILITIES AND FUND EQUITY							
Liabilities:							
Deferred revenue:							
Succeeding year property tax	\$ 25,000	0	0	25,000	0	133,442	158,442
	25,000	0	0	25,000	0	133,442	158,442
Fund equity:							
Fund balances:							
Reserved:							
Debt service	0	0	0	0	0	20,672	20,672
Unreserved:							
Undesignated	58,363	49,581	11,968	119,912	64,394	0	184,306
Total fund balances	58,363	49,581	11,968	119,912	64,394	20,672	204,978
TOTAL LIABILITIES AND FUND EQUITY	\$ 83,363	49,581	11,968	144,912	64,394	154,114	363,420

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2004

	Special Revenue						Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Expendable Trust	Total Special Revenue	Capital Projects	Debt Service	
REVENUES:							
Local sources:							
Local tax	\$ 24,874	0	0	24,874	0	133,142	158,016
IGSST	0	0	0	0	72,087	0	72,087
Other	1,391	145,681	1,406	148,478	456	702	149,636
TOTAL REVENUES	26,265	145,681	1,406	173,352	72,543	133,844	379,739
EXPENDITURES:							
Current:							
Instruction:							
Other instruction	0	130,442	2,150	132,592	0	0	132,592
Support services:							
Operation and maintenance of plant services	33,919	0	0	33,919	0	0	33,919
Other expenditures:							
Long-term debt:							
Principle	0	0	0	0	0	95,000	95,000
Interest and fiscal charges	0	0	0	0	0	101,841	101,841
	0	0	0	0	0	196,841	196,841
TOTAL EXPENDITURES	33,919	130,442	2,150	166,511	0	196,841	363,352
Excess (deficiency) of revenues over (under) expenditures	(7,654)	15,239	(744)	6,841	72,543	(62,997)	16,387
Other financing sources (uses):							
Operating transfers in	0	0	0	0	0	63,000	63,000
Operating transfers out	0	0	0	0	(63,000)	0	(63,000)
Total other financing sources (uses)	0	0	0	0	(63,000)	63,000	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(7,654)	15,239	(744)	6,841	9,543	3	16,387
Fund balance beginning of year	66,017	34,342	12,712	113,071	54,851	20,669	188,591
Fund balance end of year	\$ 58,363	49,581	11,968	119,912	64,394	20,672	204,978

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2004

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Speech/drama	\$ 780	2,786	1,625	1,941
Vocal music	192	739	558	373
Instrumental music	699	200	176	723
Athletics	16,431	21,932	7,312	31,051
Boys/girls golf	0	895	895	0
Boys basketball	162	7,978	8,140	0
Football	0	6,227	6,227	0
Baseball	396	3,497	3,843	50
Boys track	0	1,492	1,302	190
Wrestling	0	725	725	0
Girls basketball	0	8,408	8,408	0
Volleyball	0	2,238	2,238	0
Softball	0	2,397	2,397	0
Girls track	0	762	762	0
Miscellaneous	0	592	592	0
Interest	477	286	763	0
Change	175	1,065	1,090	150
Vocational education resale	0	742	742	0
8th grade	88	247	335	0
Freshman class	0	2,010	1,902	108
Sophomore class	54	20	54	20
Junior class	1,015	8,608	9,190	433
Senior class	0	1,873	1,873	0
Science club	257	131	218	170
Elementary special education	54	698	733	19
Book fair	355	2,347	2,434	268
Board courtesy	39	0	39	0
Projects	1,862	6,819	3,979	4,702
M.S. TAG	157	0	0	157
DC trip account	315	382	0	697
Art club	253	337	337	253
COOP staff development	37	1,050	715	372
Annual	629	6,767	5,848	1,548
Cheerleaders	318	4,645	4,738	225
FFA	2,758	8,846	10,432	1,172
National honor society	454	0	366	88
Student council	2,120	3,099	3,317	1,902
Elementary student council	1,942	563	1,811	694
Leadership	1,903	3,236	3,084	2,055
Elementary resale	0	1,152	1,152	0
Athletic concession	0	10,439	10,439	0
Athletic resale	0	14,606	14,606	0
District football	220	0	0	220
Preschool	200	4,845	5,045	0
Total	\$ 34,342	145,681	130,442	49,581

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 EXPENDABLE TRUST FUND
 YEAR ENDED JUNE 30, 2004

	Larson Scholarship	Science Fair	Total
ASSETS			
Cash and pooled investments	\$ 10,502	1,441	11,943
Receivables:			
Accounts	25	0	25
TOTAL ASSETS	10,527	1,441	11,968
LIABILITIES AND FUND EQUITY			
Liabilities	\$ 0	0	0
Fund equity:			
Fund balances:			
Unreserved, undesignated	10,527	1,441	11,968
TOTAL LIABILITIES AND FUND EQUITY	\$ 10,527	1,441	11,968

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - EXPENDABLE TRUST FUND
 YEAR ENDED JUNE 30, 2004

	Larson Scholarship	Science Fair	Total
REVENUES:			
Local sources:			
Interest on investments	\$ 177	29	206
Donations	0	1,200	1,200
TOTAL REVENUES	177	1,229	1,406
EXPENDITURES;			
Instruction:			
Services	400	1,750	2,150
TOTAL EXPENDITURES	400	1,750	2,150
Deficiency of revenues under expenditures	(223)	(521)	(744)
Fund balance beginning of year	10,750	1,962	12,712
Fund balance end of year	\$ 10,527	1,441	11,968

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY NET ASSETS AND LIABILITIES
 AGENCY FUND
 YEAR ENDED JUNE 30, 2004

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Washington DC Trip				
ASSETS:				
Cash and pooled investments	\$ 26,781	29,264	10,784	45,261
LIABILITIES:				
Due to other groups	\$ 26,781	29,264	10,784	45,261

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ELK HORN-KIMBALLTON 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,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 1,075,598	1,009,188	955,052	942,090
Tuition	64,620	44,888	40,521	42,691
Other	189,199	185,103	322,869	414,792
Intermediate sources	3,724	4,076	8,478	0
State sources	1,258,812	1,346,245	1,333,565	1,292,098
Federal sources	142,586	65,327	60,050	290,784
Total	\$ 2,734,539	2,654,827	2,720,535	2,982,455
Expenditures:				
Instruction:				
Regular instruction	\$ 1,041,208	986,592	1,000,698	937,988
Special instruction	200,496	192,647	163,315	213,176
Other instruction	316,805	316,295	363,376	345,672
Support services:				
Student services	49,912	49,164	50,822	48,976
Instructional staff services	51,224	57,703	46,448	62,748
Administration services	320,360	312,188	305,475	264,527
Operation and maintenance of plant services	234,692	226,987	235,965	216,253
Transportation services	90,764	76,936	132,509	69,617
Central services	13,602	0	0	0
Other	7,743	15,601	15,783	6,805
Non-instructional:				
Food service	6,156	5,893	7,308	6,792
Other expenditures:				
Facilities acquisitions	42,191	108,623	1,073,713	1,672,368
Long Term Debt:				
Principal	95,000	90,000	85,000	105,000
Interest	101,841	107,241	112,342	118,791
AEA flow-through	86,147	93,721	93,478	95,936
Total	\$ 2,658,141	2,639,591	3,686,232	4,164,649

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
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(a professional corporation)
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Telephone (641) 792-1910

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Board of Education of the
Elk Horn-Kimballton Community School District:

We have audited the financial statements of Elk Horn-Kimballton Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated September 29, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Elk Horn-Kimballton 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 grants, 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 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. Prior year statutory comments have all been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Elk Horn-Kimballton 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 assurance 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 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 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-04 is a material weakness. Prior year reportable conditions have all been resolved, except I-A-04 and I-B-04.

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

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


NOLTE, CORNMAN & JOHNSON, P.C.

September 29, 2004

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

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

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

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

Conclusion - Response accepted.

I-B-04 Grants - We noted during our audit, that when expenditures for specific projects were posted; it appeared that the expenses were not always properly posted to those projects.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting for Iowa LEAs and AEAs. The proper coding also allows the district to maintain accountability of the grants by matching the revenues to the expenditures.

Response - We accept the recommendation.

Conclusion - Response accepted.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part II: Other Findings Related to Statutory Reporting

- II-A-04 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, 2004.
- II-B-04 Certified Budget - District disbursements for the year ended June 30, 2004, did not exceed the amount budgeted.
- II-C-04 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-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted.
- II-E-04 Business Transactions - No business transactions between the District and District officials were noted.
- II-F-04 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-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-H-04 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-I-04 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-04 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.