

IKM COMMUNITY SCHOOL DISTRICT

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

June 30, 2005

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Independent Auditor's Report

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

In accordance with Government Auditing Standards, we have also issued our reports dated July 25, 2005, on our consideration of IKM Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 36 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise IKM Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004, (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 5, 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.

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

July 25, 2005

IKM MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2005 Financial Highlights

- General Fund revenues increased from \$3,877,924 in fiscal 2004 to \$3,982,900 in fiscal 2005, while General Fund expenditures increased from \$3,631,834 in fiscal 2004 to \$3,786,010 in fiscal 2005. The District's General Fund balance increased from \$342,931 in fiscal 2004 to \$534,555 in fiscal 2005, a 56% increase.
- The increase in General Fund revenues was attributable to an increase in state revenue in fiscal 2005. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures.

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 IKM 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 IKM 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 IKM Community School District acts solely as an agent or custodian for the benefit of those outside of county government.

Notes to 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 Special Revenue Funds.

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

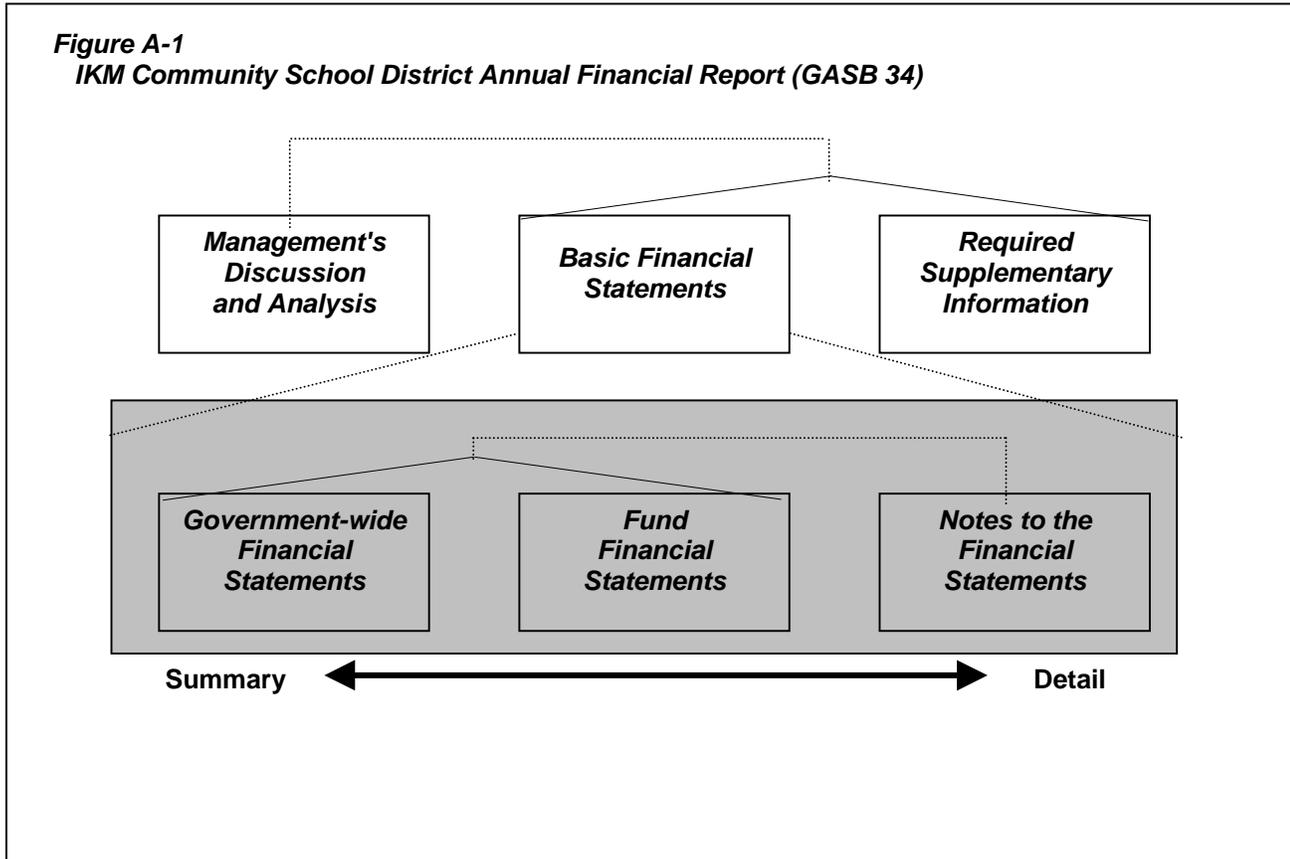


Figure A-2 summarizes the major features of the district's financial statements, including the portion of the district's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund 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, 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 financial 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 Capital Projects Fund.

The required financial statements for 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, is the same as its business type activities, but provides more detail and additional information, such as cash flows. The district currently has one Enterprise Fund, the School Nutrition Fund. The district uses *internal service funds*, the other kind of proprietary fund, to report activities that provide supplies and services for its other programs and activities. The district current has one internal service fund used to account for the district's employee flexible benefit plan.

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

- 3) *Fiduciary funds*: The district is the fiduciary, for assets that belong to others, which are accounted for in an agency 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 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 agency funds include a statement of fiduciary net assets. This statement has not been included in the financial statements because the Agency Fund has no assets or liabilities at June 30, 2005.

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 at June 30, 2005 compared to June 30, 2004.

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2004-2005
	Governmental Activities		Business-type Activities		Total School District		
	2005	2004	2005	2004	2005	2004	
	\$	\$	\$	\$	\$	\$	
Current and other assets	3,257,395	3,512,314	70,909	58,998	3,328,304	3,571,312	-6.8
Capital assets	528,052	541,352	3,179	4,258	531,231	545,610	-2.7
Total assets	3,785,447	4,053,666	74,088	63,256	3,859,535	4,116,922	-6.3
Long-term liabilities	70,127	106,506	0	0	70,127	106,506	-34.2
Other liabilities	1,758,333	2,414,240	1,459	1,365	1,759,292	2,415,605	-27.2
Total liabilities	1,828,460	2,520,746	1,459	1,365	1,829,419	2,522,111	-27.5
Net Assets:							
Invested in capital assets, net of related debt	513,350	541,352	3,179	4,258	516,529	545,610	-5.4
Restricted	728,147	479,106	0	0	728,147	479,106	52.0
Unrestricted	715,490	512,462	69,450	57,633	784,940	570,095	37.7
TOTAL NET ASSETS	1,956,987	1,532,920	72,629	61,891	2,029,616	1,594,811	27.3

The district's combined net assets increased by nearly 21.5%, or approximately \$435,000, over the prior year. The district has an approximate equal balance between restricted and unrestricted net assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The district's restricted net assets increased approximately \$249,000 or 52% over the prior year. The increase was primarily a result of decreased expenditures in the Physical Plant and Equipment Levy Fund and an increase in Local Options Sales Tax revenue with the addition of Crawford County one-cent sales tax revenue.

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 - increased approximately \$215,000, or 38%. This increase in unrestricted net assets was a result of the district building carryover fund balance to meet its financial obligations during the upcoming years as enrollments decline.

Figure A-4 shows the change in net assets for the years ended June 30, 2005 and 2004.

Figure A-4

	Change in Net Assets						Percentage Change 2004-2005
	Governmental Activities		Business-type Activities		Total School District		
	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$	
Revenues							
Program Revenues:							
Charges for services	324,618	313,935	88,007	88,851	412,625	402,786	2.5
Operating grants & contributions	461,733	491,627	77,195	84,782	538,928	576,409	-6.5
Capital grants & contributions	5,000	10,724	0	0	5,000	10,724	-53.4
General Revenues:							
Property taxes	1,519,150	1,754,231	0	0	1,519,150	1,754,231	-13.4
Income Surtax	173,174	165,844	0	0	173,174	165,844	4.5
Local option sales tax	215,329	156,396	0	0	215,329	156,396	37.4
Unrestricted state grants	1,697,510	1,464,957	0	0	1,697,510	1,464,957	15.9
Unrestricted investment earnings	33,013	22,046	0	0	33,013	22,046	49.8
Other revenue	31,150	16,107	676	413	64,839	38,566	159.1
Total Revenues	4,460,677	4,395,867	165,878	174,046	4,626,555	4,569,913	1.3
Expenses:							
Instruction	2,655,933	2,539,494	0	0	2,655,933	2,539,494	4.6
Support services	1,187,018	1,086,896	0	0	1,187,018	1,086,896	9.3
Non-instructional programs	136	139	155,140	149,061	155,276	149,200	-4.1
Other expenditures	193,523	245,782	0	0	193,523	245,782	-21.3
Total expenses	4,036,610	3,872,311	155,140	149,061	4,191,750	4,021,372	4.3
CHANGE IN NET ASSETS	424,067	523,556	10,738	24,985	434,805	548,541	-20.8
Net assets beginning of year	1,532,920	1,009,364	61,891	36,906	1,594,811	1,046,270	52.5
Net assets end of year	1,956,987	1,532,920	72,629	61,891	2,029,616	1,594,811	27.3

Property tax and unrestricted state grants account for 70% of the total revenue. The district's expenses primarily relate to instruction and support services, which account for 92% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$4,460,677 and expenses were \$4,036,610. Approximately \$175,000 of the increase in net assets is due to local option sales taxes and physical plant and equipment property tax levies that were collected in fiscal year 2005, but are being accumulated for future capital projects and equipment purchases.

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 2005 \$	Total Cost of Services 2004 \$	Net Cost of Services 2005 \$	Net Cost of Services 2004 \$
Instruction	2,655,933	2,539,494	2,076,687	1,883,347
Support Services	1,187,018	1,086,896	1,116,282	1,075,669
Non-instructional Programs	136	139	136	139
Other Expenses	193,523	245,782	52,154	96,870
TOTAL	<u>4,036,610</u>	<u>3,872,311</u>	<u>3,245,259</u>	<u>3,056,025</u>

- The cost financed by users of the District’s programs was \$324,618. These majority of these revenues are from tuition charges to other schools, proceeds from sharing employees with other schools and proceeds from student activities.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$461,733.
- The net cost of governmental activities was financed with \$1,907,653 in property and other taxes and \$1,697,510 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$165,878. 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.

During the year ended June 30, 2005, the district maintained current meal prices.

INDIVIDUAL FUND ANALYSIS

As previously noted, IKM 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 a combined fund balance of \$1,318,127, well above last year’s ending fund balances of \$904,782.

Governmental Fund Highlights

- The district’s improving General Fund financial position is the result of many factors.
- The General Fund balance increased from \$342,931 to \$534,555. Staff reductions in previous years are the main reason for improvement in the general fund.

- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$78,375 in fiscal 2004 to \$122,637 in fiscal 2005. While revenues remained approximately the same, the district made no purchases of vehicles during the fiscal year.
- The Capital Projects Sales Tax balance increased from \$293,892 during fiscal 2004 to \$424,146 during fiscal 2005. The increase in revenue is largely attributed to the sales tax passage in Crawford County.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$61,891 at June 30, 2004 to \$72,629 at June 30, 2005, representing an increase of approximately 15%. For fiscal 2005, the district maintained current meal prices.

BUDGETARY HIGHLIGHTS

The district's receipts were \$183,989 less than budgeted receipts, a variance of 4%.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the district had invested \$531,231, 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 represents a net decrease of 2.7% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$86,548.

The original cost of the District's capital assets was \$2,785,082.

Figure A-6

Capital Assets (net of depreciation)

	Governmental Activities		Business type Activities		Total School District		Percentage Change 2004-2005
	2005	2004	2005	2004	2005	2004	
	\$	\$	\$	\$	\$	\$	
Land	10,000	10,000	0	0	10,000	10,000	0
Buildings	341,246	349,881			341,246	349,881	-2.5
Improvements	81,548	42,624			81,548	42,624	91.4
Equipment & Furniture	95,258	138,847	3,179	4,258	98,437	143,105	-31.3
TOTAL	528,052	541,352	3,179	4,258	531,231	545,610	-2.7

Long-Term Debt

At June 30, 2005, the district had \$106,506 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 52% from last year. (See Figure A-7) Additional information about the district's long-term debt is presented in Note 7 to the financial statements.

The district received a long-term loan of \$105,858 from the EPA for asbestos removal in 1991. The loan has 2.5 years remaining until completion of repayment.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Percentage
	2005	2004	Change
			2004-2005
	\$	\$	
Early Retirement	55,425	85,923	-35.5
EPA Asbestos Loan	14,702	20,583	-28.6
	<u>70,127</u>	<u>106,506</u>	<u>-34.2</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:

- School financing is highly dependent upon student enrollment. The district's September 2005 enrollment decreased by approximately twenty students. This drop in enrollment will decrease the district's funding for fiscal year 2007.
- The district has experienced declining enrollment for the past several years. The district expects this trend to continue, therefore, sharing conversations with neighboring school districts are being explored.
- The district has evaluated the condition of its transportation vehicles and determined, due to safety precautions, one bus and one driver education vehicle must be replaced during fiscal 2006 at a cost of \$75,000. To pay for these buses, the District may use a combination of resources from the Physical Plant and Equipment Levy Fund and the Local Options Sales Tax Fund.
- Annually the district negotiates a new Master Contract with the IKMEA. The district will negotiate a new agreement during fiscal 2005. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the district's General Fund budget and related fund balance.

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 Jeff Kruse, IKM superintendent, IKM Community School District, 755 Main Street, Manilla, Iowa, 51454.

BASIC FINANCIAL STATEMENTS

IKM COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents:			
ISCAP	221,639	-	221,639
Other	1,237,359	61,332	1,298,691
Receivables:			
Property tax:			
Delinquent	27,142	-	27,142
Succeeding year	1,502,870	-	1,502,870
Accounts	-	582	582
Accrued interest:			
ISCAP	3,108	-	3,108
Due from other governments	265,277	-	265,277
Inventories	-	8,995	8,995
Capital assets, net of accumulated depreciation	528,052	3,179	531,231
Total assets	3,785,447	74,088	3,859,535
Liabilities			
Accounts payable	27,979	-	27,979
Due to other governments	2,463	-	2,463
Deferred revenue:			
Succeeding year property tax	1,502,870	-	1,502,870
Other	-	1,459	1,459
ISCAP warrants payable	221,000	-	221,000
ISCAP accrued interest payable	2,707	-	2,707
ISCAP premium	1,314	-	1,314
Long-term liabilities			
Portion due within one year:			
Early retirement	16,177	-	16,177
EPA asbestos loan payable	5,881	-	5,881
Portion due after one year:			
Early retirement	39,248	-	39,248
EPA asbestos loan payable	8,821	-	8,821
Total liabilities	1,828,460	1,459	1,829,919

IKM COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Net assets			
Invested in capital assets, net of related debt	513,350	3,179	516,529
Restricted for:			
Management levy	126,120	-	126,120
Physical plant and equipment levy	122,637	-	122,637
Other special revenue purposes	55,244	-	55,244
Local option sales and services tax capital projects	424,146	-	424,146
Unrestricted	715,490	69,450	784,940
Total net assets	<u>1,956,987</u>	<u>72,629</u>	<u>2,029,616</u>

IKM COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	1,583,025	158,157	229,116	-
Special instruction	549,380	2,486	9,961	-
Other instruction	523,528	108,746	70,780	-
	<u>2,655,933</u>	<u>269,389</u>	<u>309,857</u>	<u>-</u>
Support services:				
Student services	78,677	-	-	-
Instructional staff services	121,378	-	15,178	-
Administration services	471,821	48,316	-	-
Operation and maintenance of plant services	283,675	6,913	-	-
Transportation services	231,467	-	329	-
	<u>1,187,018</u>	<u>55,229</u>	<u>15,507</u>	<u>-</u>
Non-instructional programs	<u>136</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	21,130	-	-	5,000
Long-term debt interest				-
AEA flowthrough	136,369	-	136,369	-
Depreciation (unallocated)*	36,024	-	-	-
	<u>193,523</u>	<u>-</u>	<u>136,369</u>	<u>5,000</u>
Total governmental activities	<u>4,036,610</u>	<u>324,618</u>	<u>461,733</u>	<u>5,000</u>
Business type activities:				
Non-instructional programs:				
Food service operations	155,140	88,007	77,195	-
Total	<u>4,191,750</u>	<u>412,625</u>	<u>538,928</u>	<u>5,000</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				

Change in net assets

Net assets beginning of year

Net assets end of year

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

IKM COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
(1,195,752)	-	(1,195,752)
(536,933)	-	(536,933)
(344,002)	-	(344,002)
<u>(2,076,687)</u>	<u>-</u>	<u>(2,076,687)</u>
(78,677)	-	(78,677)
(106,200)	-	(106,200)
(423,505)	-	(423,505)
(276,762)	-	(276,762)
(231,138)	-	(231,138)
<u>(1,116,282)</u>	<u>-</u>	<u>(1,116,282)</u>
(136)	-	(136)
(16,130)	-	(16,130)
-	-	-
-	-	-
(36,024)	-	(36,024)
<u>(52,154)</u>	<u>-</u>	<u>(52,154)</u>
(3,245,259)	-	(3,245,259)
-	10,062	10,062
<u>(3,245,259)</u>	<u>10,062</u>	<u>(3,235,197)</u>
1,481,485	-	1,481,485
37,665	-	37,665
173,174	-	173,174
215,329	-	215,329
1,697,510	-	1,697,510
33,013	676	33,689
31,150	-	31,150
<u>3,669,326</u>	<u>676</u>	<u>3,670,002</u>
424,067	10,738	434,805
<u>1,532,920</u>	<u>61,891</u>	<u>1,594,811</u>
<u>1,956,987</u>	<u>72,629</u>	<u>2,029,616</u>

IKM COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2005

	General Fund	Capital Projects Sales Tax	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments:				
ISCAP	221,639	-	-	221,639
Other	507,127	373,440	356,792	1,237,359
Receivables:				
Property tax:				
Delinquent	24,508	-	2,634	27,142
Succeeding year	1,380,277	-	122,593	1,502,870
Accrued interest - ISCAP	3,108	-	-	3,108
Due from other governments	212,941	52,336	-	265,277
Total assets	2,349,600	425,776	482,019	3,257,395
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	26,349	1,630	-	27,979
Due to other governments	2,463	-	-	2,463
ISCAP warrants payable	221,000	-	-	221,000
ISCAP accrued interest payable	2,707	-	-	2,707
ISCAP premium	1,314	-	-	1,314
Deferred revenue:				
Succeeding year property tax	1,380,277	-	122,593	1,502,870
Other	180,935	-	-	180,935
Total liabilities	1,815,045	1,630	122,593	1,939,268
Fund balances:				
Unreserved, reported in:				
General fund	534,555	-	-	534,555
Special revenue funds	-	-	359,426	359,426
Capital project fund	-	424,146	-	424,146
Total fund balances	534,555	424,146	359,426	1,318,127
Total liabilities and fund balances	2,349,600	425,776	482,019	3,257,395

IKM 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 (Exhibit C)	1,318,127
<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 the governmental funds.	528,052
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	180,935
Long-term liabilities, including notes payable and early retirement benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(70,127)</u>
Net assets of governmental activities (Exhibit A)	<u><u>1,956,987</u></u>

IKM COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2005

	General Fund	Capital Projects Sales Tax	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,557,215	215,329	147,466	1,920,010
Tuition	91,920	-	-	91,920
Other	174,634	8,224	112,812	295,670
State sources	2,001,709	-	112	2,001,821
Federal sources	157,422	-	-	157,422
Total revenues	<u>3,982,900</u>	<u>223,553</u>	<u>260,390</u>	<u>4,466,843</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	1,572,871	-	-	1,572,871
Special instruction	549,380	-	-	549,380
Other instruction	428,602	-	93,957	522,559
	<u>2,550,853</u>	<u>-</u>	<u>93,957</u>	<u>2,644,810</u>
Support services:				
Student services	78,677	-	-	78,677
Instructional staff services	121,378	-	-	121,378
Administration services	461,360	-	40,959	502,319
Operation and maintenance of plant services	252,759	-	30,386	283,145
Transportation services	184,614	-	9,061	193,675
	<u>1,098,788</u>	<u>-</u>	<u>80,406</u>	<u>1,179,194</u>
Non-instructional programs	<u>-</u>	<u>-</u>	<u>136</u>	<u>136</u>
Other expenditures:				
Facilities acquisition	-	93,299	-	93,299
Long-term debt:				
Principal	-	-	5,881	5,881
AEA flowthrough	136,369	-	-	136,369
	<u>136,369</u>	<u>93,299</u>	<u>5,881</u>	<u>235,549</u>
Total expenditures	<u>3,786,010</u>	<u>93,299</u>	<u>180,380</u>	<u>4,059,689</u>

IKM COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2005

	General Fund	Capital Projects Sales Tax	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Excess (deficiency) of revenues over (under) expenditures	196,890	130,254	80,010	407,154
Other financing sources (uses)				
Sales of real estate and equipment	615	-	5,576	6,191
Operating transfers in	-	-	5,881	5,881
Operating transfers out	(5,881)	-	-	(5,881)
Total other financing sources (uses)	(5,266)	-	11,457	6,191
Net change in fund balances	191,624	130,254	91,467	413,345
Fund balances beginning of year	342,931	293,892	267,959	904,782
Fund balances end of year	534,555	424,146	359,426	1,318,127

IKM 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 (Exhibit E)	413,345
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**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 not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the year as follows:

Expenditures for capital assets	72,169	
Depreciation expense	<u>(85,469)</u>	(13,300)

Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.	(12,357)
---	----------

Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	5,881
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement	<u>30,498</u>
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Changes in net assets of governmental activities (Exhibit B)	<u><u>424,067</u></u>
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IKM COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Fund

June 30, 2005

	Nonmajor School Nutrition <u> </u> \$
Assets	
Cash and cash equivalents	61,332
Accounts receivable	582
Inventories	8,995
Capital assets, net of accumulated depreciation	<u>3,179</u>
Total assets	74,088
Liabilities	
Deferred revenue	<u>1,459</u>
Net assets	
Invested in capital assets, net of related debt	3,179
Unrestricted	<u>69,450</u>
Total net assets	<u><u>72,629</u></u>

IKM COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Fund

Year ended June 30, 2005

	Nonmajor School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>88,007</u>
Operating expenses:	
Non-instructional programs:	
Salaries	48,708
Benefits	18,499
Purchased services	58
Supplies	86,616
Depreciation	1,079
Other	180
	<u>155,140</u>
Operating gain (loss)	<u>(67,133)</u>
Non-operating revenue:	
State sources	2,532
Federal sources	74,663
Interest income	676
Total non-operating revenue	<u>77,871</u>
Change in net assets	10,738
Net assets beginning of year	<u>61,891</u>
Net assets end of year	<u><u>72,629</u></u>

IKM COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2005

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	87,970
Cash payments to employees for services	(67,207)
Cash payments to suppliers for goods or services	<u>(71,785)</u>
Net cash used by operating activities	<u>(51,022)</u>
Cash flows from non-capital financing activities:	
State grants received	2,532
Federal grants received	<u>61,426</u>
Net cash provided by non-capital financing activities	<u>63,958</u>
Cash flows from capital and related financing activities:	
Loans to other funds	<u>(5,114)</u>
Cash flows from investing activities:	
Interest on investments	<u>676</u>
Net increase (decrease) in cash and cash equivalents	8,498
Cash and cash equivalents at beginning of year	<u>52,834</u>
Cash and cash equivalents at end of year	<u><u>61,332</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(67,133)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	13,237
Depreciation	1,079
Decrease (increase) in inventories	1,832
Decrease (increase) in accounts receivable	(131)
(Decrease) increase in deferred revenue	<u>94</u>
Net cash used in operating activities	<u><u>(51,022)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received \$13,237 of federal commodities.

IKM COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2005

1. Summary of Significant Accounting Policies

IKM Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Irwin, Kirkman and Manilla, Iowa and the predominately agricultural territory in a portion of Crawford 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, IKM 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 IKM Community School District has no component units that meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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 asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets 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 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 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 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 revenues 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 expenditures, including instruction, support and other costs.

The Capital Projects fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary fund is the Enterprise, School Nutrition Fund. This 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 Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations, and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of 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 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 judgements, 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 the 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, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is 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 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 becomes due and collectible in September and March of the fiscal year with a 1 ½% 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, furniture 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 repair 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.

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	-
Buildings	2,000
Improvements other than buildings	2,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	20 years
Furniture and equipment	5-20 years

The District's collection of library books and other similar materials are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to District policy that requires proceeds from the sale of these items, if any, to be used to acquire other collection items.

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 receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds, amounts received in advance for food service sales and succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Employees are not paid for unused vacation and sick leave benefits when employment with the District ends.

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.

2. **Cash and Pooled Investments**

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

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

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board number 40.

3. Interfund Transfers

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

Transfer to	Transfer from	Amount \$
Debt Service	General	5,881

This transfer moved revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

4. Iowa School Cash Anticipation Program (ISCAP)

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

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
			\$	\$	\$	\$
2004-05A	6/30/04	6/30/05	-	105	-	-
2005-06B	1/28/05	1/27/06	221,639	3,003	221,000	2,707
Total			221,639	3,108	221,000	2,707

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2005, is as follows:

Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
\$	\$	\$	\$
-	-	-	-

The warrants bear interest and the available proceeds of the warrants are invested at an interest rate as shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
	%	%
2004-05A	3.000	2.463
2005-06B	3.500	2.280

5. Capital Assets

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

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	10,000	-	-	10,000
Capital assets being depreciated:				
Buildings	1,632,725	21,223	75,000	1,578,948
Improvements other than buildings	246,000	45,090	-	291,090
Furniture and equipment	848,561	5,856	26,673	827,744
Total capital assets being deprec.	<u>2,727,286</u>	<u>72,169</u>	<u>101,673</u>	<u>2,697,782</u>
Less accumulated depreciation for:				
Buildings	1,282,844	29,858	75,000	1,237,702
Improvements other than buildings	203,376	6,166	-	209,542
Furniture and equipment	709,714	49,445	26,673	732,486
Total accumulated depreciation	<u>2,195,934</u>	<u>85,469</u>	<u>101,673</u>	<u>2,179,730</u>
Total capital assets being depreciated, net	<u>531,352</u>	<u>(13,300)</u>	<u>-</u>	<u>518,052</u>
Governmental activities capital assets, net	<u>541,352</u>	<u>(13,300)</u>	<u>-</u>	<u>528,052</u>
	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	77,300	-	-	77,300
Less accumulated depreciation	73,042	1,079	-	74,121
Business type activities capital assets, net	<u>4,258</u>	<u>(1,079)</u>	<u>-</u>	<u>3,179</u>

Depreciation expense was charged to the following functions:

	<u>Amount</u>
	\$
Governmental activities:	
Instruction:	
Regular	10,154
Other	969
Support Services:	
Operation and maintenance of plant services	530
Transportation	<u>37,792</u>
	49,445
Unallocated depreciation	<u>36,024</u>
Total depreciation expense – governmental activities	<u>85,469</u>
Business type activities:	
Food services	<u>1,079</u>

6. Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
EPA asbestos loan payable	20,583	-	5,881	14,702	5,881
Early retirement	<u>85,923</u>	-	<u>30,498</u>	<u>55,425</u>	<u>16,177</u>
Total	<u>106,506</u>	<u>-</u>	<u>36,379</u>	<u>70,127</u>	<u>22,058</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified 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 include the payment of the retiree's health insurance premiums for a maximum of three years after early retirement. Early retirement expenditures for the year ended June 30, 2005 totaled \$30,498

EPA Asbestos Loan Payable

The District received a long-term loan of \$105,858 from the Environmental Protection Agency for removal of asbestos in 1991. The loan is payable in 36 semi-annual installments of \$2,940 and is without interest.

Year Ending June 30,	Total
	\$
2006	5,881
2007	5,881
2008	<u>2,940</u>
	<u>14,702</u>

During the year ended June 30, 2005 the District made principal payments totaling \$5,881 under the loan agreement.

7. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$126,385, \$135,160, and \$121,229 respectively, equal to the required contributions for each year.

8. Risk Management

The District was a member in the Iowa School Employee Benefits Association (ISEBA), an Iowa Code Chapter 28E organization until June 30, 2004. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members that terminated from ISEBA on June 30, 2004 received an assessment in December 2004 which is due July 1, 2005. The total assessment for terminated members is approximately \$3.9 million. The District's share of this assessment was \$12,070 which is recorded as a liability as of June 30, 2005.

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

9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$136,369 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

10. Related Party Transactions

Jim Rasmussen, a board member is a part owner of Rasmussen Lumber Company and his spouse is the owner of Manilla Depot. During the year ended June 30, 2005 IKM Community School District purchased approximately \$11,160 of building materials and supplies from these two businesses.

REQUIRED SUPPLEMENTARY INFORMATION

IKM COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Receipts:						
Local sources	2,267,545	88,646	2,356,191	2,314,288	2,314,288	41,903
State sources	2,001,815	2,532	2,004,347	2,072,995	2,072,995	(68,648)
Federal sources	153,093	74,663	227,756	385,000	385,000	(157,244)
Total receipts	<u>4,422,453</u>	<u>165,841</u>	<u>4,588,294</u>	<u>4,772,283</u>	<u>4,772,283</u>	<u>(183,989)</u>
Disbursements:						
Instruction	2,633,771	-	2,633,771	3,074,304	3,074,304	440,533
Support services	1,170,847	-	1,170,847	1,475,500	1,475,500	304,653
Non-instructional programs	136	152,229	152,365	260,652	260,652	108,287
Other expenditures	236,545	-	236,545	528,919	528,919	292,374
Total disbursements	<u>4,041,299</u>	<u>152,229</u>	<u>4,193,528</u>	<u>5,339,375</u>	<u>5,339,375</u>	<u>1,145,847</u>
Excess (deficiency) of receipts over (under) disbursements	381,154	13,612	394,766	(567,092)	(567,092)	961,858
Other financing sources (uses) net	<u>11,305</u>	<u>(5,114)</u>	<u>6,191</u>	<u>10,000</u>	<u>10,000</u>	<u>(3,809)</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements	392,459	8,498	400,957	(557,092)	(557,092)	958,049
Balance beginning of year	<u>844,900</u>	<u>52,834</u>	<u>897,734</u>	<u>998,510</u>	<u>998,510</u>	<u>(100,776)</u>
Balance end of year	<u><u>1,237,359</u></u>	<u><u>61,332</u></u>	<u><u>1,298,691</u></u>	<u><u>441,418</u></u>	<u><u>441,418</u></u>	<u><u>857,273</u></u>

IKM COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
	\$	\$	\$
Revenues	4,422,453	44,390	4,466,843
Expenditures	4,041,299	18,390	4,059,689
Net	<u>381,154</u>	<u>26,000</u>	<u>407,154</u>
Other financing sources (uses) net	11,305	(5,114)	6,191
Beginning fund balances	<u>844,900</u>	<u>59,882</u>	<u>904,782</u>
Ending fund balances	<u><u>1,237,359</u></u>	<u><u>80,768</u></u>	<u><u>1,318,127</u></u>
	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
	\$	\$	\$
Revenues	165,841	37	165,878
Expenditures	152,229	2,911	155,140
Net	<u>13,612</u>	<u>(2,874)</u>	<u>10,738</u>
Other financing sources (uses) net	(5,114)	5,114	-
Beginning fund balances	<u>52,834</u>	<u>9,057</u>	<u>61,891</u>
Ending fund balances	<u><u>61,332</u></u>	<u><u>11,297</u></u>	<u><u>72,629</u></u>

IKM 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 Internal Service, Private Purpose Trust and Agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

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

OTHER SUPPLEMENTARY INFORMATION

IKM COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2005

Assets	Special Revenue Funds			Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	
	\$	\$	\$	
Cash and pooled investments	179,584	55,244	121,964	356,792
Receivables:				
Property tax:				
Delinquent	1,961	-	673	2,634
Succeeding year	85,000	-	37,593	122,593
Total assets	266,545	55,244	160,230	482,019
Liabilities & Fund Balances				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	85,000	-	37,593	122,593
Fund balances:				
Unreserved fund balances reported in:				
Special revenue funds	181,545	55,244	122,637	359,426
Total liabilities and fund balances	266,545	55,244	160,230	482,019

IKM COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2005

	Special Revenue Funds				
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	Debt Service	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	109,801	-	37,665	-	147,466
Other	5,746	106,074	992	-	112,812
State sources	83	-	29	-	112
Federal sources	-	-	-	-	-
Total revenues	<u>115,630</u>	<u>106,074</u>	<u>38,686</u>	<u>-</u>	<u>260,390</u>
Expenditures:					
Current:					
Instruction:					
Other instruction	-	93,957	-	-	93,957
Support services:					
Administration services	40,959	-	-	-	40,959
Operation and maintenance of plant services	30,386	-	-	-	30,386
Transportation services	9,061	-	-	-	9,061
Non-instructional programs	136	-	-	-	136
Other expenditures:					
Long-term debt:					
Principal	-	-	-	5,881	5,881
Total expenditures	<u>80,542</u>	<u>93,957</u>	<u>-</u>	<u>5,881</u>	<u>180,380</u>
Excess (deficiency)of revenues over (under) expenditures	<u>35,088</u>	<u>12,117</u>	<u>38,686</u>	<u>(5,881)</u>	<u>80,010</u>
Other financing sources (uses):					
Sales of real property	-	-	5,576	-	5,576
Operating transfers in	-	-	-	5,881	5,881
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>5,576</u>	<u>5,881</u>	<u>11,457</u>
Net change in fund balance	35,088	12,117	44,262	-	91,467
Fund balances beginning of year	<u>146,457</u>	<u>43,127</u>	<u>78,375</u>	<u>-</u>	<u>267,959</u>
Fund balances end of year	<u><u>181,545</u></u>	<u><u>55,244</u></u>	<u><u>122,637</u></u>	<u><u>-</u></u>	<u><u>359,426</u></u>

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Intra-Fund Transfers</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$	\$
Drama	3,459	1,242	948	-	3,753
Basketball	4,246	24,355	21,469	(2,404)	4,728
Football	911	10,030	13,345	2,404	-
Track	-	307	2,996	2,689	-
Co-ed golf	-	20	571	551	-
Volleyball	890	1,722	845	-	1,767
Softball	-	4,416	5,267	851	-
Activity tickets	7,626	5,481	1,295	(4,850)	6,962
Concessions	6,336	12,103	7,960	(4,160)	6,319
Uniform cleaning	524	-	-	-	524
Cheerleaders	-	2,241	1,708	-	533
Baseball	-	3,020	7,870	4,850	-
Class of 2006	1,814	85	1,000	416	1,315
Class of 2007	5	9,113	7,803	(1,290)	25
Class of 2008	25	-	-	(25)	-
Annual	1,432	10,137	7,276	-	4,293
FFA	431	14,056	7,073	-	7,414
Interest	10,544	635	358	968	11,789
Student council-MS	105	284	136	-	253
Student council-HS	4,560	6,214	5,435	-	5,339
Student council-Elem.	219	613	602	-	230
Total	43,127	106,074	93,957	-	55,244

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund

Year ended June 30, 2005

	Beginning of Year	Additions	Deductions	End of Year
	\$	\$	\$	\$
Assets				
Cash	-	8,063	8,063	-
Liabilities				
Other liabilities	-	8,063	8,063	-

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2005	2004	2003	2002
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,920,010	2,041,334	2,016,026	1,673,408
Tuition	91,920	87,904	128,945	136,176
Other	295,670	263,884	273,974	257,008
State sources	2,001,821	1,780,773	1,765,687	1,808,541
Federal sources	157,422	186,535	170,920	110,585
Total revenues	<u>4,466,843</u>	<u>4,360,430</u>	<u>4,355,552</u>	<u>3,985,718</u>
Expenditures:				
Instruction:				
Regular instruction	1,572,871	1,547,521	1,545,215	1,552,150
Special instruction	549,380	647,788	619,149	547,712
Other instruction	522,559	331,569	308,822	279,940
Support services:				
Student services	78,677	78,592	75,791	77,519
Instructional staff services	121,378	99,857	145,897	252,707
Administration services	502,319	500,465	481,787	544,166
Operation and maintenance of plant services	283,145	274,939	245,795	283,516
Transportation services	193,675	186,662	206,415	174,955
Non-instructional programs	136	139	131	3,950
Other expenditures:				
Facilities acquisition	93,299	195,340	72,674	15,092
Long-term debt:				
Principal	5,881	5,881	5,881	5,881
AEA flowthrough	136,369	138,188	145,655	148,380
Total expenditures	<u>4,059,689</u>	<u>4,006,941</u>	<u>3,853,212</u>	<u>3,885,968</u>

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
IKM 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 IKM 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 July 25, 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 IKM Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

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

Compliance and Other Matters

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

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 IKM Community School District and other parties to whom IKM 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 IKMCommunity 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.

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

July 25, 2005

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

05-I-A Segregation of Duties: The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although we noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

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.

District Response: The District is aware of the lack of complete segregation of duties and will make changes as the opportunity arises.

Conclusion: Response accepted.

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting:

05-II-A Official Depositories: Official depositories have been approved by the District. The maximum deposit amounts approved were exceeded during the year ended June 30, 2005.

Recommendation: The District should increase the maximum dollar amount allowed by its depository resolution so that the maximum will not be exceeded during the times when cash flow of the District is the greatest.

District Response: We will increase the maximum deposit amount allowed by our depository resolution.

Conclusion: Response accepted

05-II-B Certified Budget: Disbursements for the year ended June 30, 2005, did not exceed the amounts budgeted.

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

05-II-D Travel Expenses: 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.

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u> \$
Jim Rasmussen, Board Member, part owner of Rasmussen Lumber Company, Spouse is owner of Manilla Depot	Gasoline, Building Repair & Materials	11,160

This appears to represent a conflict of interest since the dollar amount was more than \$2,500 which is allowed by Iowa law.

Recommendation: The District should consult legal council regarding this matter.

District Response: We will consult with our attorney.

Conclusion: Response accepted.

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

05-II-G Board Minutes: We noted no transactions requiring Board approval that had not been approved by the Board.

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting (continued):

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

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

05-II-J Certified Annual Report (CAR): We reviewed a draft copy of the CAR and we noted no significant deficiencies in the amounts reported.

05-II-K Capital Projects Local Option Sales Tax Fund Expenditures: We noted that the District spent approximately \$6,000 for lawn mowing services from the Capital Projects Local Option Sales Tax Fund. This is not an allowable expenditure from this fund.

Recommendation: The District should review the types of items that may be paid with the proceeds from the local option sales tax and the General Fund should reimburse the Capital Projects fund for the mowing services.

District Response: We will have the General Fund reimburse the Capital Projects Fund.

Conclusion: Response accepted.