

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

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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 2004 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
Board of Education (After September 2004 Election)		
Tom Cannon	President	2005
Doug Parker	Board Member	2005
Tom Wall	Board Member	2006
Peggy Leader	Board Member	2007
Lori Robertson	Board Member (Resigned)	2007
Jerry Schrader	Board Member (Appointed)	2005
School Officials		
J. Allan Hjelle	Superintendent	2005
Lois Christensen	District Secretary/ Treasurer	2005
Sue Seitz	Attorney	2005

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

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 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, the business-type activities, each major fund, and the aggregate remaining fund information of the Elk Horn-Kimballton 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 October 21, 2005 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 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 13 and 37 through 40 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 supplementary information. 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, 2004 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson PC
NOLTE, CORNMAN & JOHNSON, P.C.

October 21, 2005

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, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$2,260,293 in fiscal 2004 to \$2,225,728 in fiscal 2005, while General Fund expenditures increased from \$2,252,598 in fiscal 2004 to \$2,319,319 in fiscal 2005. This resulted in a decrease in the District's General Fund balance from \$600,303 in fiscal 2004 to a balance of \$506,843 in fiscal 2005.
- The decrease in General Fund revenues was attributable to a decrease in property tax and federal grant revenue in fiscal 2005. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.

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.

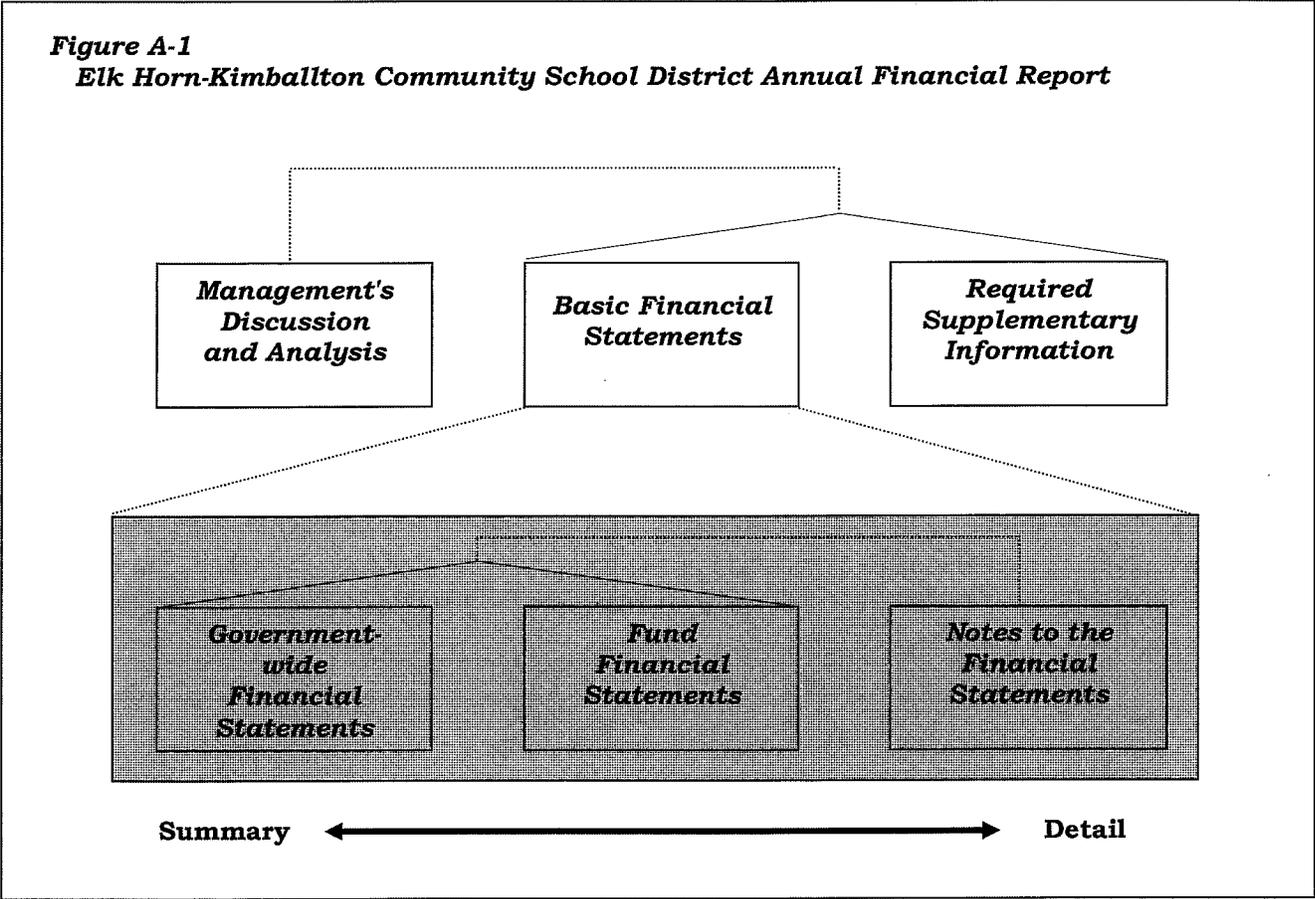


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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, Capital Projects Fund, and Debt Service Fund.

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

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

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

- 3) *Fiduciary 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, 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	\$ 1,748,045	1,809,372	35,046	31,047	1,783,091	1,840,419	-3.11%
Capital assets	3,805,313	3,837,912	16,338	17,550	3,821,651	3,855,462	-0.88%
Total assets	5,553,358	5,647,284	51,384	48,597	5,604,742	5,695,881	-1.60%
Long-term obligations	1,583,400	1,686,423	0	0	1,583,400	1,686,423	-6.11%
Other liabilities	842,789	860,971	1,187	1,116	843,976	862,087	-2.10%
Total liabilities	2,426,189	2,547,394	1,187	1,116	2,427,376	2,548,510	-4.75%
Net assets:							
Invested in capital assets, net of related debt	2,361,137	2,231,954	16,338	17,550	2,377,475	2,249,504	5.69%
Restricted	200,343	220,681	0	0	200,343	220,681	-9.22%
Unrestricted	565,689	647,255	33,859	29,931	599,548	677,186	-11.46%
Total net assets	\$ 3,127,169	3,099,890	50,197	47,481	3,177,366	3,147,371	0.95%

The District's combined net assets increased by .95%, or \$29,995, 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 decreased \$20,338, or 9.22% over the prior year. The decrease was primarily a result of decrease in restricted grants and restricted fund balances.

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 \$77,638, or 11.46%. 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	\$ 228,369	239,702	69,442	66,076	297,811	305,778	-2.61%
Operating grants and contributions and restricted interest	287,374	310,278	52,366	48,819	339,740	359,097	-5.39%
Capital grants and contributions and restricted interest	0	23,975	0	0	0	23,975	-100.00%
General revenues:							
Property tax	980,219	976,615	0	0	980,219	976,615	0.37%
Local option sales and services tax	122,129	72,087	0	0	122,129	72,087	69.42%
Unrestricted state grants	1,102,859	1,067,145	0	0	1,102,859	1,067,145	3.35%
Other	15,004	17,866	112	93	15,116	17,959	-15.83%
Total revenues	2,735,954	2,707,668	121,920	114,988	2,857,874	2,822,656	1.25%
Program expenses:							
Governmental activities:							
Instructional	1,530,738	1,583,817	0	0	1,530,738	1,583,817	-3.35%
Support services	886,897	816,560	0	0	886,897	816,560	8.61%
Non-instructional programs	6,702	6,156	119,204	115,701	125,906	121,857	3.32%
Other expenses	284,338	294,209	0	0	284,338	294,209	-3.36%
Total expenses	2,708,675	2,700,742	119,204	115,701	2,827,879	2,816,443	0.41%
Net income(loss) before restatement	27,279	6,926	2,716	(713)	29,995	6,213	382.78%
Capital assets restatement(Note 9)	(274,608)	0	0	0	(274,608)	0	100.00%
Changes in net assets	(247,329)	6,926	2,716	(713)	(244,613)	6,213	-4037.12%
Net assets beginning of year	3,374,498	3,367,572	47,481	48,194	3,421,979	3,415,766	0.18%
Net assets end of year	<u>\$ 3,127,169</u>	<u>3,374,498</u>	<u>50,197</u>	<u>47,481</u>	<u>3,177,366</u>	<u>3,421,979</u>	<u>-7.15%</u>

Property tax, local option sales and services tax and unrestricted state grants account for 77% 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 \$2,735,974 and expenses were \$2,708,675.

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	\$ 1,530,738	1,099,399
Support services	886,897	886,897
Non-instruction	6,702	6,702
Other expenses	284,338	199,934
Totals	\$ 2,708,675	2,192,932

- The cost financed by users of the District's programs was \$228,369.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$287,374.
- The net cost of governmental activities was financed with \$980,219 in property tax, \$122,129 in local option sales and services tax, \$1,102,859 in unrestricted state grants and \$15,004 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$121,920 and expenses were \$119,204. 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 \$831,301, below last year's ending fund balances of \$905,106. However, the primary reason for the decrease was the increase in support service expenditures in the General Fund.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors. Decrease in property tax and federal grant revenue resulted in a decrease in revenues. The District's increase in General Fund expenditures ensured the decrease in the financial position of the District.
- The Capital Projects fund balance increased from \$64,394 in 2004, to \$122,415, due to an increase in local option sales and services tax revenue.
- The Management fund balance decreased from \$58,363 to \$44,314, due to an increase in expenditures.
- The Student Activity and Expendable Trust Fund combined balance decreased from \$61,549 in 2004, to \$58,935 in 2005, due to the increased activity in the Student Activity Fund.
- The Physical Plant and Equipment Levy (PPEL) fund balance decreased from \$99,825 to \$75,361, due to an increase in expenditures.

- The Debt Service fund balance increased from \$20,672 in 2004, to \$23,433, due to anticipated payments of debt principal and interest.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$47,481 at June 30, 2004 to \$50,197 at June 30, 2005, representing an increase of 5.72%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$32,750 less than budgeted revenues, a variance of 1.16%. The most significant variance resulted from the District receiving less in state 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.

In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures functional area due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$3.8 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 .88% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$125,628.

The original cost of the District's capital assets was \$5,986,698. Governmental funds account for \$5,896,436 with the remainder of \$90,262 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the building category. The District's buildings totaled \$3,649,568 at June 30, 2005, compared to \$3,732,906 reported at June 30, 2004. 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		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Land	\$ 75,000	75,000	0	0	75,000	75,000	0.00%
Buildings	3,649,568	3,732,906	0	0	3,649,568	3,732,906	-2.28%
Land improvements	15,969	15,331	0	0	15,969	15,331	4.00%
Machinery and equipment	64,776	14,675	16,338	17,550	81,114	32,225	60.27%
Total	\$ 3,805,313	3,837,912	16,338	17,550	3,821,651	3,855,462	-0.88%

Long-Term Debt

At June 30, 2005, the District had long-term debt outstanding of \$1,583,400 in general obligation and other liabilities. This represents a decrease of 6.1% 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 \$1,575,000 at June 30, 2005.

The District also had total outstanding early retirement payable of \$8,400 to be paid out of the Special Revenue, Management Levy Fund at June 30, 2005.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2005	2004	
General obligation bonds	\$ 1,575,000	1,675,000	-6.0%
Early retirement	8,400	11,423	-26.5%
Total	<u>\$ 1,583,400</u>	<u>1,686,423</u>	<u>-6.1%</u>

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 Lori Robertson, Board Secretary/Treasurer, 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, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 749,231	29,640	778,871
Receivables:			
Property tax:			
Delinquent	17,388	0	17,388
Succeeding year	827,765	0	827,765
Income surtax	88,979	0	88,979
Accounts	10,882	0	10,882
Accrued interest	3,269	0	3,269
Due from other governments	50,531	0	50,531
Inventories	0	5,406	5,406
Capital assets, net of accumulated depreciation(Note 4)	3,805,313	16,338	3,821,651
TOTAL ASSETS	5,553,358	51,384	5,604,742
LIABILITIES			
Interest payable	15,024	0	15,024
Deferred revenue:			
Succeeding year property tax	827,765	0	827,765
Other	0	1,187	1,187
Long-term liabilities(Note 5):			
Portion due within one year:			
General obligation bonds	110,000	0	110,000
Early retirement	4,200	0	4,200
Portion due after one year:			
General obligation bonds	1,465,000	0	1,465,000
Early retirement	4,200	0	4,200
TOTAL LIABILITIES	2,426,189	1,187	2,427,376
NET ASSETS			
Investment in capital assets, net of related debt	2,361,137	16,338	2,377,475
Restricted for:			
Salary improvement program	473	0	473
Management levy	35,914	0	35,914
Physical plant and equipment levy	105,021	0	105,021
Other special revenue purposes	58,935	0	58,935
Unrestricted	565,689	33,859	599,548
TOTAL NET ASSETS	\$ 3,127,169	50,197	3,177,366

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Governmental activities:			
Instruction:			
Regular instruction	\$ 893,010	71,362	188,790
Special instruction	224,310	0	14,180
Other instruction	413,418	157,007	0
	<u>1,530,738</u>	<u>228,369</u>	<u>202,970</u>
Support services:			
Student services	48,006	0	0
Instructional staff services	128,037	0	0
Administration services	345,495	0	0
Operation and maintenance of plant services	243,046	0	0
Transportation services	115,386	0	0
Other support services	6,927	0	0
	<u>886,897</u>	<u>0</u>	<u>0</u>
Non-instructional programs:			
Food service operations	6,702	0	0
Other expenditures:			
Facilities acquisitions	5,433	0	0
Long-term debt interest	95,141	0	0
AEA flowthrough	84,404	0	84,404
Depreciation(unallocated)*	99,360	0	0
	<u>284,338</u>	<u>0</u>	<u>84,404</u>
Total governmental activities	2,708,675	228,369	287,374
Business-Type activities:			
Non-instructional programs:			
Nutrition services	119,204	69,442	52,366
Total business-type activities	<u>119,204</u>	<u>69,442</u>	<u>52,366</u>
Total	<u>\$ 2,827,879</u>	<u>297,811</u>	<u>339,740</u>

General Revenues:

Property tax levied for:
 General purposes
 Debt services
 Capital outlay
Local option sales and service tax
Unrestricted state grants
Unrestricted investment earnings
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 BASIC FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(632,858)	0	(632,858)
(210,130)	0	(210,130)
(256,411)	0	(256,411)
<u>(1,099,399)</u>	<u>0</u>	<u>(1,099,399)</u>
(48,006)	0	(48,006)
(128,037)	0	(128,037)
(345,495)	0	(345,495)
(243,046)	0	(243,046)
(115,386)	0	(115,386)
(6,927)	0	(6,927)
<u>(886,897)</u>	<u>0</u>	<u>(886,897)</u>
(6,702)	0	(6,702)
(5,433)	0	(5,433)
(95,141)	0	(95,141)
0	0	0
(99,360)	0	(99,360)
<u>(199,934)</u>	<u>0</u>	<u>(199,934)</u>
(2,192,932)	0	(2,192,932)
0	2,604	2,604
0	2,604	2,604
<u>(2,192,932)</u>	<u>2,604</u>	<u>(2,190,328)</u>
\$ 757,027	0	757,027
133,729	0	133,729
89,463	0	89,463
122,129	0	122,129
1,102,859	0	1,102,859
15,004	112	15,116
<u>2,220,211</u>	<u>112</u>	<u>2,220,323</u>
27,279	2,716	29,995
<u>3,099,890</u>	<u>47,481</u>	<u>3,147,371</u>
<u>\$ 3,127,169</u>	<u>50,197</u>	<u>3,177,366</u>

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments	\$ 464,037	86,891	198,303	749,231
Receivables:				
Property tax				
Delinquent	13,648	0	3,740	17,388
Succeeding year	620,686	0	207,079	827,765
Income surtax	59,319	0	29,660	88,979
Accounts	10,882	0	0	10,882
Accrued interest	3,269	0	0	3,269
Due from other governments	15,007	35,524	0	50,531
TOTAL ASSETS	\$ 1,186,848	122,415	438,782	1,748,045
LIABILITIES AND FUND BALANCES				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	\$ 620,686	0	207,079	827,765
Income surtax	59,319	0	29,660	88,979
Total liabilities	680,005	0	236,739	916,744
Fund balances:				
Reserved for:				
Debt service	0	0	23,433	23,433
Salary improvement program	473	0	0	473
Unreserved:				
Undesignated	506,370	122,415	178,610	807,395
Total fund balances	506,843	122,415	202,043	831,301
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,186,848	122,415	438,782	1,748,045

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON 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 17)	\$	831,301
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		3,805,313
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.		(15,024)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		88,979
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.		<u>(1,583,400)</u>
Net assets of governmental activities (page 14)	\$	<u>3,127,169</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 731,871	122,129	218,688	1,072,688
Tuition	71,362	0	0	71,362
Other	32,262	467	139,282	172,011
Intermediate sources	3,654	0	0	3,654
State sources	1,293,271	0	0	1,293,271
Federal sources	93,308	0	0	93,308
Total revenues	<u>2,225,728</u>	<u>122,596</u>	<u>357,970</u>	<u>2,706,294</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	891,623	0	4,410	896,033
Special instruction	224,310	0	0	224,310
Other instruction	273,991	0	139,427	413,418
	<u>1,389,924</u>	<u>0</u>	<u>143,837</u>	<u>1,533,761</u>
Support services:				
Student services	48,006	0	0	48,006
Instructional staff services	128,037	0	0	128,037
Administration services	345,495	0	0	345,495
Operation and maintenance of plant services	202,081	0	40,965	243,046
Transportation services	107,743	0	57,875	165,618
Other support services	6,927	0	0	6,927
	<u>838,289</u>	<u>0</u>	<u>98,840</u>	<u>937,129</u>
Non-instructional programs:				
Food service operations	6,702	0	0	6,702
Other expenditures:				
Facilities acquisitions	0	0	22,093	22,093
Long-term debt:				
Principal	0	0	100,000	100,000
Interest and fiscal charges	0	0	96,141	96,141
AEA flowthrough	84,404	0	0	84,404
	<u>84,404</u>	<u>0</u>	<u>218,234</u>	<u>302,638</u>
Total expenditures	<u>2,319,319</u>	<u>0</u>	<u>460,911</u>	<u>2,780,230</u>
Excess(deficiency) of revenues over(under) expenditures	(93,591)	122,596	(102,941)	(73,936)
Other financing sources(uses):				
Transfers in	0	0	64,575	64,575
Transfers out	0	(64,575)	0	(64,575)
Sale of equipment	131	0	0	131
Total other financing sources(uses)	<u>131</u>	<u>(64,575)</u>	<u>64,575</u>	<u>131</u>
Net change in fund balances	(93,460)	58,021	(38,366)	(73,805)
Fund balance beginning of year	<u>600,303</u>	<u>64,394</u>	<u>240,409</u>	<u>905,106</u>
Fund balance end of year	<u>\$ 506,843</u>	<u>122,415</u>	<u>202,043</u>	<u>831,301</u>

SEE NOTES TO BASIC 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, 2005

Net change in fund balances - total governmental funds (page 19)	\$	(73,805)
 Amounts reported for governmental activities in the statement of activities are different because:		
<p>Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are 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:</p>		
Capital expenditures	\$ 92,232	
Depreciation expense	(122,760)	
Loss on disposal of capital assets	<u>(2,071)</u>	(32,599)
 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.		
		100,000
 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.		
		1,000
 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.		
Early retirement		3,023
 Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		
		<u>29,660</u>
Changes in net assets of governmental activities (page 16)	\$	<u>27,279</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 JUNE 30, 2005

	School Nutrition
ASSETS	
Cash and cash equivalents	\$ 29,640
Inventories	5,406
Capital assets, net of accumulated depreciation(Note 4)	16,338
TOTAL ASSETS	51,384
 LIABILITIES	
Deferred revenues:	
Other	1,187
TOTAL LIABILITES	1,187
 NET ASSETS	
Investment in capital assets	16,338
Unrestricted	33,859
TOTAL NET ASSETS	\$ 50,197

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 69,442
TOTAL OPERATING REVENUES	69,442
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	40,180
Benefits	17,778
Services	2,439
Supplies	55,939
Depreciation	2,868
TOTAL OPERATING EXPENSES	119,204
OPERATING LOSS	(49,762)
NON-OPERATING REVENUES:	
Interest income	112
State sources	1,845
Federal sources	50,521
TOTAL NON-OPERATING REVENUES	52,478
Change in net assets	2,716
Net assets at beginning of year	47,481
Net assets end of year	\$ 50,197

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON 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	\$ 69,102
Cash received from miscellaneous operating activities	411
Cash payments to employees for services	(57,958)
Cash payments to suppliers for goods or services	(44,376)
Net cash used in operating activities	(32,821)
Cash flows from non-capital financing activities:	
State grants received	1,845
Federal grants received	38,828
Net cash provided by non-capital financing activities	40,673
Cash flows from investing activities:	
Interest on investments	112
Net cash provided by investing activities	112
Cash flows from capital financing activities:	
Purchase of assets	(1,656)
Net cash used in financing activities	(1,656)
Net increase in cash and cash equivalents	6,308
Cash and cash equivalents at beginning of year	23,332
Cash and cash equivalents at end of year	\$ 29,640
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (49,762)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	11,693
Depreciation	2,868
Decrease in inventories	2,309
Increase in deferred revenue	71
Net cash used in operating activities	\$ (32,821)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 29,640
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
During the year ended June 30, 2005, the District received Federal commodities valued at \$11,693.	

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 JUNE 30, 2005

	Private Purpose Trust	
	Scholarship	Agency
ASSETS		
Cash and pooled investments	\$ 99,627	14,013
TOTAL ASSETS	<u>99,627</u>	<u>14,013</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Due to other groups	<u>0</u>	<u>14,013</u>
Net assets:		
Fund balances:		
Reserved for scholarships	99,627	0
TOTAL NET ASSETS	<u>\$ 99,627</u>	<u>0</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2005

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
ADDITIONS:	
Local sources:	
Interest income	\$ 1,466
DEDUCTIONS:	
Instruction:	
Scholarship awarded	1,400
Change in net assets	66
Net assets beginning of year	99,561
Net assets end of year	\$ 99,627

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

(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, 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 Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

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.

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB

pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

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

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

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

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

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	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, 2005, disbursements in the other expenditures functional area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2005 were entirely covered by federal depository insurance or 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, 2005.

(3) **Transfers**

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	<u>\$ 64,575</u>

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, as restated (Note 9)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 75,000	0	0	75,000
Total capital assets not being depreciated	<u>75,000</u>	<u>0</u>	<u>0</u>	<u>75,000</u>
Capital assets being depreciated:				
Buildings	5,049,914	14,980	0	5,064,894
Land improvements	19,168	1,680	0	20,848
Machinery and equipment	700,680	75,572	40,558	735,694
Total capital assets being depreciated	<u>5,769,762</u>	<u>92,232</u>	<u>40,558</u>	<u>5,821,436</u>
Less accumulated depreciation for:				
Buildings	1,317,008	98,318	0	1,415,326
Land improvements	3,837	1,042	0	4,879
Machinery and equipment	686,005	23,400	38,487	670,918
Total accumulated depreciation	<u>2,006,850</u>	<u>122,760</u>	<u>38,487</u>	<u>2,091,123</u>
Total capital assets being depreciated, net	<u>3,762,912</u>	<u>(30,528)</u>	<u>2,071</u>	<u>3,730,313</u>
Governmental activities capital assets, net	<u>\$ 3,837,912</u>	<u>(30,528)</u>	<u>2,071</u>	<u>3,805,313</u>
Business-type activities:				
Machinery and equipment	\$ 88,606	1,656	0	90,262
Less accumulated depreciation	71,056	2,868	0	73,924
Business-type activities capital assets, net	<u>\$ 17,550</u>	<u>(1,212)</u>	<u>0</u>	<u>16,338</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Support services:	
Transportation	\$ 23,400
	<u>23,400</u>
Unallocated depreciation	<u>99,360</u>
Total governmental activities depreciation expense	<u>\$ 122,760</u>
Business-type activities:	
Food services	<u>\$ 2,868</u>

(5) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 1,675,000	0	100,000	1,575,000	110,000
Early retirement	11,423	241	3,264	8,400	4,200
Total	<u>\$ 1,686,423</u>	<u>241</u>	<u>103,264</u>	<u>1,583,400</u>	<u>114,200</u>

General Obligation

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

Year Ending June 30,	Bond issue dated May 1, 2000			
	Interest Rate	Principal	Interest	Total
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		<u>\$ 1,575,000</u>	<u>718,025</u>	<u>2,293,025</u>

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.

(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 covered payroll for years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$76,680, \$73,338, and \$75,559 respectively, equal to the required contributions for each year.

(7) Risk Management

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

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-funded to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members continuing membership in the Association had their deficit recovery assessment included in their annual premium for the 2004-2005 and 2005-2006 plan years. The deficit recovery is equal to 2% of the annual premium. The total amount of the deficit recoveries of current members is estimated to \$2.2 million. The District's share of this assessment which was paid with the 2004-2005 premiums was \$3,345 and the remainder of the assessment is an unknown liability as of June 30, 2005 and will be paid with the 2005-2006 premiums. Since the program is now fully insured, there will be no additional assessments due to claims exceeding premiums charged to members.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2005 were \$167,236.

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 \$84,404 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Restate Capital Assets/Net Assets Beginning Balances

This restatement is due to calculation errors and asset reclassifications, as well as including assets not previously included on the asset listing. The restatement of the capital assets and net assets are as follows:

	Balance 6/30/2004 as Previously Reported	Increases	Decreases	Balance 7/1/2004 as Restated
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 45,000	30,000	0	75,000
Total capital assets not being depreciated	<u>45,000</u>	<u>30,000</u>	<u>0</u>	<u>75,000</u>
Capital assets being depreciated:				
Buildings	4,899,600	150,314	0	5,049,914
Land improvements	49,168	0	30,000	19,168
Machinery and equipment	700,680	0	0	700,680
Total capital assets being depreciated	<u>5,649,448</u>	<u>150,314</u>	<u>30,000</u>	<u>5,769,762</u>
Less accumulated depreciation for:				
Buildings	1,413,921	0	96,913	1,317,008
Land improvements	12,836	0	8,999	3,837
Machinery and equipment	155,171	530,834	0	686,005
Total accumulated depreciation	<u>1,581,928</u>	<u>530,834</u>	<u>105,912</u>	<u>2,006,850</u>
Total capital assets being depreciated, net	<u>4,067,520</u>	<u>(380,520)</u>	<u>(75,912)</u>	<u>3,762,912</u>
Governmental activities capital assets, net	<u>\$ 4,112,520</u>	<u>(350,520)</u>	<u>(75,912)</u>	<u>3,837,912</u>

The effects in the adjustment to restate the capital assets resulted in a change to the previously reported governmental activities, net assets as follows:

Net assets, June 30, 2004, as previously reported	\$ 3,374,498
Capital asset adjustment, net	<u>(274,608)</u>
Net assets, July 1, 2004, as restated	<u>\$ 3,099,890</u>

(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 other expenditures functional areas exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY 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, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 1,275,150	69,625
Intermediate sources	3,654	0
State sources	1,293,379	1,845
Federal sources	92,844	50,521
Total receipts	<u>2,665,027</u>	<u>121,991</u>
Disbursements:		
Instruction	1,533,761	0
Support services	937,129	0
Non-instructional programs	6,702	115,683
Other expenditures	302,638	0
Total disbursements	<u>2,780,230</u>	<u>115,683</u>
Excess(deficiency) of receipts over(under) disbursements	(115,203)	6,308
Other financing sources, net	<u>131</u>	<u>0</u>
Excess(deficiency) of receipts and other financing sources over(under) disbursements	(115,072)	6,308
Balance beginning of year	<u>864,303</u>	<u>23,332</u>
Balance end of year	<u>\$ 749,231</u>	<u>29,640</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
1,344,775	1,347,026	1,347,026	(2,251)
3,654	8,500	8,500	(4,846)
1,295,224	1,333,742	1,333,742	(38,518)
143,365	130,500	130,500	12,865
<u>2,787,018</u>	<u>2,819,768</u>	<u>2,819,768</u>	<u>(32,750)</u>
1,533,761	1,630,000	1,630,000	96,239
937,129	1,096,000	1,096,000	158,871
122,385	176,000	176,000	53,615
302,638	294,145	294,145	(8,493)
<u>2,895,913</u>	<u>3,196,145</u>	<u>3,196,145</u>	<u>300,232</u>
(108,895)	(376,377)	(376,377)	267,482
131	59,000	59,000	(58,869)
(108,764)	(317,377)	(317,377)	208,613
887,635	684,684	684,684	202,951
<u>778,871</u>	<u>367,307</u>	<u>367,307</u>	<u>411,564</u>

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

	Governmental Fund Types		
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 2,665,027	41,507	2,706,534
Expenses	2,780,230	240	2,780,470
Net	(115,203)	41,267	(73,936)
Other financing sources, net	131	0	131
Beginning fund balances	864,303	40,803	905,106
Ending fund balances	\$ 749,231	82,070	831,301

	Proprietary Fund Type		
	Enterprise		
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 121,991	(71)	121,920
Expenses	115,683	3,521	119,204
Net	6,308	(3,592)	2,716
Beginning net assets	23,332	24,149	47,481
Ending net assets	\$ 29,640	20,557	50,197

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

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as 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.

During the year ended June 30, 2005, disbursements in the other expenditures functional areas exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2005

	Special Revenue Funds					Debt Service	Total Other Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue		
ASSETS							
Cash and pooled investments	\$ 43,793	47,673	74,884	11,262	177,612	20,691	198,303
Receivables:							
Property tax:							
Current year delinquent	521	0	477	0	998	2,742	3,740
Succeeding year	50,000	0	21,637	0	71,637	135,442	207,079
Income surtax	0	0	29,660	0	29,660	0	29,660
TOTAL ASSETS	\$ 94,314	47,673	126,658	11,262	279,907	158,875	438,782
LIABILITIES AND FUND EQUITY							
Liabilities:							
Deferred revenue:							
Succeeding year property tax	\$ 50,000	0	21,637	0	71,637	135,442	207,079
Income surtax	0	0	29,660	0	29,660	0	29,660
	50,000	0	51,297	0	101,297	135,442	236,739
Fund equity:							
Fund balances:							
Reserved:							
Debt service	0	0	0	0	0	23,433	23,433
Unreserved:							
Undesignated	44,314	47,673	75,361	11,262	178,610	0	178,610
Total fund balances	44,314	47,673	75,361	11,262	178,610	23,433	202,043
TOTAL LIABILITIES AND FUND EQUITY	\$ 94,314	47,673	126,658	11,262	279,907	158,875	438,782

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, 2005

	Special Revenue Fund					Debt Service	Total Other Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue Funds		
REVENUES:							
Local sources:							
Local tax	\$ 25,156	0	59,803	0	84,959	133,729	218,688
Other	487	136,669	1,384	144	138,684	598	139,282
TOTAL REVENUES	25,643	136,669	61,187	144	223,643	134,327	357,970
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	3,264	0	1,146	0	4,410	0	4,410
Other instruction	0	138,577	0	850	139,427	0	139,427
Support services:							
Operation and maintenance of plant services	30,850	0	10,115	0	40,965	0	40,965
Transportation services	5,578	0	52,297	0	57,875	0	57,875
Other expenditures:							
Facilities acquisition	0	0	22,093	0	22,093	0	22,093
Long-term debt:							
Principal	0	0	0	0	0	100,000	100,000
Interest and fiscal charges	0	0	0	0	0	96,141	96,141
TOTAL EXPENDITURES	39,692	138,577	85,651	850	264,770	196,141	460,911
Deficiency of revenues under expenditures	(14,049)	(1,908)	(24,464)	(706)	(41,127)	(61,814)	(102,941)
Other financing sources:							
Transfers in	0	0	0	0	0	64,575	64,575
Total other financing sources	0	0	0	0	0	64,575	64,575
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(14,049)	(1,908)	(24,464)	(706)	(41,127)	2,761	(38,366)
Fund balance beginning of year	58,363	49,581	99,825	11,968	219,737	20,672	240,409
Fund balance end of year	\$ 44,314	47,673	75,361	11,262	178,610	23,433	202,043

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, 2005

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Speech/drama	\$ 1,941	674	1,810	805
Vocal music	373	852	864	361
Instrumental music	723	762	677	808
Athletics	31,051	12,378	12,780	30,649
Boys/girls golf	0	765	765	0
Boys basketball	0	8,298	8,298	0
Football	0	6,524	6,524	0
Baseball	50	3,060	3,110	0
Boys track	190	2,740	2,930	0
Wrestling	0	2,333	2,333	0
Girls basketball	0	4,573	4,573	0
Volleyball	0	4,330	4,330	0
Softball	0	1,197	1,197	0
Girls track	0	1,083	1,083	0
Miscellaneous	0	937	937	0
Interest	0	217	217	0
Change	150	325	350	125
Vocational education resale	0	2,799	2,799	0
8th grade	0	290	262	28
Freshman class	108	10	108	10
Sophomore class	20	113	20	113
Junior class	433	8,040	7,632	841
Senior class	0	3,301	3,301	0
Science club	170	0	0	170
Elementary special education	19	0	0	19
Book fair	268	1,768	1,518	518
Projects	4,702	1,122	1,366	4,458
M.S. TAG	157	0	0	157
DC trip account	697	109	697	109
Art club	253	394	416	231
Honor band	0	5,476	5,476	0
COOP staff development	372	900	789	483
Annual	1,548	6,454	6,428	1,574
Cheerleaders	225	4,858	3,831	1,252
FFA	1,172	15,750	16,226	696
National honor society	88	2,943	2,406	625
Student council	1,902	2,463	2,175	2,190
Elementary student council	694	593	1,036	251
Leadership	2,055	1,425	2,500	980
Elementary resale	0	1,892	1,892	0
Athletic concession	0	11,418	11,418	0
Athletic resale	0	10,413	10,413	0
District football	220	0	0	220
Preschool	0	3,090	3,090	0
Total	<u>\$ 49,581</u>	<u>136,669</u>	<u>138,577</u>	<u>47,673</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 EXPENDABLE TRUST FUND
 JUNE 30, 2005

	Larson Scholarship	Science Fair	Total
ASSETS			
Cash and pooled investments	\$ 10,306	956	11,262
TOTAL ASSETS	<u>10,306</u>	<u>956</u>	<u>11,262</u>
LIABILITIES AND FUND EQUITY			
Liabilities	\$ 0	0	0
Fund equity:			
Fund balances:			
Unreserved, undesignated	10,306	956	11,262
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 10,306</u>	<u>956</u>	<u>11,262</u>

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, 2005

	Larson Scholarship	Science Fair	Total
REVENUES:			
Local sources:			
Interest on investments	\$ 129	15	144
TOTAL REVENUES	129	15	144
EXPENDITURES;			
Instruction:			
Services	350	500	850
TOTAL EXPENDITURES	350	500	850
Deficiency of revenues under expenditures	(221)	(485)	(706)
Fund balance beginning of year	10,527	1,441	11,968
Fund balance end of year	\$ 10,306	956	11,262

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, 2005

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Washington DC Trip				
ASSETS:				
Cash and pooled investments	\$ 45,261	24,303	55,551	14,013
LIABILITIES:				
Due to other groups	\$ 45,261	24,303	55,551	14,013

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,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 1,072,688	1,075,598	1,009,188	955,052
Tuition	71,362	64,620	44,888	40,521
Other	172,011	189,199	185,103	322,869
Intermediate sources	3,654	3,724	4,076	8,478
State sources	1,293,271	1,258,812	1,346,245	1,333,565
Federal sources	93,308	142,586	65,327	60,050
Total	\$ 2,706,294	2,734,539	2,654,827	2,720,535
Expenditures:				
Instruction:				
Regular instruction	\$ 896,033	1,041,208	986,592	1,000,698
Special instruction	224,310	200,496	192,647	163,315
Other instruction	413,418	316,805	316,295	363,376
Support services:				
Student services	48,006	49,912	49,164	50,822
Instructional staff services	128,037	51,224	57,703	46,448
Administration services	345,495	320,360	312,188	305,475
Operation and maintenance of plant services	243,046	234,692	226,987	235,965
Transportation services	165,618	90,764	76,936	132,509
Other support services	6,927	21,345	15,601	15,783
Non-instructional programs:				
Food service operations	6,702	6,156	5,893	7,308
Other expenditures:				
Facilities acquisitions	22,093	42,191	108,623	1,073,713
Long Term Debt:				
Principal	100,000	95,000	90,000	85,000
Interest	96,141	101,841	107,241	112,342
AEA flow-through	84,404	86,147	93,721	93,478
Total	\$ 2,780,230	2,658,141	2,639,591	3,686,232

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

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

To the Board of Education of the
Elk Horn-Kimballton 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 Elk Horn-Kimballton Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 21, 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 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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 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.

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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 Elk Horn-Kimballton Community School District and other parties to whom Elk Horn-Kimballton 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 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.

October 21, 2005

ELK HORN-KIMBALLTON 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 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-05 Capital Assets - A record of capital asset acquisitions and disbursements are kept, however these changes are not kept up to date on the software system.

Recommendation - Capital asset updates should be made on a continuous basis to allow the school officials and outsiders an accurate account of the amount of capital assets at any point in time. This is necessary for both an accurate account of assets and to ensure a proper amount of insurance is carried to cover the assets in case of loss from fire, vandalism, or theft. The District should have a complete list of additions, deletions, current assets, current depreciation and accumulated depreciation.

Response - We are working on updating our capital asset records.

Conclusion - Response accepted.

I-C-05 Student Activity Fund - We noted during our audit that the Student Activity fund included a box tops for education and coop staff development accounts.

Recommendation - The receipts and expenditures made from these accounts appear to be more appropriately accounted for in the General fund. The District should review the transactions in these accounts and make the necessary adjustments.

Response - We will handle box tops for education out of the General Fund. Also, the coop staff development accounts will be handled as Agency Funds.

Conclusion - Response accepted.

ELK HORN-KIMBALLTON 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 certified budget amounts in the other expenditures functional area.
- Recommendation - The certified 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 as necessary.
- Conclusion - Response accepted.
- II-C-05 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-D-05 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-E-05 Business Transactions - No business transactions between the District and District officials were noted.
- II-F-05 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-G-05 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- 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.