VALLEY COMMUNITY SCHOOL DISTRICT

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

June 30, 2005

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VALLEY COMMUNITY SCHOOL DISTRICT

Officials

Name	Title	Term Expires
	Board of Education (Before September 2004 Election)	
Lois Dummermuth	President	2006
Greg Kleppe	Vice President	2004
Allen Knox	Board Member	2005
Mick Olson	Board Member	2005
Celeste Strong	Board Member	2006
	Board of Education (After September 2004 Election)	
Lois Dummermuth	President	2006
Greg Kleppe	Vice President	2007
Allen Knox	Board Member	2005
Mick Olson	Board Member	2005
Celeste Strong	Board Member	2006
	School Officials	
Cathleen Molumby	Superintendent	2005
Denise Dieckman	Business Manager/ District Treasurer	2005
Carole Nading	District Secretary	2005
T. David Katsumes	Attorney	2005

Dietz, Donald & Company
CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA
124A Main • P.O. Box 359
Elkader, Iowa 52043
(563) 245-2154 • (800) 310-2154

Independent Auditor's Report

To the Board of Education of
Valley 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 Valley Community School District, Elgin, 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 auding standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perfrom 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 Valley 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 reports dated October 10, 2005 on our consideration of Valley Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts,

and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 16 and 43 through 45 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Valley Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, 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.

Elkader, Iowa 52043

October 10, 2005

Dietz, Donald & Company

Dietz, Donald & Company, CPAs
FEIN 42-1172392

Valley Community School District

Cathleen A. Molumby, Superintendent

23493 Canoe Road
Elgin, IA 52141-9634
Ph. 563-426-5501 Fax 563-426-5502
www.valley.k12.ia.us

Management Discussion & Analysis

This section of the Valley Community School District's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2005. The analysis focuses on the District's financial performance as a whole. Please read it in conjunction with the District's financial statements, which follow this section.

2005 FINANCIAL HIGHLIGHTS

General Fund revenues increased overall by $ 159,742 compared to FY04, while expenditures increased $ 58,086. Total expenditures of $ 4,010,430 exceeded total revenues of $ 3,977,676 by $ 32,754. This resulted in a decrease in the District's General Fund balance from $ 454,724 to $ 421,970.

The increase in revenues was mostly attributable to an increase in state aid and federal grants, offset by a slight decrease in property tax and open enrollment receipts.

Salaries and benefits increased about $ 73,900, supplies and equipment decreased about $ 7,500, while purchased services decreased about $ 8,100.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

The first two statements are District-wide financial statements that

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provide both short-term and long-term information about the District's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.

The governmental funds statements explain how basic services such as regular and special education were financed in the short term as well as what remains for future spending.

Proprietary funds statements offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.

Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of Required Supplementary Information that further explains and supports the financial statements with a comparison of the District's budget for the year. Following the Required Supplementary Information, Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

District-wide Financial Statements

The District-wide 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 District-wide 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 position.

Over time, increases or decreases in the District's net assets may serve as an indicator of whether financial position is improving or deteriorating, respectively.

To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-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 taxes 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 food service program would be 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:

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 funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information included in Exhibits D and F explains the relationship or differences between the two statements.

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

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 District-wide 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 only one enterprise fund, school nutrition.

Fiduciary funds: The District is the trustee, or fiduciary, for assets that belong to others, such as the Northeast Iowa Health Occupations Consortium.

The District is responsible for ensuring that the assets reported in these 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.

DISTRICT-WIDE FINANCIAL ANALYSIS

Condensed Statement of Net Assets
(Expressed in Thousands)

	Governmental Activities June 30,		Business Type Activities June 30,		Total District June 30,		Total Change June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
Current and other assets	$ 3,336	3,624	97	104	3,433	3,728	- 7.9%
Capital assets	3,293	2,837	16	13	3,309	2,850	16.1%
Total assets	6,629	6,461	113	117	6,742	6,578	2.5%
Long-term liabilities	1,791	2,002	-	-	1,791	2,002	- 10.5%
Other liabilities	1,826	1,963	17	17	1,843	1,980	- 6.9%
Total Liabilities	3,617	3,965	17	17	3,634	3,982	- 8.7%
Net assets:							
Invested in capital assets, net of related debt	1,923	1,227	16	13	1,939	1,240	56.4%
Restricted	596	552	-	-	596	552	8.0%
Unrestricted	493	717	80	87	573	804	- 28.7%
Total net assets	$ 3,012	2,496	96	100	3,108	2,596	19.7%

The District's combined net assets increased by over 19%, or approximately $ 512,000 over the prior year. The largest portion of the District's net assets is the investment in capital assets (e.g., land, infrastructure, 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 increased approximately $ 44,000 or 8% over the prior year.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt convenants, enabling legislation or other legal requirements - decreased $ 231,000, or 29%. This decrease in unrestricted net assets was a result of money remaining in the Capital Projects Fund being used to finance approximately $ 101,000 in debt service.

Changes in Net Assets
(Expressed in Thousands)

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
Revenues:							
Program revenues:							
Charges for service	$ 304	310	120	114	424	424	- %
Operating grants, contributions and restricted interest	551	517	127	127	678	644	5.3%
Capital grants, contributions and restricted interest	226	874	-	-	226	874	- 74.1%
General revenues:							
Property tax	1,519	1,540	-	-	1,519	1,540	- 1.4%
Local option sales and service tax	234	148	-	-	234	148	58.1%
Unrestricted state grants	2,061	1,893	-	-	2,061	1,893	8.9%
Unrestricted investment earnings	29	19	2	1	31	20	55.0%
Other	26	27	-	-	26	27	- 3.7%
Total revenues	4,950	5,328	249	242	5,199	5,570	- 6.7%
Program expenses:							
Governmental activities:							
Instruction	2,752	2,744	-	-	2,752	2,744	.3%
Support services	1,351	1,309	-	-	1,351	1,309	3.2%
Non-instructional programs	-	-	253	234	253	234	8.1%
Other expenses	331	337	-	-	331	337	- 1.8%
Total expenses	4,434	4,390	253	234	4,687	4,624	1.4%
Change in net assets	$ 516	938	(4)	8	512	946	- 45.9%

Property taxes and unrestricted state grants account for 69% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 88% of the total expenses.

Governmental Activities

Revenues for governmental activities were $ 4,951,052 and expenses were $ 4,434,377. 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.

	Total and Net Cost of Governmental Activities (Expressed in Thousands)	
	Total Cost of Services	Net Cost of Services
Instruction	$ 2,752	$ 2,096
Support services	1,351	1,321
Other expenses	331	(63)
Totals	$ 4,434	$ 3,354

The cost financed by users of the District's programs was $ 304,469.

Federal and state governments subsidized certain programs with grants and contributions totaling $ 776,368.

The net cost of government activities was financed with $ 1,753,869 in property and other taxes and $ 2,061,548 in unrestricted state grants.

Business Type Activities

The District's only business-type activity is the School Nutrition Fund. The School Nutrition Fund balance stayed fairly steady at $ 96,337, an increase of $ 3,523 compared to last year. Revenues of this fund are comprised of charges for services, federal and state reimbursements and investment income. Expenses consist of employee wages, benefits, food, general supplies, repairs and depreciation. During the school year, a part-time employee was added. Also, continued from the previous year were programs offering breakfast bags for students to buy and salads for adults. The District has not increased lunch prices since 1997/98.

INDIVIDUAL FUND ANALYSIS

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

The financial performances of the District as a whole is reflected in its governmental funds as well. As the District completed fiscal year 2005, its governmental funds reported combined fund balances of $ 1,528,358, about $ 153,000 below last year's ending fund balances of $ 1,681,425. The primary reason for the decrease was completion of the construction projects and use of some of the QZAB loan funds that were obtained in FY04.

Governmental Fund Highlights

The General Fund balance decreased from $ 454,724 to $ 421,970, due mostly to increased expenditures in salaries and benefits.

The Physical Plant and Equipment Levy (PPEL) Fund balance increased by $ 26,831 to $ 464,904. Included in the ending balance is $ 253,497 of QZAB loan funds.

The Capital Projects Fund balance decreased by $ 164,886 to $ 485,870 due to expenditures for completing the construction projects begun the previous year. Included in the ending balance is $ 158,429 of unexpended QZAB loan funds.

The Management Fund ending balance increased to $ 50,044. Revenues (primarily property tax) increased from $ 63,597 to $ 72,342 and expenses increased slightly from $ 62,338 to $ 64,936, resulting in a net increase to the fund balance of about $ 7,400.

The Student Activity Fund ending balance decreased about $ 9,200 to $ 74,830. Expenses decreased about $ 19,200 mostly because there were no major trips taken by the music department during the year.

Proprietary Fund Highlights

Revenues of the District's Nutrition Fund activities increased 3.2% to $ 248,572, while expenses increased 7.8% to $ 252,095. As mentioned previously, a part-time employee was added again this year and special programs begun during FY04 were continued. If the operating balance exceeds three months normal operating costs, schools are to implement a plan of action to reduce the balance.

BUDGETARY HIGHLIGHTS

School districts have two levels of budgetary control. One form of budgetary control exists through the "certified budget". 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 its private purpose trust funds and agency funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's certified budget is prepared on the GAAP basis. It is certified with the County Auditor and Department of Management each year. Iowa school districts may not certify a general fund budget in excess of its spending authority.

A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report.

Over the course of the year, the District amended its certified budget once on June 13, 2005. The area of non-instructional programs was increased $ 17,000 because the District had hired an additional part-time food-service worker and costs for wages and food products were higher than anticipated.

Total expenditures were less than budgeted due primarily to the area

of Facility Acquisition and Construction. There were numerous projects in process at the time the budget was approved in April, 2004, and it was difficult to determine what the status would be on each of them during the following fiscal year. Projects in various stages at that time: JH-HS addition and remodeling, Early Childhood-Elementary Learning Center, HVAC projects, bleacher replacement, and a new phone system, along with other possible projects being discussed.

Actual General Fund expenditures were about $ 156,000 less than budgeted. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund, as explained in the next paragraph. The District then controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year for the General Fund.

The other level of budgetary control is the "unspent (maximum) authorized budget" and pertains only to the General Fund of the District. The maximum authorized budget is the total "spending authority" in the General Fund of the District. The unspent balance is a budgetary concept and does not mean the "actual General Fund cash". It is imperative for users of District financial information to make this important distinction. The unspent balance is the amount of spending authority that is carried over into the next fiscal year. The unspent balance is a budgetary carryover and does not represent actual dollars (General Fund cash) or actual financial position (unreserved, undesignated General Fund balance) of the District.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested $ 3.3 million net of accumulated depreciation, in a broad range of capital assets in the governmental funds. This includes land, buildings, equipment, transportation equipment, and construction in progress. **(See chart below).** More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year in the governmental funds was approximately $ 130,000.

The District has a capitalization threshold of $ 3,000 per asset for governmental funds. The threshold remains at $ 500 for business-type funds.

The School Nutrition Fund owned $ 15,986 in assets, net of depreciation. This is up slightly from $ 13,208 on June 30, 2004, due to the purchase of a new oven, salad bar, and storage cabinet.

Construction projects for an Early Childhood-Elementary Center and the JH/HS addition and remodeling were completed during the year, adding $ 1,719,340 to the building/building improvement category. Grants and donations totaling $ 937,615 were received during FY04 and FY05 toward the cost of these two projects.

A new phone system was installed during the year at a cost of $ 36,241 from PPEL QZAB loan funds.

The HVAC, classroom exit, and asbestos removal/rewrap project were completed during the year.

New gym bleachers were installed during the year using $ 47,755 of Capital Projects QZAB loan funds.

Capital Assets, net of Depreciation
(expressed in thousands)

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
Land	$ 33	6	-	-	33	6	4500.0%
Site improvements	39	42	-	-	39	42	- 7.1%
Buildings	3,161	1,489	-	-	3,161	1,489	1122.9%
Furniture and equipment	59	50	16	13	75	63	14.3%
Construction in progress	-	1,250	-	-	-	1,250	- 100.0%
Totals	$ 3,292	2,837	16	13	3,308	2,850	16.1%

Long-Term Debt

At year-end, the District had debt of $ 1,770,000 in general obligation bonds, revenue bonds, and capital loan notes. This represents a decrease of approximately $ 215,000 from last year. (See chart below). More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

Also previously noted, the District issued $ 220,000 in revenue bonds and $ 340,000 in capital loan notes to fund the QZAB no-interest loan that was awarded. Annual payments will be made to an escrow agent with both local option sales tax receipts and the voter-approved Physical Plant and Equipment Levy.

A payment of $ 145,000 was made on the existing general obligation bonds, lowering the balance due from $ 575,000 to $ 430,000.

A payment of $ 70,000 was made on the 2004 revenue bonds ($ 850,000 issue) lowering the balance to $ 780,000. Also outstanding are QZAB revenue bonds of $ 220,000 and QZAB capital loan notes of $ 340,000. The QZAB obligations are not due until 2013; however deposits will be sent to an escrow agent annually to hold for final payment.

	Outstanding Long-Term Obligations (expressed in thousands)		
	Total District June 30,		Total Change June 30,
	2005	2004	2004-2005
General obligation bonds	$ 430	575	- 25.2%
Revenue bonds	1,000	1,070	- 6.5%
Capital loan notes	340	340	-
Compensated absences	21	17	23.5%
Totals	$ 1,791	2,002	- 10.5%

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

Taxable valuation in the District increased slightly from $ 95,808,661 to $ 96,355,633.

Enrollment was up slightly in September of 2004, which determines FY06 funding. Combined with 4% allowable growth, the District will receive an additional $ 140,000 in state aid for 2005/06. However, property tax receipts will decrease $ 75,000.

Employment contract settlements for a three year period were reached with both bargaining groups. The package settlements are:

Certified Staff
2005/06: 4.0% 2006/07: 4.2% 2007/08: 4.4%

Support Staff
2005/06: 5.45% 2006/07: 4.32% 2007/08: 3.98%

Engineering has been done with the goal of expanding air conditioning into the media center. This project is currently on hold.

During the summer of 2005 carpeting was replaced in the media center and six classrooms.

Some sidewalks and fencing will be added to grounds, mostly in the area of the Early Childhood addition.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, and 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 Denice Diekman, Business Manager/Board Treasurer, or Cathleen Molumby, Superintendent.

Basic Financial Statements

Exhibit A

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2005

	Governmental Activities	Business type Activities	Total
ASSETS			
Cash and cash equivalents	$ 1,759,782	90,623	1,850,405
Receivables:			
Property tax:			
Delinquent	38,662	0	38,662
Succeeding year	1,419,813	0	1,419,813
Accounts	3,108	199	3,307
Due from other governments	115,073	0	115,073
Inventories	0	6,199	6,199
Capital assets, net of accumulated depreciation	3,292,485	15,986	3,308,471
TOTAL ASSETS	6,628,923	113,007	6,741,930
LIABILITIES			
Accounts payable	14,490	64	14,554
Salaries and benefits payable	373,777	11,566	385,343
Accrued interest payable	17,560	0	17,560
Deferred revenue:			
Succeeding year property tax	1,419,813	0	1,419,813
Other	0	5,040	5,040
Long-term liabilities:			
Portion due within one year			
General obligation bonds payable	150,000	0	150,000
Revenue bonds payable	70,000	0	70,000
Compensated absences	21,252	0	21,252
Portion due after one year			
General obligation bonds payable	280,000	0	280,000
Revenue bonds payable	930,000	0	930,000
Notes payable	340,000	0	340,000
TOTAL LIABILITIES	3,616,892	16,670	3,633,562
NET ASSETS			
Invested in capital assets, net of related debt	1,923,355	15,986	1,939,341
Restricted for:			
Management levy	50,044	0	50,044
Physical plant and equipment levy	464,904	0	464,904
Other special revenue purposes	81,055	0	81,055
Unrestricted	492,673	80,351	573,024
TOTAL NET ASSETS	$ 3,012,031	96,337	3,108,368

See notes to financial statements.

Exhibit B

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

FUNCTIONS/PROGRAMS	Expenses	Program Revenues: Charges for Service	Program Revenues: Operating Grants, Contributions and Restricted Interest	Program Revenues: Capital Grants, Contributions and Restricted Interest	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business Type Activities	Net (Expense) Revenue and Changes in Net Assets: Total
Governmental activities:							
Instruction:							
Regular instruction	$ 1,617,642	89,985	194,538	0	(1,333,119)	0	(1,333,119)
Special instruction	764,552	34,907	159,869	0	(569,776)	0	(569,776)
Other instruction	370,140	155,541	21,535	0	(193,064)	0	(193,064)
	2,752,334	280,433	375,942	0	(2,095,959)	0	(2,095,959)
Support services:							
Student services	109,244	4,526	1,638	0	(103,080)	0	(103,080)
Instructional staff services	112,473	459	3,486	0	(108,528)	0	(108,528)
Administration services	525,304	0	0	0	(525,304)	0	(525,304)
Operation and maintenance of plant services	379,828	8,567	643	0	(370,618)	0	(370,618)
Transportation services	222,092	10,484	0	0	(211,068)	0	(211,068)
Central support services	1,813	0	0	0	(1,813)	0	(1,813)
	1,350,754	24,036	5,767	0	(1,320,951)	0	(1,320,951)
Other expenditures:							
Facilities acquisition	6,743	0	0	225,509	218,766	0	218,766
Long-term debt interest	52,380	0	0	0	(52,380)	0	(52,380)
AEA flow-through	169,150	0	169,150	0	0	0	0
Depreciation (unallocated)	103,016	0	0	0	(103,016)	0	(103,016)
	331,289	0	169,150	225,509	63,370	0	63,370
Total governmental activities	4,434,377	304,469	550,859	225,509	(3,353,540)	0	(3,353,540)
Business type activities:							
Non-instructional programs:							
Food service operations	252,845	120,185	126,812	0	(750)	(5,098)	(5,848)
Total	$ 4,687,222	424,654	677,671	225,509	(3,354,290)	(5,098)	(3,359,388)
GENERAL REVENUES:							
Property taxes levied for:							
General purposes					1,285,346	0	1,285,346
Debt service					168,506	0	168,506
Capital outlay					65,738	0	65,738
Local option sales and services tax					234,279	0	234,279
Unrestricted state grants					2,061,548	0	2,061,548
Unrestricted interest earnings					29,086	1,575	30,661
Other					25,752	0	25,752
Total general revenues					3,870,255	1,575	3,871,830
Changes in net assets					515,965	(3,523)	512,442
Net assets beginning of year					2,496,066	99,860	2,595,926
Net assets end of year					$ 3,012,031	96,337	3,108,368

See notes to financial statements.

Exhibit C

VALLEY COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	General	Special Revenue Property, Plant and Equipment Levy	Capital Projects	Nonmajor	Total
ASSETS					
Cash and pooled investments	$ 732,358	463,243	417,795	146,386	1,759,782
Receivables:					
Property taxes:					
Delinquent	30,933	1,661	0	6,068	38,662
Succeeding year	1,101,299	64,013	0	254,501	1,419,813
Accounts	720	0	0	2,388	3,108
Due from other funds	0	0	22,440	909	23,349
Due from other governments	68,467	0	46,381	225	115,073
TOTAL ASSETS	$ 1,933,777	528,917	486,616	410,477	3,359,787
LIABILITIES AND FUND BALANCES					
Accounts payable	$ 13,382	0	746	362	14,490
Salaries and benefits payable	373,777	0	0	0	373,777
Due to other funds	23,349	0	0	0	23,349
Deferred revenue:					
Succeeding year property tax	1,101,299	64,013	0	254,501	1,419,813
Total liabilities	1,511,807	64,013	746	254,863	1,831,429
Fund balances:					
Reserved for library	0	0	0	6,225	6,225
Reserved for debt service	0	0	85,000	24,515	109,515
Unreserved	421,970	464,904	400,870	124,874	1,412,618
Total fund balances	421,970	464,904	485,870	155,614	1,528,358
TOTAL LIABILITIES AND FUND BALANCES	$ 1,933,777	528,917	486,616	410,477	3,359,787

See notes to financial statements.

Exhibit D

VALLEY 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 20).	$ 1,528,358
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	3,292,485
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.	(17,560)
Long-term liabilities, including bonds and notes payable and compensated absences, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(1,791,252)
Net assets of governmental activities (page 18).	$ 3,012,031

See notes to financial statements.

Exhibit E

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	General	Special Revenue Property, Plant and Equipment Levy	Capital Projects	Nonmajor	Total
Revenues:					
Local sources:					
Local tax	$ 1,215,177	77,720	234,279	239,662	1,766,838
Tuition	80,288	0	0	0	80,288
Other	64,568	8,186	42,518	181,328	296,600
State sources	2,387,475	59	0	215	2,387,749
Federal sources	227,365	0	191,684	0	419,049
Total revenues	3,974,873	85,965	468,481	421,205	4,950,524
Expenditures:					
Current:					
Instruction:					
Regular instruction	1,600,238	0	0	17,404	1,617,642
Special instruction	764,552	0	0	0	764,552
Other instruction	201,546	0	0	167,114	368,660
	2,566,336	0	0	184,518	2,750,854
Support services:					
Student services	108,469	0	0	775	109,244
Instructional staff services	110,057	0	0	447	110,504
Administration services	502,064	0	0	18,257	520,321
Operation and maintenance of plant services	347,308	0	0	20,444	367,752
Transportation services	205,233	0	0	6,859	212,092
Central support services	1,813	0	0	0	1,813
	1,274,944	0	0	46,782	1,321,726
Non-instructional programs	0	0	0	750	750
Other expenditures:					
Facilities acquisition	0	59,134	532,717	0	591,851
Long-term debt:					
Principal	0	0	0	215,000	215,000
Interest and fiscal charges	0	0	0	54,828	54,828
AEA flow-through	169,150	0	0	0	169,150
	169,150	59,134	532,717	269,828	1,030,829
Total expenditures	4,010,430	59,134	532,717	501,878	5,104,159
Excess (deficiency) of revenues over (under) expenditures	(35,557)	26,831	(64,236)	(80,673)	(153,635)

Exhibit E
(continued)

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	General	Special Revenue Property, Plant and Equipment Levy	Capital Projects	Nonmajor	Total
Other financing sources (uses)					
Operating Transfers in	2,235	0	0	100,650	102,885
Operating Transfers out	0	0	(100,650)	(2,235)	(102,885)
Sale of equipment	568	0	0	0	568
Total other financing sources (uses)	2,803	0	(100,650)	98,415	568
Net change in fund balances	(32,754)	26,831	(164,886)	17,742	(153,067)
Fund balances beginning of year	454,724	438,073	650,756	137,872	1,681,425
Fund balances end of year	$ 421,970	464,904	485,870	155,614	1,528,358

See notes to financial statements.

Exhibit F

VALLEY 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 23).		$ (153,067)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year as follows:		
Expenditures for capital assets	$ 585,108	
Depreciation expense	(129,537)	455,571
Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Assets.		215,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		2,448
Some expenses reported in the Statement of Activities do not rquire the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Compensated absences		(3,987)
Change in net assets of governmental activities (page 19)		$ 515,965

See notes to financial statements.

Exhibit C

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2005

	School Nutrition
ASSETS	
Cash and cash equivalents	$ 90,623
Accounts receivable	199
Inventories	6,199
Capital assets, net of accumulated depreciation	15,986
TOTAL ASSETS	113,007
LIABILITIES	
Accounts payable	64
Salaries and benefits payable	11,566
Deferred revenue	5,040
TOTAL LIABILITIES	16,670
NET ASSETS	
Invested in capital assets, net of related debt	15,986
Unrestricted	80,351
TOTAL NET ASSETS	$ 96,337

See notes to financial statements.

Exhibit H

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
Year Ended June 30, 2005

	School Nutrition
Operating revenues:	
Local sources:	
Charges for service	$ 120,185
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	81,019
Benefits	32,937
Purchased services	1,647
Supplies	133,738
Depreciation	2,754
Total operating expenses	252,095
Operating loss	(131,910)
Non-operating revenues:	
State sources	3,332
Federal sources	123,480
Interest income	1,575
	128,387
Change in net assets	(3,523)
Net assets beginning of year	99,860
Net assets end of year	$ 96,337

See notes to financial statements.

Exhibit I

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2005

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	118,358
Cash received from miscellaneous operating activities	2,034
Cash paid to employees for services	(114,725)
Cash paid to suppliers for goods or services	(117,087)
Net cash used by operating activities	(111,440)
Cash flows from non-capital financing activities:	
State grants received	3,332
Federal grants received	105,152
Net cash provided by non-capital financing activities	108,484
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(5,532)
Cash flows from investing activities:	
Interest on investments	1,575
Net decrease in cash and cash equivalents	(6,913)
Cash and cash equivalents beginning of year	97,536
Cash and cash equivalents end of year	$ 90,623

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2005

	School Nutrition
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	$ (131,910)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	18,328
Depreciation	2,754
Decrease in accounts receivable	299
Increase in inventories	(75)
Increase in accounts payable	45
Decrease in salaries and benefits payable	(769)
Decrease in deferred revenue	(112)
Net cash used by operating activities	$ (111,440)

Non-cash investing, capital and financing activities:
During the year ended June 30, 2005, the District received $ 18,328 of federal commodities.

See notes to financial statements.

Exhibit J

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
June 30, 2005

	Agency
ASSETS	
Cash and pooled investments	$ 748
Due from other governments	68
TOTAL ASSETS	816
LIABILITIES	
Due to other governments	816
NET ASSETS	$ 0

See notes to financial statements.

(1) Summary of Significant Accounting Policies

Valley Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. 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 Clermont, Elgin and Wadena, Iowa and the predominate agricultural territory of eastern Fayette and western Clayton Counties. The District is governed by a Board of Education whose members are elected on a nonpartisan 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 Valley 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. Valley Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The District participates in two jointly governed organizations that provide services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Fayette County Assessor's Conference Board and the Clayton County Assessor's Conference Board.

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that

are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Special Revenue Property, Plant and Equipment Levy Fund is used to account for revenues derived from the property, plant and equipment levy which are required by law to be accounted for in a separate fund.

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

The District reports the following major proprietary fund:

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

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund is the following:

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

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are reported 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 the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

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

Proprietary funds distinguish operating revenues and expenses from non-operating 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 non-operating revenues and expenses.

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

D. Assets, Liabilities and Fund Equity

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

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

cost and non-negotiable certificates of deposit which are stated at cost.

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

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

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

Property tax revenue recognized in these funds 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 that when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the

value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	$ 3,000
Buildings	3,000
Improvements other than buildings	3,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	3,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	20-50 years
Improvements other than buildings	20 years
Furniture and equipment	4-12 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are 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 represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected withing the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied, unspent grant revenues and lunch fees collected in advance.

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. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. 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 assets 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. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

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

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

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of $ 651,299 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental

Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust in not subject to risk categorization.

(3) Interfund Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	$ 100,650
General	Student Activity	2,335

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

(4) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 6,000	26,907	-	32,907
Construction in progress	1,249,894	473,996	1,723,890	-
Total capital assets not being depreciated	1,255,894	500,903	1,723,890	32,907
Capital assets being depreciated:				
Buildings	2,495,963	1,788,162	25,521	4,258,604
Site improvements	60,487	-	-	60,487
Furniture and equipment	387,189	36,241	45,920	377,510
Total capital assets being depreciated	2,943,639	1,824,403	71,441	4,696,601
Less accumulated depreciation for:				
Buildings	1,006,948	99,992	9,213	1,097,727
Site improvements	18,465	3,024	-	21,489
Furniture and equipment	337,206	26,521	45,920	317,807
Total accumulated depreciation	1,362,619	129,537	55,133	1,437,023
Total capital asset being depreciated, net	1,581,020	1,694,866	16,308	3,259,578
Governmental activities capital assets, net	$ 2,836,914	2,195,769	1,740,198	3,292,485

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Furniture and equipment	$ 63,384	5,532	-	68,916
Less accumulated depreciation	50,176	2,754	-	52,930
Business type activities capital assets, net	$ 13,208	2,778	-	15,986

Depreciation expense was charged to the following functions:

Governmental activities:	
Instruction:	
Other	$ 1,480
Support services:	
Instructional staff	1,969
Operation and maintenance of plant	13,072
Transportation	10,000
	26,521
Unallocated	103,016
Total depreciation expense-governmental activities	$ 129,537
Business type activities	
Food service operations	$ 2,754

(5) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	$ 575,000	-	145,000	430,000	150,000
Revenue bonds	1,070,000	-	70,000	1,000,000	70,000
Notes payable	340,000	-	-	340,000	-
Compensated absences	17,265	13,175	9,188	21,252	21,252
Total	$ 2,002,265	13,175	224,188	1,791,252	241,252

Early Retirement

The District offers voluntary early retirement plans to both its certified employees and support employees. Eligible employees must

have completed fifteen years of continuous contracted halftime or greater service to the District and be at least 55 years old as of June 30 of the school year in which the employee applied to participate in the early retirement plan.

Each participating employee shall receive as early retirement pay an amount equal to 25% of the employee's current annual contracted base salary, excluding any overtime pay, extra duty pay, extra-curricular pay, supplemental pay, Phase II and Phase III monies, Teacher Compensation Funds, pay pursuant to any extended contracts or shift differentials or any other payment not included in the employee's current annual contracted base salary.

This plan will only be offered until February 1, 2007.

Early retirement expenditures for the year ended June 30, 2005 totaled $ 0.

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, 2001			
	Interest Rates	Principal	Interest	Total
2006	4.10%	$ 150,000	17,977	167,977
2007	4.20%	145,000	11,828	156,828
2008	4.25%	135,000	5,737	140,737
Total		$ 430,000	35,542	465,542

Revenue Bonds Payable

Details of the District's June 30, 2005 local option sales and service tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of Sep 1, 2003			Bond Issue Dec 28, 2003		Total		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Principal	Interest	Total
2006	3.35	$ 70,000	27,955	0	$ 0	70,000	27,955	97,955
2007	3.35	75,000	25,526	0	0	75,000	25,526	100,526
2008	3.35	80,000	22,930	0	0	80,000	22,930	102,930
2009	3.35	80,000	20,250	0	0	80,000	20,250	100,250
2010	3.50	85,000	17,423	0	0	85,000	17,423	102,423
2011	3.80	90,000	14,225	0	0	90,000	14,225	104,225
2012	4.00	95,000	10,615	0	0	95,000	10,615	105,615
2013	4.20	100,000	6,615	0	0	100,000	6,615	106,615
2014	4.30	105,000	2,257	0	220,000	325,000	2,257	327,257
Total		$ 780,000	147,796	0	$ 220,000	$ 1,000,000	147,796	1,147,796

The local option sales and service tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. The resolution providing for the issuance of the September 1, 2003 local option sales and services tax revenue bonds included the following provisions:

a) $ 85,000 of the proceeds from the issuance of the revenue bonds shall be deposited to the Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited in the Project Account.

b) All proceeds from the local option sales and service tax shall be placed in a Revenue Account.

c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.

d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

The resolution providing for the issuance of the District's December 28, 2003 local option sales and service tax revenue bonds includes the following provisions:

a) To provide for the payment of the bonds at maturity there is established with the Bank of America, N.A. of Des Moines, Iowa an irrevocable trust fund for the benefit of bondholders known as the Escrow Account to be invested as per the Investment Agreement. Annually, on July 1 of each year commencing July 1, 2005, there shall be deposited from the Sinking Fund into the Escrow Fund $ 22,545 to be invested in accordance with the terms of the Investment Agreement. Such amount has been determined to be sufficient together with invested earnings thereon to pay when due the principal of the bonds. The Escrow Fund is pledged to the payment of the bonds at maturity.

Notes Payable

During the year ended June 30, 2004 the District issued Capital Loan Notes (Qualified Zone Academy Bonds) to provide funds for the equipping, rehabilitation and repair of the School. The notes bear no interest and are payable from the Special Revenue, Physical Plant and Equipment Levy Fund (PPEL Fund). On July

1 of each year commencing July 1, 2005, there shall be deposited from the PPEL Fund to the Escrow Fund $ 34,845 to be invested in accordance with the Investment Agreement and held in trust for the benefit of the holders of the Note until final maturity July 1, 2013. In any year in which taxable valuations within the District are of an amount that the tax collections will be less than $ 34,845, the District shall certify to each County Auditor an additional tax levy to the full extent of 45¢ per thousand dollars of assessed valuation. Details of the District's indebtedness under the agreement in effect at June 30, 2005 are as follows:

Year Ending	December 28, 2003 Capital Loan Notes	
June 30,	Principal	Interest
2014	$ 340,000	0

(6) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were $ 147,992, $ 143,347 and $ 140,053, respectively, equal to the required contributions for each year.

(7) Risk Management

Valley Community School District is exposed to various risks of loss related to torts; thefts; 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 for these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided

through the area education agency. The District's actual amount for this purpose totaled $ 169,150 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Lease Commitments

The District has various leases for equipment and buildings which are classified as operating leases. Rent expense for all operating leases for the year ended June 30, 2005 totaled $ 84,684.

Future minimum lease payments under the noncancelable operating leases with initial or remaining terms of one year or more are as follows:

Year Ended June 30,	Amount
2006	$ 85,390
2007	45,589
2008	6,919

Required Supplementary Information

VALLEY COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN BALANCES
BUDGET AND ACTUAL-ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2005

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts Original	Budgeted Amounts Final	Final to Total Actual Variance
Revenues:						
Local sources	$ 2,143,726	121,760	2,265,486	2,162,186	2,162,186	103,300
State sources	2,387,749	3,332	2,391,081	2,415,218	2,415,218	(24,137)
Federal sources	419,049	123,480	542,529	1,246,295	1,246,295	(703,766)
Total revenues	4,950,524	248,572	5,199,096	5,823,699	5,823,699	(624,603)
Expenditures:						
Instruction	2,750,854	0	2,750,854	2,848,583	2,848,583	97,729
Support services	1,321,726	0	1,321,726	1,371,677	1,371,677	49,951
Non-instructional programs	750	252,095	252,845	243,355	260,355	7,510
Other expenditures	1,030,829	0	1,030,829	1,845,221	1,845,221	814,392
Total expenditures	5,104,159	252,095	5,356,254	6,308,836	6,325,436	969,582
Deficiency of receipts under disbursements	(153,635)	(3,523)	(157,158)	(485,137)	(502,137)	344,979
Other financing sources, net	568	0	568	0	0	568
Deficiency of receipts and other financing sources under disbursements	(153,067)	(3,523)	(156,590)	(485,137)	(502,137)	345,547
Balances beginning of year	1,681,425	99,860	1,781,285	1,382,727	1,382,727	398,558
Balances end of year	$ 1,528,358	96,337	1,624,695	897,590	880,590	744,105

See accompanying independent auditor's report.

VALLEY COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information-Budgetary Reporting
Year Ended June 30, 2005

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 Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the modified accrual basis.

Formal and legal budgetary control of 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 by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by $ 17,000.

Other Supplementary Information

Schedule 1

VALLEY COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR FUNDS
June 30, 2005

	Special Revenue Funds				
	Library Trust	Management Levy	Student Activity	Debt Service	Total
ASSETS					
Cash and pooled investments	$ 6,225	48,234	71,670	20,257	146,386
Receivables:					
Property tax:					
Delinquent	0	1,810	0	4,258	6,068
Succeeding year	0	91,545	0	162,956	254,501
Accounts	0	0	2,388	0	2,388
Due from other funds	0	0	909	0	909
Due from other governments	0	0	225	0	225
TOTAL ASSETS	$ 6,225	141,589	75,192	187,471	410,477
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 0	0	362	0	362
Deferred revenue:					
Succeeding year property tax	0	91,545	0	162,956	254,501
Total liabilities	0	91,545	362	162,956	254,863
Fund balances:					
Reserved for:					
Library	6,225	0	0	0	6,225
Debt services	0	0	0	24,515	24,515
Unreserved	0	50,044	74,830	0	124,874
Total fund balances	6,225	50,044	74,830	24,515	155,614
TOTAL LIABILITIES AND FUND EQUITY	$ 6,225	141,589	75,192	187,471	410,477

See accompanying independent auditor's report.

Schedule 2

VALLEY COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR FUNDS
Year Ended June 30, 2005

	Special Revenue Funds				
	Library Trust	Management Levy	Student Activity	Debt Service	Total
Revenues:					
Local sources:					
Local tax	$ 0	71,040	0	168,622	239,662
Other	105	1,239	178,588	1,396	181,328
State sources	0	63	0	152	215
Total revenues	105	72,342	178,588	170,170	421,205
Expenditures:					
Current:					
Instruction:					
Regular instruction	0	17,404	0	0	17,404
Other instruction	0	0	167,114	0	167,114
Support services:					
Student services	0	775	0	0	775
Instructional staff	0	447	0	0	447
Administration services	0	18,257	0	0	18,257
Operation and maintenance of plant services	0	20,444	0	0	20,444
Transportation services	0	6,859	0	0	6,859
Non-instructional programs:					
Food service operations	0	750	0	0	750
Other expenditures:					
Long-term debt:					
Principal	0	0	0	215,000	215,000
Interest and fiscal charges	0	0	0	54,828	54,828
Total expenditures	0	64,936	167,114	269,828	501,878
Excess (deficiency) of revenues over (under) expenditures	105	7,406	11,474	(99,658)	(80,673)
Other financing sources (uses)					
Operating transfers in	0	0	0	100,650	100,650
Operating transfers out	0	0	(2,235)	0	(2,235)
Total other financing sources (uses)	0	0	(2,235)	100,650	98,415
Net change in fund balances	105	7,406	9,239	992	17,742
Fund balances beginning of year	6,120	42,638	65,591	23,523	137,872
Fund balances end of year	$ 6,225	50,044	74,830	24,515	155,614

See accompanying independent auditor's report.

Schedule 3

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITIES ACCOUNT
Year Ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance End of Year
Interest	$ 46	1,383	(27)	(1,248)	208
Drama	4,093	1,835	2,990	0	4,938
Junior High Drama	672	309	38	0	893
Speech	(8)	195	1,307	0	(1,120)
Vocal Music	10,911	17,369	13,633	2,443	17,090
Instrumental Music	(2,185)	2,805	1,494	2,016	1,142
Band Carnival	0	7,020	2,378	(1,800)	2,842
Band Uniforms	6,389	129	0	1,800	8,318
Magazine Sales	0	12,267	8,234	(4,033)	0
Student O	2,501	4,174	3,776	0	2,899
FFA	9,266	15,249	18,422	5,434	11,527
FFA Pop	5,434	0	0	(5,434)	0
Student Council	4,274	19,407	21,973	0	1,708
Junior High Student Council	689	4,503	5,729	964	427
Yearbook	(1,041)	6,477	7,732	2,779	483
Class of 2004	731	0	0	(731)	0
Class of 2005	4,475	787	4,503	(800)	(41)
Class of 2006	1,651	11,356	7,392	(583)	5,032
Class of 2007	1,270	420	51	0	1,639
Class of 2008	779	597	109	0	1,267
Class of 2009	410	390	0	0	800
Class of 2010	0	410	0	0	410
General Athletics	3,051	34,198	33,333	(2,889)	1,027
Football Cheerleaders	748	2,173	2,085	0	836
Athletic Resale	21	0	0	0	21
Drill Team	(894)	0	68	0	(962)
Wrestling Cheerleaders	(827)	1,444	1,270	0	(653)
Wrestling Fundraisers	(195)	366	366	0	(195)
Girls' Basketball Fundraisers	0	3,585	3,750	0	(165)
Volleyball Fundraisers	4,202	1,459	3,010	0	2,651
Softball Fundraisers	1,612	2,420	3,876	0	156
Football Fundraisers	1,810	6,655	3,573	0	4,892
Baseball Fundraisers	539	4,983	3,060	(427)	2,035
Boys' Track Fundraisers	2,972	843	1,334	(1,486)	995
Golf Fundraisers	(316)	1,052	1,022	0	(286)
Girls' Scare Basketball Tournament	891	0	0	0	891
Boys' Basketball Fundraisers	1,674	1,701	3,006	0	369
Junior High Athletics	(5)	70	2,574	2,509	0
Girls' Track Fundraisers	0	6,638	5,802	1,486	2,322
Cross Country Fundraisers	0	1,969	1,285	0	684
National Honor Society	0	0	250	0	(250)
Total	$ 65,590	178,588	169,348	0	74,830

See accompanying independent auditor's report.

Schedule 4

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
AGENCY FUND
Year Ended June 30, 2005

ASSETS	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Cash	$ 2,247	55,707	57,206	748
Due from other governments	753	68	753	68
TOTAL ASSETS	$ 3,000	55,775	57,959	816
LIABILITIES				
Due to other governments	$ 3,000	55,775	57,959	816

See accompanying independent auditor's report.

Schedule 5

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	$ 1,766,838	1,688,618	1,589,022	1,307,504
Tuition	80,288	113,882	103,641	89,371
Other	296,600	257,836	212,421	243,630
State sources	2,387,749	2,217,454	2,339,837	2,458,041
Federal sources	419,049	1,050,836	192,486	181,447
Total	$ 4,950,524	5,328,626	4,437,407	4,279,993
Expenditures:				
Instruction:				
Regular instruction	1,617,642	1,672,441	1,644,630	1,610,235
Special instruction	764,552	651,501	591,447	590,064
Other instruction	368,660	421,808	391,355	438,456
Support services:				
Student services	109,244	97,044	99,273	91,977
Instructional staff services	110,504	145,799	205,228	212,526
Administration services	520,321	483,493	490,094	459,783
Operation and maintenance of plant services	367,752	372,824	319,080	307,412
Transportation services	212,092	233,259	203,149	199,596
Central support services	1,813	1,574	2,072	1,287
Non-instructional programs	750	564	489	256
Other expenditures:				
Facilities acquisition	591,851	1,334,186	105,299	35,545
Long-term debt:				
Principal	215,000	135,000	135,000	125,000
Interest and other charges	54,828	90,423	34,472	40,671
AEA flow-through	169,150	169,534	182,995	185,381
Total	$ 5,104,159	5,809,450	4,404,583	4,298,189

See accompanying independent auditor's report.

Schedule 6

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2005

Grant or/Program	CFDA Number	Grant Number	Expenditures
Direct:			
U.S. Department of Agriculture:			
Community Facilities Loans and Grants	10.766	FY 04	$ 91,390
U.S. Department of Education:			
Rural Education Achievement Program	84.358	FY 05	23,799
Indirect:			
U.S. Department of Agriculture			
Iowa Department of Education:			
Food Donation (non-cash)	10.550	FY 05	18,328
School Nutrition Cluster Programs:			
School Breakfast Programs	10.553	FY 05	3,881
School Lunch Programs	10.555	FY 05	101,204
After School Snack	10. Unknown	FY 05	67
			105,152
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Education Agencies	84.010	FY 05	100,376
Safe and Drug-Free Schools and Communities-State Grants	84.186	FY 04	555
Safe and Drug-Free Schools and Communities-State Grants	84.186	FY 05	3,297
			3,852
Fund for the Improvement of Education	84.215	FY 03	100,294
Innovative Education Program Strategies (Title V Program)	84.298	FY 05	7,136
Title II A - Federal Teacher Quality Program	84.367	FY 05	21,961
Grants for State Assessments and Related Activities	84.369	FY 05	3,486
Keystone Area Education Agency:			
Special Education Grants to States	84.027	FY 05	28,544
Twenty-first Century Community Learning Centers	84.287	FY 05	2,000
Vocational Education-Basic Grants to States	84.048	FY 05	6,436
Tech-Prep Education	84.243	FY 05	227
Eisenhower Professional Development Grants	84.281	FY 05	91
Total			$ 513,072

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2005

BASIS OF PRESENTATION - The Schedule of Expenditures of Federal Awards includes the grant activity of Valley Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

Dietz, Donald & Company
CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA
124A Main • P.O. Box 359
Elkader, Iowa 52043
(563) 245-2154 • (800) 310-2154

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Education of the
Valley Community School District

We have audited the financial statements of Valley Community School District as of and for the year ended June 30, 2005, and have issued our report thereon dated October 10, 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.

Compliance

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

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. Prior year statutory comments have all been resolved.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Valley Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses as defined above. There were no material weaknesses in the prior year's report.

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

We would like to ackowledge the many courtesies and assistance extended to us by personnel of Valley 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.

Elkader, Iowa

October 10, 2005

Dietz, Donald & Company, CPAs
FEIN 42-1172392

Dietz, Donald & Company
CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA
124A Main • P.O. Box 359
Elkader, Iowa 52043
(563) 245-2154 • (800) 310-2154

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE

To the Board of Education of
Valley Community School District

Compliance

We have audited the compliance of Valley Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major programs for the year ended June 30, 2005. Valley Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Commpliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of Valley Community School District's management. Our responsibility is to express an opinion on Valley Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Valley Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Valley Community School District's compliance with those requirements.

In our opinion, Valley Community School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Valley Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Valley Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance that we consider to be material weaknesses.

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

Elkader, Iowa

October 10, 2005

Dietz, Donald & Company

Dietz, Donald & Company, CPAs
FEIN 42-1172392

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2005

Part I: Summary of the Independent Auditor's Results

(a) An unqualified opinion was issued on the financial statements.

(b) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.

(c) The audit did not disclose any non-compliance which is material to the financial statements.

(d) No reportable conditions in internal control over the major programs were disclosed by the audit of the financial statements.

(e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.

(f) The audit disclosed no findings that were required to be reported in accordance with Section .510(a) of Circular A-133.

(g) Major programs were as follows:
-CFDA Number 10.766 Community Facilities Loans and Grants
-CFDA Number 84.010 Title Grants to Local Education Agencies
-CFDA Number 84.215 Fund for the Improvement of Education

(h) The dollar threshold used to distinguish between Type A and Type B programs was $ 300,000.

(i) Valley Community School District did not qualify as a low-risk auditee.

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2005

Part II - Findings Related to the General Purpose Financial Statements

INSTANCES OF NON-COMPLIANCE
No matters were noted.

REPORTABLE CONDITIONS
No matters were noted.

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2005

Part III - Findings and Questioned Costs For Federal Awards

INSTANCES OF NON-COMPLIANCE
No matters were noted.

REPORTABLE CONDITIONS
No matters were noted.

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
Year Ended June 30, 2005

Part IV: Other Findings Related to Statutory Reporting

IV-A-03 **Official Depositories** - A resolution naming official depositories has been approved by the District. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

IV-B-03 **Certified Budget** - Disbursements for the year ended June 30, 2005 did not exceed the amounts budgeted.

IV-C-03 **Questionable Disbursements** - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-D-03 **Travel Expenses** - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-E-03 **Business Transactions** - No business transactions between the District and District officials or employees were noted.

IV-F-03 **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 converage is adequate for current operations.

IV-G-03 **Board Minutes** - We noted no transactions requiring Board approval which had not been approved by the Board.

IV-H-04 **Certified Enrollment** - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-I-03 **Deposits and Investments** - No instances of non-compliance with the deposits and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy were noted.

IV-J-03 **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.