

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

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Northwood-Kensett Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2004 Election)		
Mike Dierenfeld	President	2004
Larry Hovey	Vice President	2005
Keith Braun	Board Member	2006
Deanna Madsen	Board Member	2004
Dan Block	Board Member	2005
Board of Education		
(After September 2004 Election)		
Larry Hovey	President	2005
Keith Braun	Vice President	2006
Dan Block	Board Member	2005
John Anderson	Board Member	2007
Don Pangburn	Board Member	2007
School Officials		
Tom Nugent	Superintendent	2005
Karen Abrahams	District Secretary	2005
Mary Christianson	District Treasurer	2005
John Greve	District Attorney	2005

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Northwood-Kensett 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 Northwood-Kensett Community School District, Northwood, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with Government Auditing Standards, we have also issued our report dated August 19, 2005 on our consideration of Northwood-Kensett Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 36 through 39 are not required

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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 Northwood-Kensett Community School District's basic financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

August 19, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Northwood-Kensett 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 \$3,786,643 in fiscal year 2004 to \$4,035,092 in fiscal year 2005, while General Fund expenditures increased from \$3,922,327 in fiscal 2004 to \$4,000,285 in fiscal 2005. This resulted in an increase in the District's General Fund balance from \$227,002 in fiscal 2004 to \$261,809 in fiscal 2005, a 15.3% increase from prior year.
- The increase in General Fund revenues was attributable to allowable growth as allowed by the SBRC due to increased enrollment, special education deficit allowable growth and an increase in miscellaneous income. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.
- Overall, the District increased net assets in the governmental activities by \$242,809, and decreased in the business-type activities by \$9,135, respectively.
- We're in our 8th year of a 20 year Debt Service on New Elementary Construction and Junior/Senior Remodeling Project, which ends in 2017 for \$3,765,000.
- In March of 2004, the District purchased a wind turbine for \$60,000. The purchase was financed by a \$135,000 Energy Loan. One-half of the loan has a 4.38% rate, and the other one-half of the loan is interest free. The turbine remained on the property it was built on. The District has taken out a 26 year lease for \$1,850 per year, which will begin in July, 2005 and end on July 1, 2031.

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 Northwood-Kensett 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 Northwood-Kensett 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 Northwood-Kensett Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds. Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

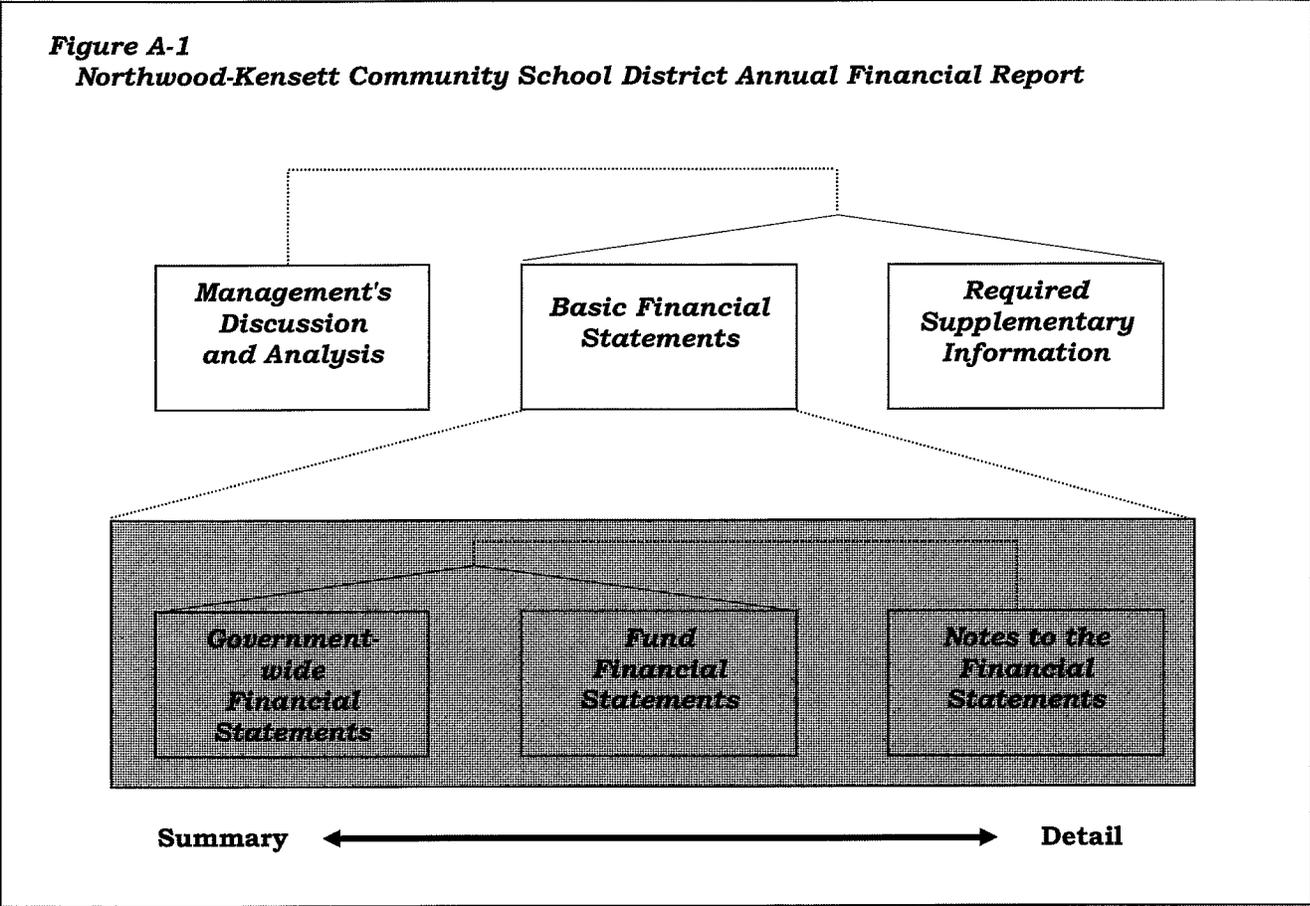


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other entities and the Empowerment Program, whereby the District acts as the fiscal agent.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
	Current and other assets	\$ 3,011,160	2,645,806	\$ 11,165	4,150	\$ 3,022,325	2,649,956
Capital assets	4,256,536	4,587,107	17,463	23,468	4,273,999	4,610,575	-7.30%
Total assets	<u>7,267,696</u>	<u>7,232,913</u>	<u>28,628</u>	<u>27,618</u>	<u>7,296,324</u>	<u>7,260,531</u>	<u>0.49%</u>
Long-term obligations	2,962,888	2,066,087	0	0	2,962,888	2,066,087	43.41%
Other liabilities	2,195,692	3,218,665	15,188	5,043	2,210,880	3,223,708	-31.42%
Total liabilities	<u>5,158,580</u>	<u>5,284,752</u>	<u>15,188</u>	<u>5,043</u>	<u>5,173,768</u>	<u>5,289,795</u>	<u>-2.19%</u>
Net assets:							
Invested in capital assets, net of related debt	1,432,492	1,457,075	17,463	23,468	1,449,955	1,480,543	-2.07%
Restricted	354,890	228,337	0	0	354,890	228,337	55.42%
Unrestricted	321,734	262,749	(4,023)	(893)	317,711	261,856	21.33%
Total net assets	<u>\$ 2,109,116</u>	<u>1,948,161</u>	<u>\$ 13,440</u>	<u>22,575</u>	<u>\$ 2,122,556</u>	<u>1,970,736</u>	<u>7.70%</u>

The District's combined net assets increased by nearly 8% over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately 55% over the prior year. The decrease was primarily a result of reclassifying the Physical Plant and Equipment Levy and Debt Service fund balances from prior year to the invested in capital assets line.

Unrestricted net assets-the part of net assets that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements- increased approximately 21% over the prior year.

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

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Revenues:							
Program revenues:							
Charges for services	\$ 297,147	279,407	\$ 150,244	128,932	447,391	408,339	9.56%
Operating grants and contributions and restricted interest	432,850	429,350	88,578	87,846	521,428	517,196	0.82%
Capital grants and contributions and restricted interest	43,442	51,250	0	0	43,442	51,250	-15.24%
General revenues:							
Property tax	2,128,217	2,151,863	0	0	2,128,217	2,151,863	-1.10%
Local option sales and service tax	239,450	0	0	0	239,450	0	0.00%
Unrestricted state grants	1,864,397	1,608,100	0	0	1,864,397	1,608,100	15.94%
Other	50,679	15,394	51	(660)	50,730	14,734	244.31%
Total revenues	<u>5,056,182</u>	<u>4,535,364</u>	<u>238,873</u>	<u>216,118</u>	<u>5,295,055</u>	<u>4,751,482</u>	<u>11.44%</u>
Program expenses:							
Governmental activities:							
Instructional	2,959,745	2,789,637	0	0	2,959,745	2,789,637	6.10%
Support services	1,233,275	1,178,283	0	0	1,233,275	1,178,283	4.67%
Non-instructional programs	0	0	248,008	241,878	248,008	241,878	2.53%
Other expenses	702,207	523,223	0	0	702,207	523,223	34.21%
Total expenses	<u>4,895,227</u>	<u>4,491,143</u>	<u>248,008</u>	<u>241,878</u>	<u>5,143,235</u>	<u>4,733,021</u>	<u>8.67%</u>
Change in net assets	160,955	44,221	(9,135)	(25,760)	151,820	18,461	722.38%
Net assets beginning of year	<u>1,948,161</u>	<u>1,903,940</u>	<u>22,575</u>	<u>48,335</u>	<u>1,970,736</u>	<u>1,952,275</u>	<u>0.95%</u>
Net assets end of year	<u>\$ 2,109,116</u>	<u>1,948,161</u>	<u>\$ 13,440</u>	<u>22,575</u>	<u>2,122,556</u>	<u>1,970,736</u>	<u>7.70%</u>

Property tax, local option sales and services tax and unrestricted state grants account for 79.9% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 81.5% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$5,056,182 and expenses were \$4,895,227.

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	\$ 2,959,745	2,392,709
Support services	1,233,275	1,226,272
Other expenses	702,207	502,807
Totals	<u>\$ 4,895,227</u>	<u>4,121,788</u>

- The cost financed by users of the District’s programs was \$297,147.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$476,292.
- The net cost of governmental activities was financed with \$2,128,217 in property tax, \$239,450 in local option sales and services tax, \$1,864,397 in state foundation aid, \$27,247 in interest income and \$23,432 in other revenues.

Business-Type Activities

Revenues of the District’s business-type activities were \$238,873 and expenses were \$248,008. 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 Northwood-Kensett Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$750,222, above last year’s ending fund balances of \$507,413. However, the primary reason for the increase is due to the District receiving local option sales and service tax from Worth County.

Governmental Fund Highlights

- The District’s General Fund financial position changed from \$227,002 to \$261,809. This was due to the controlled spending by the District. Expenditure for the year only increased \$77,958, while revenues increased \$248,449.
- The District started receiving local option sales and service tax from Worth County, which resulted in the Capital Projects Fund having an ending fund balance of \$239,657.
- The Special Revenue, Physical Plant and Equipment Levy fund balance decreased \$74,646 from the prior year to \$64,110. This is the result of receiving less in property tax monies and having to transfer funds to the Debt Service Fund to pay for the energy loan notes.

Proprietary Funds Highlights

The School Nutrition Fund net assets decreased from \$22,575 at June 30, 2004 to \$13,440 at June 30, 2005, representing a decrease of 40.47%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$32,677 less than budgeted revenues, a variance of less than 1%. The most significant variance resulted from the District receiving less in local sources than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the instruction, non-instruction and 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 \$4.3 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$336,576.

The original cost of the District's capital assets was \$7,173,324. Governmental funds account for \$7,075,635 with the remainder of \$97,689 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$88,144 at June 30, 2004. The construction was completed in 2005 and added to the improvements other than buildings category.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2005	2004	2005	2004	2005	2004	2004-05
Land	\$ 36,425	36,425	\$ 0	0	\$ 36,425	36,425	0.00%
Buildings	3,847,333	4,049,508	0	0	3,847,333	4,049,508	-5.25%
Improvements other than buildings	139,998	56,500	0	0	139,998	56,500	59.64%
Machinery and equipment	232,780	356,530	17,463	23,468	250,243	379,998	-51.85%
Construction in progress	0	88,144	0	0	0	88,144	-100.00%
Total	<u>\$ 4,256,536</u>	<u>4,587,107</u>	<u>\$ 17,463</u>	<u>23,468</u>	<u>\$ 4,273,999</u>	<u>4,610,575</u>	<u>-7.87%</u>

Long-Term Debt

At June 30, 2005, the District had \$2,962,888 in other long-term debt outstanding. This represents a decrease of 7.9% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding general obligation bonded indebtedness payable of \$2,750,000 at June 30, 2005.

At yearend, the District had total energy capital loan notes payable from the Special Revenue, Physical Plant and Equipment Levy of \$154,954.

The District had total outstanding early retirement payable from the Special Revenue, Management Fund of \$41,272 at June 30, 2005.

Also, the District had compensated absences of \$16,662, which is an increase of 7.3% from the prior year.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2005	2004	
General obligation bonds	\$ 2,750,000	2,915,000	-5.7%
Energy capital loan notes	154,954	183,460	-15.5%
Capital leases	0	31,572	-100.0%
Early retirement	41,272	73,105	-43.5%
Compensated absences	16,662	15,528	7.3%
Totals	\$ 2,962,888	3,218,665	-7.9%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Increases in health insurance premiums, along with salaries and benefits for the employees is always a concern for the District.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- The voters of Worth County passed the Local Option Sales and Services in 2004. This 1 cent tax on sales and services will greatly benefit the District in maintaining their buildings, purchasing equipment and debt repayment.
- With the installation of the wind turbine, the District is hoping to start enjoying the economic benefits.

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 Karen Abrahams, District Secretary and Business Manager, Northwood-Kensett Community School District, 1200 1st Avenue North, P.O. Box 289,, Northwood, Iowa, 50459-0289.

BASIC FINANCIAL STATEMENTS

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 572,602	0	572,602
Receivables:			
Property tax:			
Delinquent	42,191	0	42,191
Succeeding year	2,135,526	0	2,135,526
Income surtax	76,784	0	76,784
Accounts	5,326	8,655	13,981
Due from Agency Fund	3,604	0	3,604
Due from other governments	175,127	0	175,127
Inventories	0	2,510	2,510
Capital assets, net of accumulated depreciation (Note 5)	4,256,536	17,463	4,273,999
TOTAL ASSETS	7,267,696	28,628	7,296,324
LIABILITIES			
Excess of warrants issued			
bank balance	0	14,129	14,129
Accounts payable	47,131	200	47,331
Salaries and benefits payable	1,497	0	1,497
Accrued interest payable	11,538	0	11,538
Deferred revenue:			
Succeeding year property tax	2,135,526	0	2,135,526
Other	0	859	859
Long-term liabilities (Note 6):			
Portion due within one year:			
General obligation bonds payable	175,000	0	175,000
Energy loan notes payable	29,289	0	29,289
Early retirement payable	24,106	0	24,106
Compensated absences payable	16,662	0	16,662
Portion due after one year:			
General obligation bonds payable	2,575,000	0	2,575,000
Energy loan notes payable	125,665	0	125,665
Early retirement payable	17,166	0	17,166
TOTAL LIABILITIES	5,158,580	15,188	5,173,768
NET ASSETS			
Investment in capital assets, net of related debt	1,432,492	17,463	1,449,955
Restricted for:			
Salary improvement program	197	0	197
Management levy	25,194	0	25,194
Capital Projects	239,657	0	239,657
Other special revenue purposes	89,842	0	89,842
Unrestricted	321,734	(4,023)	317,711
TOTAL NET ASSETS	\$ 2,109,116	13,440	2,122,556

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
JUNE 30, 2005

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	\$ 1,767,299	81,471	251,095	0
Special instruction	719,381	0	25,797	0
Other instruction	473,065	208,673	0	0
	<u>2,959,745</u>	<u>290,144</u>	<u>276,892</u>	<u>0</u>
Support services:				
Student services	133,658	0	0	0
Instructional staff services	100,568	0	0	0
Administration services	450,089	0	0	0
Operation and maintenance of plant services	344,222	0	0	0
Transportation services	204,738	7,003	0	0
	<u>1,233,275</u>	<u>7,003</u>	<u>0</u>	<u>0</u>
Other expenditures:				
Facilities acquisitions	192,102	0	0	43,442
Long-term debt interest	147,326	0	0	0
AEA flowthrough	155,958	0	155,958	0
Depreciation (unallocated)*	206,821	0	0	0
	<u>702,207</u>	<u>0</u>	<u>155,958</u>	<u>43,442</u>
Total governmental activities	4,895,227	297,147	432,850	43,442
Business-Type activities:				
Non-instructional programs:				
Nutrition services	248,008	150,244	88,578	0
Total business-type activities	<u>248,008</u>	<u>150,244</u>	<u>88,578</u>	<u>0</u>
Total	<u>\$ 5,143,235</u>	<u>447,391</u>	<u>521,428</u>	<u>43,442</u>

General Revenues:

Property tax levied for:
 General purposes
 Capital outlay
Local option sales and services tax
Unrestricted state grants
Unrestricted investment earnings
Other

Total general revenues

Changes in net assets

Net assets beginning of year

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(1,434,733)	0	(1,434,733)
(693,584)	0	(693,584)
(264,392)	0	(264,392)
(2,392,709)	0	(2,392,709)
(133,658)	0	(133,658)
(100,568)	0	(100,568)
(450,089)	0	(450,089)
(344,222)	0	(344,222)
(197,735)	0	(197,735)
(1,226,272)	0	(1,226,272)
(148,660)	0	(148,660)
(147,326)	0	(147,326)
0	0	0
(206,821)	0	(206,821)
(502,807)	0	(502,807)
(4,121,788)	0	(4,121,788)
0	(9,186)	(9,186)
0	(9,186)	(9,186)
(4,121,788)	(9,186)	(4,130,974)
\$ 1,987,856	0	1,987,856
140,361	0	140,361
239,450	0	239,450
1,864,397	0	1,864,397
27,247	51	27,298
23,432	0	23,432
4,282,743	51	4,282,794
160,955	(9,135)	151,820
1,948,161	22,575	1,970,736
\$ 2,109,116	13,440	2,122,556

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments	\$ 248,958	86,113	237,531	572,602
Receivables:				
Property tax				
Delinquent	30,966	0	11,225	42,191
Succeeding year	1,587,926	0	547,600	2,135,526
Income surtax	76,784	0	0	76,784
Accounts	5,326	0	0	5,326
Due from Agency Fund	3,604	0	0	3,604
Due from other governments	21,583	153,544	0	175,127
TOTAL ASSETS	\$ 1,975,147	239,657	796,356	3,011,160
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 47,131	0	0	47,131
Salaries and benefits payable	1,497	0	0	1,497
Deferred revenue:				
Succeeding year property tax	1,587,926	0	547,600	2,135,526
Income surtax	76,784	0	0	76,784
Total liabilities	1,713,338	0	547,600	2,260,938
Fund balances:				
Reserved for:				
Salary improvement program	197	0	0	197
Debt service	0	0	28,338	28,338
Unreserved:				
General	261,612	0	0	261,612
Capital projects	0	239,657	0	239,657
Management levy	0	0	66,466	66,466
Physical plant and equipment levy	0	0	64,110	64,110
Other special revenue purposes	0	0	89,842	89,842
Total fund balances	261,809	239,657	248,756	750,222
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,975,147	239,657	796,356	3,011,160

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2005

Total fund balances of governmental funds (page 16)	\$	750,222
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.		4,256,536
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		76,784
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(11,538)
Long-term liabilities, including revenue bonds payable, revenue bans payable, note payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(2,962,888)</u>
Net assets of governmental activites (page 13)	\$	<u>2,109,116</u>

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT 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	\$ 1,580,534	0	556,437	2,136,971
Local option sales and service tax	0	239,450	0	239,450
Tuition	81,471	0	0	81,471
Other	63,294	207	179,422	242,923
Intermediate sources	12,546	0	547	13,093
State sources	2,150,064	0	0	2,150,064
Federal sources	147,183	0	43,442	190,625
Total revenues	<u>4,035,092</u>	<u>239,657</u>	<u>779,848</u>	<u>5,054,597</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	1,665,663	0	78,810	1,744,473
Special instruction	719,381	0	0	719,381
Other instruction	313,273	0	159,792	473,065
	<u>2,698,317</u>	<u>0</u>	<u>238,602</u>	<u>2,936,919</u>
Support services:				
Student services	133,658	0	0	133,658
Instructional staff services	100,568	0	0	100,568
Administration services	438,089	0	12,000	450,089
Operation and maintenance of plant services	334,670	0	1,000	335,670
Transportation services	139,025	0	4,040	143,065
	<u>1,146,010</u>	<u>0</u>	<u>17,040</u>	<u>1,163,050</u>
Other expenditures:				
Facilities acquisitions	0	0	192,102	192,102
Long-term debt:				
Principal	0	0	225,078	225,078
Interest and fiscal charges	0	0	149,020	149,020
AEA flowthrough	155,958	0	0	155,958
	<u>155,958</u>	<u>0</u>	<u>566,200</u>	<u>722,158</u>
Total expenditures	<u>4,000,285</u>	<u>0</u>	<u>821,842</u>	<u>4,822,127</u>
Excess(deficiency) of revenues over(under) expenditures	34,807	239,657	(41,994)	232,470
Other financing sources(uses):				
Transfer in	0	0	77,274	77,274
Transfer out	0	0	(67,212)	(67,212)
Unrealized gain	0	0	277	277
Total other financing sources(uses)	<u>0</u>	<u>0</u>	<u>10,339</u>	<u>10,339</u>
Net change in fund balances	34,807	239,657	(31,655)	242,809
Fund balance beginning of year	<u>227,002</u>	<u>0</u>	<u>280,411</u>	<u>507,413</u>
Fund balance end of year	<u>\$ 261,809</u>	<u>239,657</u>	<u>248,756</u>	<u>750,222</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds (page 18)	\$	242,809
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of current depreciation exceed expenditures in the current year, as follows:		
Depreciation expense		(330,571)
Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		(8,754)
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.		
Early Retirement	\$ 31,833	
Compensated absences	<u>(1,134)</u>	30,699
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.		225,078
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.		<u>1,694</u>
Changes in net assets of governmental activities (page 15)	\$	<u>160,955</u>

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 JUNE 30, 2005

	School Nutrition
ASSETS	
Current assets:	
Accounts receivable	\$ 8,655
Inventories	2,510
Capital assets, net of accumulated depreciation(Note 5)	17,463
TOTAL ASSETS	28,628
LIABILITIES	
Excess of warrants issued over bank balance	14,129
Accounts payable	200
Deferred revenue:	
Other	859
TOTAL LIABILITIES	15,188
NET ASSETS	
Investment in capital assets, net of related debt	17,463
Unrestricted	(4,023)
Total net assets	\$ 13,440

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for service	\$ 150,244
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	78,311
Benefits	28,268
Services	2,951
Supplies	132,473
Depreciation	6,005
TOTAL OPERATING EXPENSES	248,008
OPERATING LOSS	(97,764)
NON-OPERATING REVENUES:	
State sources	3,350
Federal sources	85,228
Interest income	51
TOTAL NON-OPERATING REVENUES	88,629
Changes in net assets	(9,135)
Net assets beginning of year	22,575
Net assets end of year	\$ 13,440

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2005

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 148,518
Cash received from miscellaneous operating activities	775
Cash payments to employees for services	(106,579)
Cash payments to suppliers for goods or services	(120,906)
Net cash used in operating activities	(78,192)
Cash flows from non-capital financing activities:	
State grants received	3,243
Federal grants received	62,797
Net cash provided by non-capital financing activities	66,040
Cash flows from capital and related financing activities:	
Collection of loan	1,005
Net cash provided by capital and related financing activities	1,005
Cash flows from investing activities:	
Interest on investment	51
Net cash provided by investing activities	51
Net decrease in cash and cash equivalents	(11,096)
Cash and cash equivalents at beginning of year	(3,033)
Cash and cash equivalents at end of year	\$ (14,129)
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (97,764)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	13,883
Depreciation	6,005
Decrease in inventories	635
Decrease in deferred revenue	(951)
Net cash used in operating activities	\$ (78,192)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and investments	\$ (14,129)
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
During the year ended June 30, 2005, the District received Federal commodities valued at \$13,883.	

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	<u>Private Purpose Trust Scholarship</u>	<u>Agency</u>
ASSETS		
Cash and pooled investments	\$ 369,560	366
Due from other groups	0	5,240
TOTAL ASSETS	<u>369,560</u>	<u>5,606</u>
LIABILITIES		
Due to General Fund	0	3,604
Due to other groups	0	2,002
TOTAL LIABILITIES	<u>0</u>	<u>5,606</u>
NET ASSETS		
Reserved for scholarships	<u>\$ 369,560</u>	<u>0</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Private Purpose Trust Scholarship
Additions:	
Local sources:	
Interest	\$ 3,020
Total additions	<u>3,020</u>
Deductions:	
Non-instructional programs	<u>0</u>
Income before other financing uses	3,020
Other financing uses:	
Transfer out	<u>(10,526)</u>
Change in net assets	(7,506)
Net assets beginning of year	<u>377,066</u>
Net assets end of year	<u>\$ 369,560</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(1) Summary of Significant Accounting Policies

The Northwood-Kensett 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 Northwood and Kensett, Iowa, and the predominate agricultural territory in Worth County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

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

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

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues,

are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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

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

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

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

The District reports the following major governmental 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 used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary fund is the School Nutrition Fund. The 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, and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operation.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the

government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

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

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

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

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

Asset Class	Amount
Land	\$ 0
Buildings	2,000
Land improvements	2,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,000

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

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

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

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

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

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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 instructional, non-instructional and 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 State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The District's investments are all category 1 which means that the investments are insured or registered or the securities are held by the District or its agent in the District's name.

Investments are stated at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates.

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

Type	Fair Value
Corporate bonds	\$ 300,199

(3) Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Special Revenue: Physical Plant and Equipment Levy	\$ 66,748
Agency Fund	Special Revenue: Expendable Trust	464
Special Revenue: Expendable Trust	Nonexpendable Trust	10,526
Total		<u>\$ 77,738</u>

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

(4) Interfund Receivables and Payables

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

Receivable Fund	Payable Fund	Amount
General Fund	Agency Fund	<u>\$ 3,604</u>

(5) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 36,425	0	0	36,425
Construction in progress	88,144	0	88,144	0
Total capital assets not being depreciated	124,569	0	88,144	36,425
Capital assets being depreciated:				
Buildings	5,876,335	0	0	5,876,335
Land improvements	79,837	88,144	0	167,981
Machinery and equipment	994,894	0	0	994,894
Total capital assets being depreciated	6,951,066	88,144	0	7,039,210
Less accumulated depreciation for:				
Buildings	1,826,827	202,175	0	2,029,002
Land improvements	23,337	4,646	0	27,983
Machinery and equipment	638,364	123,750	0	762,114
Total accumulated depreciation	2,488,528	330,571	0	2,819,099
Total capital assets being depreciated, net	4,462,538	(242,427)	0	4,220,111
Governmental activities capital assets, net	\$ 4,587,107	(242,427)	88,144	4,256,536
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 66,861	30,828	0	97,689
Less accumulated depreciation	43,393	36,833	0	80,226
Business-type activities capital assets, net	\$ 23,468	(6,005)	0	17,463

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular	\$	53,525
Support services:		
Operation and maintenance of plant		8,552
Transportation		61,673
		<u>123,750</u>
Unallocated depreciation		<u>206,821</u>
Total governmental activities depreciation expense	\$	<u>330,571</u>
Business-type activities:		
Food services	\$	<u>6,005</u>

(6) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 2,915,000	-	165,000	2,750,000	175,000
Energy capital loan notes	183,460	-	28,506	154,954	29,289
Capital leases	31,572	-	31,572	-	-
Early retirement	73,105	-	31,833	41,272	24,106
Compensated absences	15,528	16,662	15,528	16,662	16,662
Total	\$ 3,218,665	16,662	272,439	2,962,888	245,057

General Obligation Bonds Payable

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

Year Ending June 30,	Bond Issue of May 1, 1998			
	Interest Rates	Principal	Interest	Total
2006	5.10	% \$ 175,000	134,030	309,030
2007	5.15	185,000	125,630	310,630
2008	5.25	190,000	116,750	306,750
2009	5.35	200,000	107,630	307,630
2010	5.45	210,000	98,030	308,030
2011-2015	5.50-5.70	1,215,000	327,540	1,542,540
2016-2017	5.75-5.80	575,000	43,500	618,500
Total		\$ 2,750,000	953,110	3,703,110

Energy Capital Loan Notes Payable

The District issued \$90,000 and \$135,000 of Energy Management Capital Loan Notes during the year ended June 30, 2003 and 2004. The proceeds from the loan were used to implement an energy conservation program and purchase a wind turbine. The first \$90,000 of notes bear interest at 3.96%, the second \$67,500 of notes bear interest at 4.38% and the third \$67,500 of notes are interest free. The final payment on all of the notes is in 2010. The notes and interest will be paid from the Special Revenue, Physical Plant and Equipment Levy Fund. The notes are payable as follows:

Year ended June 30,	Series 1		Series 2	
	Principal	Interest	Principal	Interest
2006	\$ 10,606	2,273	9,040	2,161
2007	11,027	1,853	9,436	1,765
2008	11,463	1,416	9,850	1,352
2009	11,917	963	10,281	920
2010	12,389	491	10,731	470
Total	\$ 57,402	6,996	49,338	6,668

Series 3		Total	
Principal	Interest	Principal	Interest
9,643	-	29,289	4,434
9,643	-	30,106	3,618
9,643	-	30,956	2,768
9,643	-	31,841	1,883
9,642	-	32,762	961
<u>48,214</u>	<u>-</u>	<u>154,954</u>	<u>13,664</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be between the ages fifty-five and sixty-two and must have completed fifteen years of full time service to the District. Employees must complete an application, which is subject to be approval by the Board of Education. Early retirement incentives are based in the differences between the employee's current base salary and the starting base salary. Early retirement benefits paid during the year ended June 30, 2005, totaled \$31,833. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the 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 \$146,528, \$139,502 and \$130,256 respectively, equal to the required contributions for each year.

(8) Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: 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-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members continuing membership in the Association had their deficit recovery assessment included in their annual premium. The total amount of the deficit recoveries of current members is estimated to \$2.2 million. The District's share of this assessment is going to be 2% of the 2004-05 and 2005-06 premiums. As of June 30, 2005 the District had paid \$118 of the assessment. The remainder if the 2% assessment will be paid on a monthly basis along with the 2005-2006 premiums. Since the program is now fully insured, there will be no additional assessments due to claims exceeding premiums charged to members.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2005 were \$5,918.

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

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

(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 \$155,958 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(10) Budget Overexpenditure

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

REQUIRED SUPPLEMENTARY INFORMATION

NORTHWOOD-KENSETT 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	\$ 2,566,489	141,694
Intermediate sources	13,123	0
State sources	2,175,861	3,350
Federal sources	159,639	85,228
Total receipts	4,915,112	230,272
Disbursements:		
Instruction	2,898,499	0
Support services	1,194,278	0
Non-instructional programs	0	241,368
Other expenditures	722,158	0
Total disbursements	4,814,935	241,368
Excess(deficiency) of receipts over(under) disbursements	100,177	(11,096)
Other financing sources, net	10,339	0
Excess(deficiency) of receipts and other financing sources over(under) disbursements and other financing uses	110,516	(11,096)
Balance beginning of year	465,690	(3,033)
Balance end of year	\$ 576,206	(14,129)

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
2,708,183	2,476,824	2,476,824	(231,359)
13,123	0	0	(13,123)
2,179,211	2,325,849	2,325,849	146,638
244,867	310,034	310,034	65,167
<u>5,145,384</u>	<u>5,112,707</u>	<u>5,112,707</u>	<u>(32,677)</u>
2,898,499	2,897,000	2,897,000	(1,499)
1,194,278	1,372,880	1,372,880	178,602
241,368	218,000	218,000	(23,368)
722,158	621,055	621,055	(101,103)
<u>5,056,303</u>	<u>5,108,935</u>	<u>5,108,935</u>	<u>52,632</u>
89,081	3,772	3,772	(85,309)
<u>10,339</u>	<u>0</u>	<u>0</u>	<u>10,339</u>
99,420	3,772	3,772	(74,970)
<u>462,657</u>	<u>1,073,404</u>	<u>1,073,404</u>	<u>610,747</u>
<u>562,077</u>	<u>1,077,176</u>	<u>1,077,176</u>	<u>535,777</u>

NORTHWOOD-KENSETT 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	\$ 4,915,112	139,485	5,054,597
Expenditures	4,814,935	7,192	4,822,127
Net	100,177	132,293	232,470
Other financing sources	10,339	0	10,339
Beginning fund balances	465,690	41,723	507,413
Ending fund balances	\$ 576,206	174,016	750,222

	Proprietary Fund Type		
	Enterprise		
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 230,272	8,601	238,873
Expenditures	241,368	6,640	248,008
Net	(11,096)	1,961	(9,135)
Beginning fund balances	(3,033)	25,608	22,575
Ending fund balances	\$ (14,129)	27,569	13,440

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

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

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

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

OTHER SUPPLEMENTARY INFORMATION

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2005

	Special Revenue Funds				
	Manage- ment	Physical Plant & Equipment Levy	Student Activity	Expendable Trust	Total Special Revenue
ASSETS					
Cash and pooled investments	\$ 64,191	61,297	64,957	24,885	215,330
Receivables:					
Property tax:					
Current year delinquent	2,275	2,813	0	0	5,088
Succeeding year	125,000	141,870	0	0	266,870
TOTAL ASSETS	\$ 191,466	205,980	64,957	24,885	487,288
LIABILITIES AND FUND EQUITY					
Liabilities:					
Deferred revenue:					
Succeeding year property tax	\$ 125,000	141,870	0	0	266,870
	125,000	141,870	0	0	266,870
Fund equity:					
Fund balances:					
Reserved:					
Debt service	0	0	0	0	0
Unreserved:					
Undesignated	66,466	64,110	64,957	24,885	220,418
Total fund balances	66,466	64,110	64,957	24,885	220,418
TOTAL LIABILITIES AND FUND EQUITY	\$ 191,466	205,980	64,957	24,885	487,288

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 1

<u>Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>
22,201	237,531
6,137	11,225
<u>280,730</u>	<u>547,600</u>
<u>309,068</u>	<u>796,356</u>

<u>280,730</u>	<u>547,600</u>
<u>280,730</u>	<u>547,600</u>

28,338	28,338
0	220,418
<u>28,338</u>	<u>248,756</u>
<u>309,068</u>	<u>796,356</u>

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

	Special Revenue Funds				Total Special Revenue Funds
	Manage- ment	Physical Plant and Equipment Levy	Student Activity	Expendable Trust	
REVENUES:					
Local sources:					
Local tax	\$ 109,726	140,361	0	0	250,087
Other	13,201	401	144,004	20,412	178,018
Intermediate sources	547	0	0	0	547
Federal sources	0	43,442	0	0	43,442
TOTAL REVENUES	123,474	184,204	144,004	20,412	472,094
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	78,810	0	0	0	78,810
Other instruction	0	0	132,724	27,068	159,792
Support services:					
Administration services	12,000	0	0	0	12,000
Operation and maintenance of plant services	1,000	0	0	0	1,000
Transportation services	4,040	0	0	0	4,040
Other expenditures:					
Facilities acquisitions	0	192,102	0	0	192,102
Long-term debt:					
Principal	0	0	0	0	0
Interest and fiscal charges	0	0	0	0	0
TOTAL EXPENDITURES	95,850	192,102	132,724	27,068	447,744
Excess(deficiency) of revenues over(under) expenditures	27,624	(7,898)	11,280	(6,656)	24,350
OTHER FINANCING SOURCES(USES):					
Transfer in	0	0	0	10,526	10,526
Transfer out	0	(66,748)	0	(464)	(67,212)
Unrealized gain	0	0	0	277	277
TOTAL OTHER FINANCING SOURCES(USES)	0	(66,748)	0	10,339	(56,409)
Excess(deficiency) of revenues and other financing sources over(under) expenditures and other financing uses	27,624	(74,646)	11,280	3,683	(32,059)
FUND BALANCES BEGINNING OF YEAR	38,842	138,756	53,677	21,202	252,477
FUND BALANCES END OF YEAR	\$ 66,466	64,110	64,957	24,885	220,418

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Debt Service	Total Other Nonmajor Governmental Funds
306,350	556,437
1,404	179,422
0	547
0	43,442
<u>307,754</u>	<u>779,848</u>
0	78,810
0	159,792
0	12,000
0	1,000
0	4,040
0	192,102
225,078	225,078
149,020	149,020
<u>374,098</u>	<u>821,842</u>
(66,344)	(41,994)
66,748	77,274
0	(67,212)
0	277
<u>66,748</u>	<u>10,339</u>
404	(31,655)
<u>27,934</u>	<u>280,411</u>
<u>28,338</u>	<u>248,756</u>

NORTHWOOD-KENSETT 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
Drama	\$ 692	774	720	746
Speech	1,186	40	1,045	181
Vocal music	1,486	1,419	733	2,172
Vocal candy sales	5,629	0	0	5,629
Choir robe	738	202	0	940
High school band	21	180	243	(42)
JH band	135	80	268	(53)
Elementary band	173	214	453	(66)
High school band uniforms	2,485	597	1,751	1,331
JH band uniforms	345	264	392	217
High school horn rent/repair	310	288	36	562
Junior high horn	927	0	45	882
Elementary horn rent	0	32	144	(112)
Stage band	239	667	930	(24)
Band-pizza sales	512	49	302	259
Band trip	1,121	9,152	6,775	3,498
General athletics	281	2,354	2,065	570
Athletic passes	0	3,420	1,704	1,716
Boys Basketball	0	5,878	4,978	900
Football	770	12,627	9,777	3,620
District football	75	600	623	52
Baseball	0	791	2,652	(1,861)
boys track	0	1,061	3,746	(2,685)
Boys golf	0	31	267	(236)
Coop wrestling	4,617	5,154	4,047	5,724
Junior high wrestling	0	0	100	(100)
Girls basketball	0	3,889	4,374	(485)
Volleyball	0	3,060	2,863	197
Softball	0	2,225	4,504	(2,279)
Girls track	0	1,938	1,481	457
Girls golf	0	0	247	(247)
FFA	5,910	27,771	32,952	729
Honor society	9	140	144	5
High school student council	3,393	1,508	2,585	2,316
Student leadership	362	0	0	362
Cheerleaders	656	2,089	3,398	(653)
Junior high cheerleaders	47	0	0	47
NCNK cheerleaders	0	0	14	(14)
Class of 2004	209	0	209	0
Class of 2005	1,568	180	1,181	567
Class of 2006	556	2,190	1,763	983
Class of 2007	187	125	25	287
Class of 2008	182	0	79	103
Class of 2009	28	50	32	46
Class of 2010	0	65	15	50

NORTHWOOD-KENSETT 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
FCCLA club	0	124	117	7
Guidance	0	572	532	40
Student council magazine	0	14	14	0
Library	175	0	0	175
Stevens technology lab	936	0	936	0
Chip	135	120	77	178
Science projects	158	0	22	136
Student planner	772	1,027	1,694	105
Drug free school	2,853	0	2,853	0
HS activities	2,211	445	923	1,733
Athletic misc.	169	0	159	10
Beverage machine athletics	870	120	867	123
Yearbook	(3,116)	9,174	13,185	(7,127)
Pepsi donations	4,857	0	490	4,367
Interest on checking	148	183	0	331
Interest on CD's	343	430	0	773
Elementary activities	1,304	691	74	1,921
Band CD	7,013	40,000	11,119	35,894
Total	\$ 53,677	144,004	132,724	64,957

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Reuben/Helen Cornelius Scholarship	Gilbert Charles Stevens	Hellen Holstad
REVENUES:			
Interest	\$ 4,820	4,234	7,048
Donations	0	0	0
Refund of prior year expenditures	0	625	0
TOTAL REVENUES	<u>4,820</u>	<u>4,859</u>	<u>7,048</u>
EXPENDITURES:			
Scholarships	12,000	7,125	6,000
Supplies	0	0	0
TOTAL EXPENDITURES	<u>12,000</u>	<u>7,125</u>	<u>6,000</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(7,180)</u>	<u>(2,266)</u>	<u>1,048</u>
Other financing sources (uses):			
Transfer in	5,011	0	0
Unrealized gain (loss)	2,169	(844)	(1,048)
	<u>7,180</u>	<u>(844)</u>	<u>(1,048)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	0	(3,110)	0
Balance beginning of year	0	18,442	0
Balance end of year	<u>\$ 0</u>	<u>15,332</u>	<u>0</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 4

Pepsi	Building Trades	Osten Music	Ramsey Nature Center	Total
74	0	211	0	16,387
0	3,400	0	0	3,400
0	0	0	0	625
74	3,400	211	0	20,412
0	500	0	0	25,625
0	0	1,443	0	1,443
0	500	1,443	0	27,068
74	2,900	(1,232)	0	(6,656)
0	0	5,515	(464)	10,062
0	0	0	0	277
0	0	5,515	(464)	10,339
74	2,900	4,283	(464)	3,683
613	1,000	683	464	21,202
687	3,900	4,966	0	24,885

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

	Reuben/Helen Cornelius Scholarship	Gilbert Charles Stevens	Hellen Holstad
Additions:			
Interest	0	0	3,020
Deductions	0	0	0
EXCESS OF ADDITIONS OVER DEDUCTIONS	0	0	3,020
Other financing uses:			
Transfer out	(5,011)	0	0
EXCESS (DEFICIENCY) OF ADDITIONS AND OVER (UNDER) DEDUCTIONS AND OTHER FINANCING USES	(5,011)	0	3,020
Balance beginning of year	93,333	77,230	181,376
Balance end of year	\$ 88,322	77,230	184,396

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

<u>Pepsi</u>	<u>Osten Music</u>	<u>Total</u>
0	0	3,020
0	0	0
0	0	3,020
0	(5,515)	(10,526)
0	(5,515)	(7,506)
<u>5,112</u>	<u>20,015</u>	<u>377,066</u>
<u>5,112</u>	<u>14,500</u>	<u>369,560</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
DCAT/EMPOWERMENT				
Assets:				
Cash and other investments	\$ 0	18,999	18,999	0
Due from other groups	1,764	5,240	1,764	5,240
	<u>\$ 1,764</u>	<u>24,239</u>	<u>20,763</u>	<u>5,240</u>
Liabilities:				
Due to General Fund	\$ 1,764	3,604	1,764	3,604
Due to other groups	0	20,839	19,203	1,636
	<u>\$ 1,764</u>	<u>24,443</u>	<u>20,967</u>	<u>5,240</u>
RAMSEY NATURE CENTER				
Assets:				
Cash and other investments	\$ 0	464	98	366
	<u>\$ 0</u>	<u>464</u>	<u>98</u>	<u>366</u>
Liabilities:				
Due to other groups	\$ 0	464	98	366
	<u>\$ 0</u>	<u>464</u>	<u>98</u>	<u>366</u>
TOTAL				
Cash and other investments	\$ 0	19,463	19,097	366
Due from other groups	1,764	5,240	1,764	5,240
	<u>\$ 1,764</u>	<u>24,703</u>	<u>20,861</u>	<u>5,606</u>
Liabilities:				
Due to General Fund	\$ 1,764	3,604	1,764	3,604
Due to other groups	0	21,303	19,301	2,002
	<u>\$ 1,764</u>	<u>24,907</u>	<u>21,065</u>	<u>5,606</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 2,376,421	2,154,280	2,105,539	1,957,808
Tuition	81,471	64,500	22,003	21,913
Other	242,923	226,566	278,709	286,822
Intermediate sources	13,093	0	0	0
State sources	2,150,064	1,887,359	2,019,082	2,030,676
Federal sources	190,625	200,208	236,537	76,088
Total	<u>\$ 5,054,597</u>	<u>4,532,913</u>	<u>4,661,870</u>	<u>4,373,307</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 1,744,473	1,882,702	1,665,032	1,659,291
Special instruction	719,381	642,003	585,274	612,359
Other instruction	473,065	409,380	403,591	391,550
Support services:				
Student services	133,658	128,773	126,112	122,409
Instructional staff services	100,568	123,543	61,779	79,689
Administration services	450,089	427,141	395,175	386,335
Operation and maintenance of plant services	335,670	323,659	313,450	260,106
Transportation services	143,065	137,278	130,885	177,539
Other expenditures:				
Facilities acquisition	192,102	361,474	295,756	325,763
Long-term debt:				
Principal	225,078	219,167	191,510	163,595
Interest and other charges	149,020	157,512	161,524	169,389
AEA flowthrough	155,958	151,485	162,891	164,598
Total	<u>\$ 4,822,127</u>	<u>4,964,117</u>	<u>4,492,979</u>	<u>4,512,623</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

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

To the Board of Education of the
Northwood-Kensett 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 Northwood-Kensett Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 19, 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 Northwood-Kensett Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northwood-Kensett 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

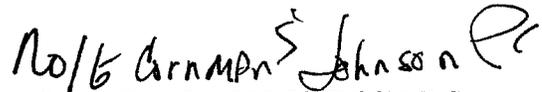
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immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

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 Northwood-Kensett Community School District and other parties to Northwood-Kensett 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 Northwood-Kensett Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

August 19, 2005

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

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

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

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

Conclusion - Response accepted.

I-B-05 Gate Admissions - The gate admissions were not reconciled to pre-numbered tickets.

Recommendation - The District should establish reconciliation procedures for gate admissions. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the admissions to the number of tickets issued.

Response - We will consider implementing a ticket system.

Conclusion - Response accepted.

I-C-05 Grants - We noted during our audit, that when expenditures for specific projects were posted; it appeared that the expenses were not always properly posted to those projects.

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

Response - We will ensure that all bills paid for a specific grant or project are properly coded according to Uniform Financial Accounting for Iowa LEAs and AEAs.

Conclusion - Response accepted.

I-D-05 Interest in Student Activity Fund - We noted during our audit that the District did not record interest in the Student Activity Fund.

Recommendation - Interest should be recorded and allocated out among the Student Activity accounts at year end.

Response - Interest will be recorded and allocated out among the Student Activity accounts at year end.

Conclusion - Response accepted.

I-E-05 Check Signatures - We noted during our audit instances of signatures other than the board secretary on District's checks. Chapter 291.1 of the Code of Iowa, requires two signatures on all checks, one being the board president and the other being the board secretary.

Recommendation - The District should review their procedures and make the necessary changes to assure there is two signatures on all checks.

Response - There will be two signatures on all checks; the Board President and the Board Secretary.

Conclusion - Response accepted.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS
 YEAR ENDED JUNE 30, 2005

Part II: Other Findings Related to Statutory Reporting

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

II-B-05 Certified Budget - District disbursements for the year ended June 30, 2005, exceeded the amount budgeted in the instructional, non-instructional and other expenditures functional area.

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

Response - We will amend future budgets before disbursements exceed the budget.

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 - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Jeanette Berge, Special ed aide Spouse owns Berge Oil	Oil/lubricants	\$897
Robin Fredericks, Bus driver & Aide Spouse co-owns A&I Auto	Tires & Repairs	\$3,058
Tom Sculley, Bus driver Terri Sculley, Aide Owns Village Florist	Supplies	\$186

In accordance with the Attorney's General's opinion dated November 9, 1976, the above transactions with the spouse of Jeanette Berge and Robin Fredericks do not appear to represent a conflict of interest.

In accordance with the Attorney's General's opinion dated July 2, 1990, the above transactions with Tom and Terri Sculley do not appear to represent a conflict of interest.

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 a variance in the basic enrollment data certified to the Department of Education. The number of students which were open enrolled out were understated by two students.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - The District will contact the Iowa Department of Education and the Department of Management to resolve this matter.

Conclusion - Response accepted.

II-I-05 Deposits and Investments - During our audit, we noted 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. Certain certificates of deposits were not receiving the proper rate of interest as mandated by the State of Iowa for public funds.

Recommendation - The District should contact the banks where the certificates of deposits are held and request for them to make the proper corrections.

Response - The bank was contacted and the proper corrections were made.

Conclusion - Response accepted.

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

II-K-05 Financial Condition - During our audit we noted that the District had negative account balances in the Student Activity Fund.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficit.

Response - The District will continue to monitor these funds and investigate alternatives to eliminate the deficit.

Conclusion - Response accepted.