

TIPTON COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2004

TIPTON COMMUNITY SCHOOL DISTRICT
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TIPTON COMMUNITY SCHOOL DISTRICT

OFFICIALS
June 30, 2004

Name	Title	Term Expires
Board of Education		
(Before September 2003 Election)		
Robert Young	Board President	2005
Michael Herring	Board Member	2003
Mark Stueland	Board Member	2003
Karla Gaul	Board Member	2004
Steve Emrich	Board Member	2004
(After September 2003 Election)		
Robert Young	Board President	2005
Karla Gaul	Board Member	2004
Steve Emrich	Board Member	2004
Bill Schwitzer	Board Member	(appointed October 2003) 2006
Ed Pelzer	Board Member	2006
School Officials		
Jeffory Corkery	Superintendent	2004
James Becker	District Secretary/Treasurer	2004
Brian Gruhn	Attorney	2004

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563-264-1385

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Tipton Community School District
Tipton, Iowa

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

I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I 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. I believe my audit provides a reasonable basis for my opinions.

In my 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 Tipton Community School District as of June 30, 2004, 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.

As described in Note 13 to the financial statements, during the year ended June 30, 2004, Tipton Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosure; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, I have also issued my reports dated July 30, 2004 on my consideration of Tipton Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations and contracts. 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 my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 14 and 46 through 47 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Tipton Community School District's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.



Kay L. Chapman, CPA PC
July 30, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Tipton Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

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

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,919,703 in fiscal 2003 to \$5,939,101 in fiscal 2004, while General Fund expenditures increased from \$5,869,058 in fiscal 2003 to \$6,149,178 in fiscal 2004. The District's General Fund balance decreased from \$1,066,937 in fiscal 2003 to \$839,525 in fiscal 2004, a 21% decrease.
- The increase in General Fund revenues was attributable to an increase in tuition from local sources and federal grant revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits. One reason the General Fund balance decreased is because the negotiated salary and benefits settlement was greater than the District's increase in General Fund revenue for fiscal 2004. As a result, the District funded a portion of the current year General Fund salaries and benefits from the carryover fund balance.
- During the year ended June 30, 2004, the State of Iowa imposed a 2.5 percent across the board reduction of which 10% of the reduction was returned to the District at the end of fiscal year 2004. This reduced the General Fund revenues by approximately \$70,000. Since the reduction occurred mid year, the District had already obligated the resources to fund fiscal 2004 salaries and programs. The District responded to the reduction by using a portion of the District's unreserved, undesignated fund balance.
- A decline in interest rates during the past three fiscal years, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone decreasing from \$33,011 in fiscal 2003 to \$18,836 in fiscal 2004.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Tipton 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 Tipton 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 Tipton Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

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

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

Other Supplementary Information provides detailed information about the non-major Governmental Funds.

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

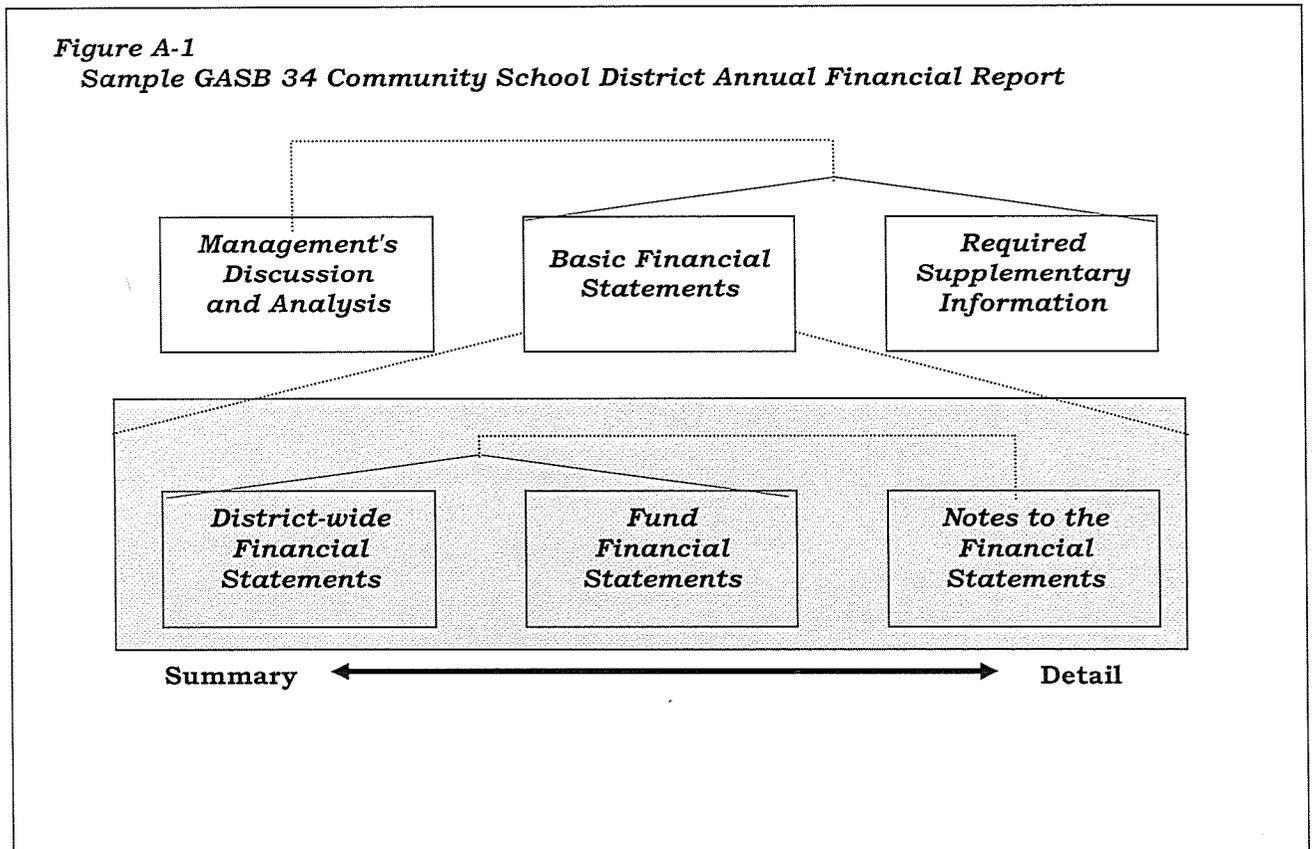


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, 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 proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

- 3) *Fiduciary funds*: The District is the 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 Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

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

The required financial statements for fiduciary funds includes 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 at June 30, 2004 compared to June 30, 2003.

Figure A-3

	Condensed Statement of Net Assets						
	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2004	2003	2004	2003	2004	2003	2003-2004
Current and other assets	\$ 4,946,415	\$ 6,277,623	\$ 42,859	\$ 21,829	\$ 4,989,274	\$ 6,299,452	-20.80%
Capital assets	<u>6,651,584</u>	<u>6,769,562</u>	<u>115,554</u>	<u>133,142</u>	<u>6,767,138</u>	<u>6,902,704</u>	-1.96%
Total assets	<u>11,597,999</u>	<u>13,047,185</u>	<u>158,413</u>	<u>154,971</u>	<u>11,756,412</u>	<u>13,202,156</u>	-10.95%
Long-term obligations	3,455,058	3,692,085	-	-	3,455,058	3,692,085	-6.42%
Other liabilities	<u>4,133,194</u>	<u>5,331,639</u>	<u>16,729</u>	<u>18,779</u>	<u>4,149,923</u>	<u>5,350,418</u>	-22.44%
Total liabilities	<u>7,588,252</u>	<u>9,023,724</u>	<u>16,729</u>	<u>18,779</u>	<u>7,604,981</u>	<u>9,042,503</u>	-15.90%
Net assets							
Invested in capital assets, net of related debt	3,196,524	3,042,946	115,554	133,142	3,312,078	3,176,088	4.28%
Restricted	279,509	306,960	-	-	279,509	306,960	-8.94%
Unrestricted	<u>533,712</u>	<u>647,250</u>	<u>26,130</u>	<u>3,050</u>	<u>559,842</u>	<u>650,300</u>	-13.91%
Total net assets	<u>\$ 4,009,745</u>	<u>\$ 3,997,156</u>	<u>\$141,684</u>	<u>\$ 136,192</u>	<u>\$ 4,151,429</u>	<u>\$ 4,133,348</u>	0.44%

The District's combined net assets increased by approximately .5%, or approximately \$18,000, over the prior year. The largest portion of the District's net assets is the invested 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 decreased approximately \$27,451, or 8.9% over the prior year. The decrease was primarily a result of a decrease in early retirement benefits payable in fiscal year 2004.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately 113,538, or 14%. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

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

	<u>Change in Net Assets</u>		
	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total School</u> <u>District</u>
Revenues			
Program revenues			
Charges for service and sales	\$ 630,066	\$ 210,871	\$ 840,937
Operating grants, contributions and restricted interest	659,624	102,484	762,108
Capital grants, contributions and restricted interest	-	-	-
General revenues			
Property tax	2,921,860	-	2,921,860
Unrestricted state grants	2,662,063	-	2,662,063
Unrestricted investment earnings	24,600	141	24,741
Other	<u>23,041</u>	<u>-</u>	<u>23,041</u>
Total revenues	<u>6,921,254</u>	<u>313,496</u>	<u>7,234,750</u>
Program expenses			
Governmental activities			
Instruction	4,262,264	-	4,262,264
Support services	2,023,824	-	2,023,824
Non-instructional programs	39,068	308,004	347,072
Other expenses	<u>583,509</u>	<u>-</u>	<u>583,509</u>
Total expenses	<u>6,908,665</u>	<u>308,004</u>	<u>7,216,669</u>
Change in net assets	<u>\$ 12,589</u>	<u>\$ 5,492</u>	<u>\$ 18,081</u>

Property tax and unrestricted state grants account for 77% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 87% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$6,921,254 and expenses were \$6,908,665.

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.

	<u>Total and Net Cost of Governmental Activities</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 4,262,264	\$ 3,209,253
Support services	2,023,824	2,019,925
Non-instructional programs	39,068	39,068
Other expenses	<u>583,509</u>	<u>350,729</u>
 Total expenses	 <u>\$ 6,908,665</u>	 <u>\$ 5,618,975</u>

- The cost financed by users of the District’s programs was \$630,066.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$659,624.
- The net cost of governmental activities was financed with \$2,921,860 in property taxes and \$2,662,063 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$313,496 and expenses were \$308,004. The District’s business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2004, the District increased meal prices by \$.05 per meal, which follows a schedule established in 2001-02. This increase resulted in increased revenue to the School Nutrition Fund. The District has used this revenue to replace obsolete kitchen equipment.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$827,011, below last year's ending fund balances of \$934,510. However, the primary reason for the reduction in combined fund balances in fiscal 2004 is due to the District using carryover fund balance to cover the negotiated salary and benefit settlement.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the result of many factors. Growth during the year in tuition from local sources and grants resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures requiring the District to use carryover fund balance to meet its financial obligations during the year.
- The General Fund balance decreased from \$1,066,937 to \$839,525, due in part to the negotiated salary and benefits settlement, the 2.5% across the board cut in state funding and existing expenditure commitments of the District.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from a deficit of \$431,362 in fiscal 2003 to a deficit of \$297,514 in fiscal 2004. While revenues remained approximately the same, the District reduced spending from the PPEL Fund and continued to pay down the loan from the General Fund in order to reduce the prior year deficit and improve the financial condition of the fund.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$136,192 at June 30, 2003 to \$141,684 at June 30, 2004, representing an increase of approximately 4%. For fiscal 2004, the District increased meal prices \$.05 per meal, resulting in the increase in net assets.

BUDGETARY HIGHLIGHTS

Over the course of the year, Tipton Community School District amended its annual budget one time to reflect additional expenditures associated with employee insurance rate increases, bank loan payments and lease payoffs not budgeted.

The District's receipts were \$372,355 less than budgeted receipts, a variance of 5%. The most significant variance resulted from the District receiving less in local sources than originally budgeted.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$6,651,584, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 1.7% from last year. More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$287,230.

The original cost of the District's capital assets was \$10,373,269. Governmental funds account for \$10,147,695, with the remainder of \$225,574 accounted for in the Proprietary, School Nutrition Fund.

The decrease in capital assets during the year occurred due to the fact that accumulated depreciation incurred on the capital assets during the year was greater than the additional capital assets purchased during the 2004 fiscal year.

Figure A-6

	Capital Assets, Net of Depreciation						
	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2004	2003	2004	2003	2004	2003	2003-2004
Land	\$ 43,300	\$ 43,300	\$ -	\$ -	\$ 43,300	\$ 43,300	0.00%
Buildings and improvements	231,870	153,148	-	-	231,870	153,148	51.40%
Improvements, other than buildings	6,078,295	6,229,425	-	-	6,078,295	6,229,425	-2.43%
Furniture and equipment	<u>298,119</u>	<u>343,691</u>	<u>115,554</u>	<u>133,142</u>	<u>413,673</u>	<u>476,833</u>	-13.25%
Totals	<u>\$6,651,584</u>	<u>\$6,769,564</u>	<u>\$115,554</u>	<u>\$133,142</u>	<u>\$6,767,138</u>	<u>\$6,902,706</u>	-1.96%

Long-Term Debt

At June 30, 2004, the District had \$3,455,058 in general obligation, revenue and other long-term debt outstanding. This represents a decrease of approximately 6.4% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

In December 1997, the District's voters authorized the issuance of \$3,850,000 in general obligation bonds to pay for construction of a new middle school building. Bonds were sold during fiscal 1998. The District had total outstanding bonded indebtedness at June 30, 2004 of \$3,070,000.

The District also had total outstanding Capital Loan Notes payable from the Physical Plant and Equipment Levy Fund of \$340,000 at June 30, 2004.

	<u>Outstanding Long-term Obligations</u>		
	Total		Total
	<u>School District</u>		<u>Change</u>
	<u>2004</u>	<u>2003</u>	<u>2003-2004</u>
General obligation bonds	\$ 3,070,000	\$ 3,230,000	-4.95%
Capital loan notes	340,000	415,000	-18.07%
Capital leases	45,058	25,070	79.73%
Early retirement	<u>-</u>	<u>22,015</u>	0.00%
Total	<u>\$ 3,455,058</u>	<u>\$ 3,692,085</u>	-6.42%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Tipton Community School District has experienced declining enrollment for the past four years. The District expects a slight decline in enrollment over the next few years as larger class sizes will be graduating.
- Fiscal 2005 is the last year of a two-year contract with the Tipton Education Association (TEA). The District will negotiate a new agreement during fiscal 2005. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.
- The District will be selling \$2,250,000 in General Obligation Bonds during the 2005 fiscal year as approved by district voters February, 2004. The funds will be used to build an indoor competition swimming pool and outdoor aquatic center in cooperation with the City of Tipton.

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 Jim Becker, District Secretary/Treasurer, Tipton Community School District, 400 East 6th Street, Tipton, Iowa 52772.

Basic Financial Statements

TIPTON COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2004

Exhibit A

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents			
ISCAP	\$ 957,290	\$ -	\$ 957,290
Other	1,364,215	20,919	1,385,134
Receivables			
Property tax			
Delinquent	35,289	-	35,289
Succeeding year	2,460,234	-	2,460,234
Accounts receivable	265	-	265
Accrued interest			
ISCAP	1,583	-	1,583
Other	1,493	-	1,493
Due from other governments	126,046	-	126,046
Inventories	-	21,940	21,940
Capital assets, net of accumulated depreciation	<u>6,651,582</u>	<u>115,554</u>	<u>6,767,136</u>
 Total assets	 <u>11,597,997</u>	 <u>158,413</u>	 <u>11,756,410</u>
 LIABILITIES			
Accounts payable	111,006	-	111,006
Salaries and benefits payable	545,317	16,729	562,046
Due to other governments	38,055	-	38,055
Accrued interest payable	13,790	-	13,790
Deferred revenue - succeeding year property tax	2,460,234	-	2,460,234
ISCAP warrants payable	961,000	-	961,000
ISCAP accrued interest payable	2,400	-	2,400
ISCAP unamortized premium	1,392	-	1,392
Long-term liabilities			
Portion due within one year			
Notes payable	80,000	-	80,000
Bonds payable	170,000	-	170,000
Capital leases payable	18,645	-	18,645

See notes to financial statements and Independent Auditor's Report.

TIPTON COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2004

Exhibit A

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
LIABILITIES (continued)			
Long-term liabilities (continued)			
Portion due after one year			
Notes payable	\$ 260,000	\$ -	\$ 260,000
Bonds payable	2,900,000	-	2,900,000
Capital leases payable	<u>26,413</u>	<u>-</u>	<u>26,413</u>
 Total liabilities	 <u>7,588,252</u>	 <u>16,729</u>	 <u>7,604,981</u>
 NET ASSETS			
Invested in capital assets, net of related debt	3,196,524	115,554	3,312,078
Restricted for			
Phase III	275	-	275
Wellness	8,024	-	8,024
Management levy	151,121	-	151,121
Debt service levy	3,886	-	3,886
Other special revenue purposes	116,203	-	116,203
Unrestricted	<u>533,712</u>	<u>26,130</u>	<u>559,842</u>
 Total net assets	 <u>\$ 4,009,745</u>	 <u>\$ 141,684</u>	 <u>\$ 4,151,429</u>

See notes to financial statements and Independent Auditor's Report.

TIPTON COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2004

Exhibit B

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental activities							
Instruction							
Regular instruction	\$ 2,717,124	\$ 199,065	\$ 252,452	\$ -	\$ (2,265,607)	\$ -	\$ (2,265,607)
Special instruction	882,754	205,757	168,286	-	(508,711)	-	(508,711)
Other instruction	662,386	221,345	6,106	-	(434,935)	-	(434,935)
	<u>4,262,264</u>	<u>626,167</u>	<u>426,844</u>	<u>-</u>	<u>(3,209,253)</u>	<u>-</u>	<u>(3,209,253)</u>
Support services							
Student services	175,390	-	-	-	(175,390)	-	(175,390)
Instructional staff services	415,476	-	-	-	(415,476)	-	(415,476)
Administration services	657,611	-	-	-	(657,611)	-	(657,611)
Operation and maintenance of plant services	575,057	3,899	-	-	(571,158)	-	(571,158)
Transportation services	195,288	-	-	-	(195,288)	-	(195,288)
Central support services	5,002	-	-	-	(5,002)	-	(5,002)
	<u>2,023,824</u>	<u>3,899</u>	<u>-</u>	<u>-</u>	<u>(2,019,925)</u>	<u>-</u>	<u>(2,019,925)</u>
Non-instructional programs	<u>39,068</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(39,068)</u>	<u>-</u>	<u>(39,068)</u>
Other expenditures							
Facilities acquisition	2,463	-	-	-	(2,463)	-	(2,463)
Long-term debt interest	177,532	-	-	-	(177,532)	-	(177,532)
AEA flowthrough	232,780	-	232,780	-	-	-	-
Depreciation (unallocated)	170,734	-	-	-	(170,734)	-	(170,734)
	<u>583,509</u>	<u>-</u>	<u>232,780</u>	<u>-</u>	<u>(350,729)</u>	<u>-</u>	<u>(350,729)</u>
Total governmental activities	<u>6,908,665</u>	<u>630,066</u>	<u>659,624</u>	<u>-</u>	<u>(5,618,975)</u>	<u>-</u>	<u>(5,618,975)</u>

See notes to financial statements and Independent Auditor's Report.

TIPTON COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2004

Exhibit B

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Business-type activities							
Non-instructional programs							
Food service operations	\$ 308,004	\$ 210,871	\$ 102,484	\$ -	\$ -	\$ 5,351	\$ 5,351
Total	<u>\$ 7,216,669</u>	<u>\$ 840,937</u>	<u>\$ 762,108</u>	<u>\$ -</u>	<u>(5,618,975)</u>	<u>5,351</u>	<u>(5,613,624)</u>
 <u>General Revenues</u>							
Property tax levied for							
General purposes					2,609,160	-	2,609,160
Debt service					312,700	-	312,700
Unrestricted state grants					2,662,063	-	2,662,063
Unrestricted investment earnings					24,600	141	24,741
Other					23,041	-	23,041
Total general revenues					<u>5,631,564</u>	<u>141</u>	<u>5,631,705</u>
 Change in net assets					 12,589	 5,492	 18,081
Net assets, beginning of year, as restated					<u>3,997,156</u>	<u>136,192</u>	<u>4,133,348</u>
Net assets, end of year					<u>\$ 4,009,745</u>	<u>\$ 141,684</u>	<u>\$ 4,151,429</u>

See notes to financial statements and Independent Auditor's Report.

TIPTON COMMUNITY SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2004

Exhibit C

	<u>General</u>	Physical Plant and Equipment <u>Levy</u>	Nonmajor Governmental Funds	<u>Total</u>
ASSETS				
Cash and pooled investments				
ISCAP	\$ 957,290	\$ -	\$ -	\$ 957,290
Other	1,071,414	7,454	285,347	1,364,215
Receivables				
Property tax				
Delinquent	27,332	2,486	5,471	35,289
Succeeding year	1,926,924	197,377	335,933	2,460,234
Accounts receivable	265	-	-	265
Accrued interest				
ISCAP	1,583	-	-	1,583
Other	606	9	878	1,493
Due from other funds	307,463	-	-	307,463
Due from other governments	126,046	-	-	126,046
Total assets	<u>\$ 4,418,923</u>	<u>\$ 207,326</u>	<u>\$ 627,629</u>	<u>\$ 5,253,878</u>
 LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 104,310	\$ -	\$ 6,696	\$ 111,006
Salaries and benefits payable	545,317	-	-	545,317
Due to other funds	-	307,463	-	307,463
Due to other governments	38,055	-	-	38,055
ISCAP warrants payable	961,000	-	-	961,000
ISCAP accrued interest payable	2,400	-	-	2,400
ISCAP unamortized premium	1,392	-	-	1,392
Deferred revenue				
Succeeding year property tax	1,926,924	197,377	335,933	2,460,234
Total liabilities	<u>3,579,398</u>	<u>504,840</u>	<u>342,629</u>	<u>4,426,867</u>
 Fund balances				
Reserved for				
Phase III	275	-	-	275
Wellness	8,024	-	-	8,024
Designated for special purpose	7,334	-	-	7,334
Unreserved, undesignated	823,892	(297,514)	285,000	811,378
Total fund balances	<u>839,525</u>	<u>(297,514)</u>	<u>285,000</u>	<u>827,011</u>
Total liabilities and fund balances	<u>\$ 4,418,923</u>	<u>\$ 207,326</u>	<u>\$ 627,629</u>	<u>\$ 5,253,878</u>

See notes to financial statements and Independent Auditor's Report.

TIPTON COMMUNITY SCHOOL DISTRICT
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2004

Exhibit D

Total fund balances of governmental funds	\$ 827,011
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.	6,651,582
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.	(13,790)
Long-term liabilities, including early retirement, bonds payable and notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(3,455,058)</u>
Net assets of governmental activities	<u>\$ 4,009,745</u>

See notes to financial statements and Independent Auditor's Report.

TIPTON COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004

Exhibit E

	<u>General</u>	Physical Plant and Equipment <u>Levy</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Revenues				
Local sources				
Local tax	\$ 2,186,718	\$ 332,687	\$ 402,455	\$ 2,921,860
Tuition	374,366	-	-	374,366
Other	56,330	322	246,689	303,341
State sources	3,133,521	-	-	3,133,521
Federal sources	188,166	-	-	188,166
Total revenues	<u>5,939,101</u>	<u>333,009</u>	<u>649,144</u>	<u>6,921,254</u>
Expenditures				
Current				
Instruction				
Regular instruction	2,680,801	-	38,526	2,719,327
Special instruction	878,801	-	-	878,801
Other instruction	421,456	-	242,679	664,135
	<u>3,981,058</u>	<u>-</u>	<u>281,205</u>	<u>4,262,263</u>
Support services				
Student services	175,088	-	-	175,088
Instructional staff services	407,272	-	-	407,272
Administration services	623,397	-	30,735	654,132
Operation & maintenance of plant services	543,203	-	30,273	573,476
Transportation services	142,310	-	6,733	149,043
Central support services	5,002	-	-	5,002
	<u>1,896,272</u>	<u>-</u>	<u>67,741</u>	<u>1,964,013</u>
Non-instructional programs	<u>39,068</u>	<u>-</u>	<u>-</u>	<u>39,068</u>

See notes to financial statements and Independent Auditor's Report.

TIPTON COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004

Exhibit E

	<u>General</u>	Physical Plant and Equipment <u>Levy</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Expenditures (continued)				
Other expenditures				
Facilities acquisition	\$ -	\$ 137,044	\$ -	\$ 137,044
Long-term debt				
Principal	-	-	270,946	270,946
Interest and fiscal charges	-	-	178,573	178,573
AEA flowthrough	232,780	-	-	232,780
	<u>232,780</u>	<u>137,044</u>	<u>449,519</u>	<u>819,343</u>
Total expenditures	<u>6,149,178</u>	<u>137,044</u>	<u>798,465</u>	<u>7,084,687</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(210,077)</u>	<u>195,965</u>	<u>(149,321)</u>	<u>(163,433)</u>
Other financing sources (uses)				
Proceeds of long-term debt	-	55,934	-	55,934
Interfund operating transfers	(17,335)	(118,051)	135,386	-
Total other financing sources (uses)	<u>(17,335)</u>	<u>(62,117)</u>	<u>135,386</u>	<u>55,934</u>
Net change in fund balances	(227,412)	133,848	(13,935)	(107,499)
Fund balance, beginning of year, as restated	<u>1,066,937</u>	<u>(431,362)</u>	<u>298,935</u>	<u>934,510</u>
Fund balance, end of year	<u>\$ 839,525</u>	<u>\$ (297,514)</u>	<u>\$ 285,000</u>	<u>\$ 827,011</u>

See notes to financial statements and Independent Auditor's Report.

TIPTON COMMUNITY SCHOOL DISTRICT
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances-Governmental Funds
 to the Statement of Activities
 For the Year Ended June 30, 2004

Exhibit F

Net change in fund balances - total governmental funds \$(107,499)

Amounts reported for governmental activities in the Statement of Activities
 are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 151,660	
Depreciation expense	<u>(269,642)</u>	(117,982)

Proceeds from issuing long-term liabilities provide current financing resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded the issuances, as follows:

Issued	(55,934)	
Repaid	<u>270,946</u>	215,012

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

1,043

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement	<u>22,015</u>	
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Change in net assets of governmental activities \$ 12,589

See notes to financial statements and Independent Auditor's Report.

TIPTON INDEPENDENT SCHOOL DISTRICT
Statement of Net Assets
Proprietary Fund
June 30, 2004

Exhibit G

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 20,919
Inventories	21,940
Capital assets, net of accumulated depreciation	<u>115,554</u>
Total assets	<u>158,413</u>
LIABILITIES	
Liabilities	
Salaries and benefits payable	<u>16,729</u>
NET ASSETS	
Invested in capital assets, net of related debt	115,554
Unreserved retained earnings	<u>26,130</u>
Total net assets	<u>\$ 141,684</u>

See notes to financial statements and Independent Auditor's Report.

TIPTON COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended June 30, 2004

Exhibit H

	<u>School Nutrition</u>
Operating revenue	
Local sources	
Charges for service	<u>\$ 210,871</u>
Operating expenses	
Non-instructional programs	
Salaries	106,813
Benefits	12,883
Purchased services	3,881
Supplies	166,839
Depreciation	<u>17,588</u>
Total operating expenses	<u>308,004</u>
Operating loss	<u>(97,133)</u>
Non-operating revenue	
Interest income	141
State sources	4,296
Federal sources	<u>98,188</u>
Total non-operating revenue	<u>102,625</u>
Change in net assets	5,492
Net assets, beginning of year	<u>136,192</u>
Net assets, end of year	<u><u>\$ 141,684</u></u>

See notes to financial statements and Independent Auditor's Report.

TIPTON COMMUNITY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2004

Exhibit I

	<u>School Nutrition</u>
Cash flows from operating activities	
Cash received from sale of lunches and breakfasts	\$ 210,872
Cash payments to employees for services	(121,746)
Cash payments to suppliers for goods and services	<u>(157,439)</u>
Net cash used in operating activities	<u>(68,313)</u>
Cash flows from non-capital financing activities	
State grants received	4,296
Federal grants received	<u>78,204</u>
Net cash provided by non-capital financing activities	<u>82,500</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities	
Interest on investments	<u>141</u>
Net increase in cash and cash equivalents	14,328
Cash and cash equivalents, beginning of year	<u>6,591</u>
Cash and cash equivalents, end of year	<u><u>\$ 20,919</u></u>
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ (97,133)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	17,588
Commodities used	19,984
Increase in inventories	(6,702)
Decrease in salaries and benefits payable	<u>(2,050)</u>
Net cash used in operating activities	<u><u>\$ (68,313)</u></u>

Non-cash investing, capital and financing activities

During the year ended June 30, 2004, the District received \$19,984 of federal commodities.

See notes to financial statements and Independent Auditor's Report.

TIPTON COMMUNITY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

Exhibit J

	<u>Private Purpose Trust</u>	<u>Agency</u>
	<u>Scholarships</u>	<u>Agency</u>
Assets		
Cash and pooled investments	\$ 440,010	\$ 11,350
Accrued interest receivable	<u>2,453</u>	<u>-</u>
Total assets	<u>442,463</u>	<u>11,350</u>
Liabilities		
Due to others	<u>-</u>	<u>11,350</u>
Net assets		
Reserved for scholarships	<u>\$ 442,463</u>	<u>\$ -</u>

See notes to financial statements and Independent Auditor's Report.

TIPTON COMMUNITY SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2004

Exhibit K

	Private Purpose Trust <u>Scholarships</u>
Additions	
Local sources	
Gifts and contributions	\$ 14,363
Interest	<u>12,553</u>
Total additions	26,916
 Deductions	
Support services	
Scholarships awarded	<u>12,630</u>
 Change in net assets	14,286
Net assets, beginning of year	<u>428,177</u>
 Net assets, end of year	<u><u>\$ 442,463</u></u>

See notes to financial statements and Independent Auditor's Report.

TIPTON COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2004

Note 1. Summary of Significant Accounting Policies

The Tipton 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. The geographic area served includes the City of Tipton, Iowa, and the agricultural territory in Cedar 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, Tipton 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 Tipton Community School District has no component units, which meet the Governmental Accounting Standards Board criteria.

The District does not participate in any jointly governed organizations for which the District is financially accountable or that the nature and significance of the relationship with the District are such that exclusion would cause the District's financial statements to be misleading.

B. Basis of Presentation

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

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

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

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

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources 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 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 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 Physical Plant & Equipment Levy (PPEL) Fund is a special revenue fund used to account for all financial transactions from the levy authorized, whether regular or voter-approved, by Iowa Code section 298.2. This fund is created to deposit and expend money from the PPEL levy. The purpose of the fund is to pay the costs of specified major expenditures related to real property and equipment.

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 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 operations.

C. Measurement Focus and Basis of Accounting

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

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt and claims and judgments 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, they 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 that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year 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 property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

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

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

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

Capital Assets - Capital assets, which include property, 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 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.

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

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

<u>Asset Class</u>	<u>Useful Life</u>
Buildings	50 years
Improvements to buildings	20-50 years
Furniture and equipment	4-12 years

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

Early Retirement - District employees meeting certain requirements are eligible for early retirement benefits. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2004. The early retirement liability attributable to the governmental activities will be paid primarily from the Management Fund.

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

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

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Designated Fund Balance - The District has designated a portion of its fund balance for specific programs.

E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, expenditures did not exceed the amounts budgeted nor did the District exceed its General Fund unspent authorized budget.

Note 2. Cash and Pooled Investments

The District's deposits at June 30, 2004, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The District had investments in the Iowa Schools Joint Investment Trust, which are valued at an amortized cost of \$1,217,854 pursuant to Rule 2a-7 under the Investment Company Act of

1940. Governmental Accounting Standards Board Statement Number 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 is not subject to risk categorization.

Note 3. Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2004 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Special Revenue	\$ 307,463
	Physical Plant and Equipment Levy	

The Physical Plant and Equipment Levy Fund borrowed \$605,000 from the General Fund during the year ended June 30, 2002 for improvements to the buildings, in connection with a remodeling project. The loan has no payment schedule, but the District repaid \$297,537 during the year ended June 30, 2004 and anticipates repaying the remaining balance over the next five years from taxes generated from the Physical Plant and Equipment Levy.

Note 4. Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Physical Plant and Equipment Levy	General	\$ 17,335
Debt Service	Physical Plant and Equipment Levy	<u>135,386</u>
Total		<u>\$ 152,721</u>

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

Note 5. Iowa Schools Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each

outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2004, is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investment</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>	<u>Unamortized Premium</u>
2003-04B	1/30/04	1/28/05	\$ 290,968	\$ 1,583	\$ 289,000	\$ 2,400	\$ -
2004-05A	6/30/04	6/30/05	<u>666,322</u>	<u>-</u>	<u>672,000</u>	<u>-</u>	<u>1,392</u>
			<u>\$ 957,290</u>	<u>\$ 1,583</u>	<u>\$ 961,000</u>	<u>\$ 2,400</u>	<u>\$ 1,392</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In additions, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no ISCAP advance activity for the year ended June 30, 2004.

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

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2003-04A	2.000%	2.6030%
2003-04B	2.000%	1.3920%
2004-05A	3.000%	2.4600%

Note 6. Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 43,300	\$ -	\$ -	\$ 43,300
Capital assets being depreciated:				
Buildings and improvements	420,942	98,323	(60,071)	459,194
Improvements other than buildings	8,516,479	-	-	8,516,479
Furniture and equipment	<u>1,276,182</u>	<u>53,337</u>	<u>(200,801)</u>	<u>1,128,718</u>
Total capital assets being depreciated	<u>10,213,603</u>	<u>151,660</u>	<u>(260,872)</u>	<u>10,104,391</u>
Less accumulated depreciation for:				
Buildings and improvements	267,794	19,603	(60,071)	227,326
Improvements other than buildings	2,287,054	151,130	-	2,438,184
Furniture and equipment	<u>932,491</u>	<u>98,909</u>	<u>(200,801)</u>	<u>830,599</u>
Total accumulated depreciation	<u>3,487,339</u>	<u>269,642</u>	<u>(260,872)</u>	<u>3,496,109</u>
Total capital assets being depreciated, net	<u>6,726,264</u>	<u>(117,982)</u>	<u>-</u>	<u>6,608,282</u>
Governmental activities capital assets, net	<u>\$ 6,769,564</u>	<u>\$ (117,982)</u>	<u>\$ -</u>	<u>\$ 6,651,582</u>
<u>Business-type activities</u>				
Furniture and equipment	\$ 225,574	\$ -	\$ -	\$ 225,574
Less accumulated depreciation	<u>92,432</u>	<u>17,588</u>	<u>-</u>	<u>110,020</u>
Business-type activities capital assets, net	<u>\$ 133,142</u>	<u>\$ (17,588)</u>	<u>\$ -</u>	<u>\$ 115,554</u>

Depreciation expense was charged to the following functions:

Governmental activities

Instruction	
Regular	\$ 33,898
Special	3,953
Other	1,246
Support services	
Student	302
Instructional staff	8,204
Administration	3,479
Operation and maintenance of plant	1,581
Transportation	46,245
Unallocated depreciation	<u>170,734</u>
Total governmental activities depreciation expense	<u>\$ 269,642</u>

Business-type activities

Food service operations	<u>\$ 17,588</u>
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Note 7. Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
GO bonds	\$ 3,230,000	\$ -	\$(160,000)	\$ 3,070,000	\$ 170,000
Capital loan notes	415,000	-	(75,000)	340,000	80,000
Capital leases	25,070	55,934	(35,946)	45,058	18,645
Early retirement	<u>22,015</u>	<u>-</u>	<u>(22,015)</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 3,692,085</u>	<u>\$ 55,934</u>	<u>\$(292,961)</u>	<u>\$ 3,455,058</u>	<u>\$ 268,645</u>

Early retirement

Certified District employees who have 15 years of continuous service and are over age 59 and under age 65 are eligible for early retirement benefits. The amount of pay correlates to an open age group and payment schedule, based on percentage of current per diem pay, as follows:

Age	Percentage
59-60	100
61	85
62	70
63	55
64	40
65	0

The employee must notify the Board by March 1st to receive the early retirement benefits. At June 30, 2004 there was no early retirement payable. Vacation does not accrue and sick leave is not payable except in conjunction with retirement and therefore, the District does not have a liability for compensated absences at June 30, 2004.

Capital Leases

The District has entered into a contractual agreement to lease copiers. This agreement represents a lease-purchase agreement and, in substance, is a capital lease as ownership of the property transfers to the District at the end of the lease term. A schedule of future minimum lease payments and the present value of net minimum lease payments as of June 30, 2004 is as follows:

Year Ending June 30,	Payments
2005	\$ 19,397
2006	19,397
2007	<u>8,610</u>
	47,404
Less amount representing interest	<u>(2,346)</u>
Present value of net minimum lease payments	<u>\$ 45,058</u>

Bonds Payable

Details of the District's June 30, 2004 general obligation bonded indebtedness are as follows:

Year Ending June 30,	<u>Bond issue of March 1, 1998</u>			
	Interest Rates	Interest	Principal	Total
2005	5.125	\$ 145,932	\$ 170,000	\$ 315,932
2006	5.125	137,220	180,000	317,220
2007	4.950	127,995	190,000	317,995
2008	4.400	118,590	200,000	318,590
2009	4.500	109,790	210,000	319,790
2010	4.600	100,340	220,000	320,340
2011	4.650	90,220	230,000	320,220
2012	4.700	79,525	245,000	324,525
2013	4.700	68,010	255,000	323,010
2014	4.750	56,025	270,000	326,025
2015	4.800	43,200	285,000	328,200
2016	4.800	29,520	300,000	329,520
2017	4.800	<u>15,120</u>	<u>315,000</u>	<u>330,120</u>
Totals		<u>\$ 1,121,487</u>	<u>\$ 3,070,000</u>	<u>\$ 4,191,487</u>

Capital Loan Notes

On October 4, 2000 the District issued capital loan notes in the amount of \$625,000 for the purpose of building remodeling and construction. The notes bear interest at 5.75% and are scheduled to be repaid as follows:

Year Ending June 30,	Interest	Principal	Total
2005	\$ 19,550	\$ 80,000	\$ 99,550
2006	14,950	85,000	99,950
2007	10,062	85,000	95,062
2008	<u>5,175</u>	<u>90,000</u>	<u>95,175</u>
Totals	<u>\$ 49,737</u>	<u>\$ 340,000</u>	<u>\$ 389,737</u>

Note 8. 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, IA, 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, 2004, 2003 and 2002. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$165,015, \$207,272 and \$211,088 respectively, equal to the required contributions for each year.

Note 9. Risk Management

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

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

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$708,303.

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

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

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. The Association will pay claims incurred before the termination date.

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.

Note 10. 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 \$232,780 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 11. Related Party Transactions

The District had business transactions between the District and a board member, totaling \$54 during the year ended June 30, 2004.

Note 12. Deficit Balance

The District had an unreserved, undesignated fund deficit of \$297,514 in the Special Revenue, Physical Plant and Equipment Levy Fund at June 30, 2004.

Note 13. Accounting Change and Restatements

Governmental Accounting Standards Board (GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the District’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

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

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

	Fund			
	General	Physical Plant and Equipment Levy	Nonmajor Special Revenue	Total
Net assets June 30, 2003, as previously reported	\$ 1,066,937	\$ (431,362)	\$ 260,409	\$ 895,984
GASB Interpretation 6 adjustments	-	-	38,526	38,526
Net assets July 1, 2003, as restated for governmental funds	<u>\$ 1,066,937</u>	<u>\$ (431,362)</u>	<u>\$ 298,935</u>	934,510
GASB 34 adjustments				
Capital assets, net of accumulated depreciation of \$3,487,339				6,769,564
Long-term liabilities				
Bonds and notes			\$ 3,670,070	
Early retirement			22,017	(3,692,087)
Accrued interest payable				<u>(14,831)</u>
Net assets July 1, 2003, as restated				<u>\$ 3,997,156</u>

Note 14. Subsequent Event – Local Option Sales and Services Tax

Cedar County voters authorized the Local Option Sales and Services Tax beginning July 1, 2004. This tax is an additional sales tax of 1% on all taxable sales in Cedar County and will continue for 10 years. The revenue from this tax will be distributed to all school districts with students residing in Cedar County on a per student basis. Tipton Community School District anticipates receiving \$315,000 from this tax annually beginning with the fiscal year ending June 30, 2005.

Note 15. Subsequent Event – Aquatic Center

The District entered into a 28E agreement with the City of Tipton in July 2004 for the financing and construction of a community aquatic center. The District will sell bonds to fund the construction of this project. Once constructed, the center will be the property of the City of Tipton, which will be responsible for its operations.

Required Supplementary Information

TIPTON 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
 For the Year Ended June 30, 2004

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Funds	Fund		Original	Final	
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>			
Revenues						
Local sources	\$ 3,599,567	\$ 211,012	\$ 3,810,579	\$ 3,721,380	\$ 4,181,380	\$ (370,801)
Intermediate sources	-	-	-	200	200	(200)
State sources	3,133,521	4,296	3,137,817	3,231,936	3,231,936	(94,119)
Federal sources	<u>188,166</u>	<u>98,188</u>	<u>286,354</u>	<u>193,589</u>	<u>193,589</u>	<u>92,765</u>
Total revenues	<u>6,921,254</u>	<u>313,496</u>	<u>7,234,750</u>	<u>7,147,105</u>	<u>7,607,105</u>	<u>(372,355)</u>
Expenditures						
Instruction	4,262,263	-	4,262,263	4,206,463	4,356,463	94,200
Support services	1,964,013	-	1,964,013	1,982,309	1,982,309	18,296
Non-instructional programs	39,068	308,004	347,072	355,440	375,440	28,368
Other expenditures	<u>819,343</u>	<u>-</u>	<u>819,343</u>	<u>563,637</u>	<u>853,637</u>	<u>34,294</u>
Total expenditures	<u>7,084,687</u>	<u>308,004</u>	<u>7,392,691</u>	<u>7,107,849</u>	<u>7,567,849</u>	<u>175,158</u>
Excess (deficiency) of revenues over						
(under) expenditures	(163,433)	5,492	(157,941)	39,256	39,256	(197,197)
Other financing sources, net	<u>55,934</u>	<u>-</u>	<u>55,934</u>	<u>8,674</u>	<u>8,674</u>	<u>47,260</u>
Excess (deficiency) of revenues and other						
financing sources over (under) expenditures	(107,499)	5,492	(102,007)	47,930	47,930	(149,937)
Balance, beginning of year, as restated	<u>934,510</u>	<u>136,192</u>	<u>1,070,702</u>	<u>1,376,090</u>	<u>1,376,090</u>	<u>(305,388)</u>
Balance, end of year	<u>\$ 827,011</u>	<u>\$ 141,684</u>	<u>\$ 968,695</u>	<u>\$ 1,424,020</u>	<u>\$ 1,424,020</u>	<u>\$ (455,325)</u>

See accompanying Independent Auditor's Report.

TIPTON COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the Year Ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a basis consistent with U.S. generally accepted accounting principles. Encumbrances are not recognized 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, the District adopted one budget amendment increasing budgeted expenditures by \$460,000.

During the year ended June 30, 2004, District expenditures did not exceed the amounts budgeted in any of the four functions nor did the General Fund expenditure exceed the unspent authorized budget.

Other Supplementary Information

TIPTON COMMUNITY SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004

Schedule 1

	Special Revenue			
	Management	Student Activity	Debt Service	Total
ASSETS				
Cash and pooled investments	\$ 149,821	\$ 122,111	\$ 13,415	\$ 285,347
Receivables				
Property tax				
Delinquent	1,215	-	4,256	5,471
Succeeding year	90,000	-	245,933	335,933
Accrued interest	85	788	5	878
 Total assets	 \$ 241,121	 \$ 122,899	 \$ 263,609	 \$ 627,629
 LIABILITIES AND FUND EQUITY				
Liabilities				
Accounts payable	\$ -	\$ 6,696	\$ -	\$ 6,696
Deferred revenue				
Succeeding year property tax	90,000	-	245,933	335,933
Total liabilities	90,000	6,696	245,933	342,629
 Fund equity				
Unreserved fund balances	151,121	116,203	17,676	285,000
 Total liabilities and fund equity	 \$ 241,121	 \$ 122,899	 \$ 263,609	 \$ 627,629

See accompanying Independent Auditor's Report.

TIPTON COMMUNITY SCHOOL DISTRICT
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2004

Schedule 2

	Special Revenue			Total
	Management Levy	Student Activity	Debt Service	
Revenues				
Local sources				
Local taxes	\$ 89,755	\$ -	\$ 312,700	\$ 402,455
Other	714	245,397	578	246,689
Total revenues	90,469	245,397	313,278	649,144
Expenditures				
Instruction				
Regular program instruction	38,526	-	-	38,526
Other instruction	-	242,679	-	242,679
Support services				
Administration services	30,735	-	-	30,735
Operation and maintenance of plant services	30,273	-	-	30,273
Transportation services	6,733	-	-	6,733
Other expenditures				
Long-term debt: Principal	-	-	270,946	270,946
Interest and fiscal charges	-	-	178,573	178,573
Total expenditures	106,267	242,679	449,519	798,465
Excess (deficiency) of revenues under expenditures	(15,798)	2,718	(136,241)	(149,321)
Other financing sources				
Interfund operating transfers in	-	-	135,386	135,386
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(15,798)	2,718	(855)	(13,935)
Fund balances, beginning of year, as restated	166,919	113,485	18,531	298,935
Fund balances, end of year	\$ 151,121	\$ 116,203	\$ 17,676	\$ 285,000

See accompanying Independent Auditor's Report.

TIPTON COMMUNITY SCHOOL DISTRICT
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
For the Year Ended June 30, 2004

Schedule 3

Account	Balance, Beginning of <u>Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Intrafund Transfers</u>	Balance, End of <u>Year</u>
Academic decathlon	\$ 492	\$ -	\$ -	\$ -	\$ 492
Yearbook	418	10,446	9,949	-	915
Athletics	16,533	9,484	30,383	12,490	8,124
Band fund	2,878	1,133	1,561	910	3,360
Band fundraiser	115	-	-	(115)	-
Band uniforms	291	-	-	(291)	-
Baseball	1,746	9,151	12,869	2,601	629
Basketball - boys	2,089	8,398	11,242	755	-
Choir fund	2,405	7,028	6,722	974	3,685
Class of					
2004	1,473	1,667	2,011	(1,129)	-
2005	891	12,559	12,430	777	1,797
2006	251	932	477	15	721
2007	-	210	25	10	195
Cross country	783	4,254	3,601	(510)	926
Drama club	3,622	2,942	3,066	(974)	2,524
FFA	1,635	16,694	16,267	-	2,062
Forensic fund	1,321	3,009	2,823	-	1,507
Girls basketball	2,521	11,562	8,935	(2,657)	2,491
Grade fund - elementary	1,656	13,492	10,898	-	4,250
Honor Society	-	225	121	-	104
Investment account interest	49,926	6,535	1,262	4,172	59,371
Invention convention	17	110	88	-	39
Jump Rope for Heart	702	-	-	-	702
Golf fund	279	2,090	1,964	(22)	383
Spanish club	220	350	673	-	(103)
M.D.T. room	672	1,838	2,083	-	427
Middle School fund	1,577	27,158	24,778	(4,171)	(214)
Middle School music	3,238	1,282	1,543	-	2,977

See accompanying Independent Auditor's Report.

TIPTON COMMUNITY SCHOOL DISTRICT
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
For the Year Ended June 30, 2004

Schedule 3

Account	Balance, Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance, End of Year
Gifted and Talented	\$ 520	\$ -	\$ -	\$ -	\$ 520
Football cheerleaders	1,088	2,956	3,714	504	834
Thespians	102	3,038	3,019	-	121
Senior high student council	1,562	5,927	4,821	1,099	3,767
Volleyball	939	5,782	4,735	370	2,356
Athletic strength and conditioning	-	855	669	-	186
Special projects	109	-	-	-	109
Activity tickets	145	10,254	200	(10,080)	119
Football fund	1,678	18,416	12,462	(6,599)	1,033
Swim team	1,133	3,932	4,967	850	948
Elementary library	151	4,385	4,351	-	185
Wrestling	1,363	10,675	9,360	(1,017)	1,661
Softball fund	110	3,686	5,026	2,219	989
Art club	57	46	-	-	103
Wrestling cheerleaders	915	1,191	1,579	504	1,031
Basketball cheerleaders	420	-	-	-	420
Girls track	2,880	7,010	7,630	(153)	2,107
Boys track	278	8,016	6,406	(1,036)	852
Dance squad	2,284	6,679	7,969	504	1,498
Totals	<u>\$ 113,485</u>	<u>\$ 245,397</u>	<u>\$ 242,679</u>	<u>\$ -</u>	<u>\$ 116,203</u>

See accompanying Independent Auditor's Report.

TIPTON COMMUNITY SCHOOL DISTRICT
 Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund
 For the Year Ended June 30, 2004

Schedule 4

	Balance, Beginning of <u>Year</u>	<u>Additions</u>	<u>Deductions</u>	Balance, End of <u>Year</u>
Assets				
Cash	<u>\$ 9,109</u>	<u>\$ 92,590</u>	<u>\$ 90,349</u>	<u>\$ 11,350</u>
Liabilities				
Due to others	<u>\$ 9,109</u>	<u>\$ 92,590</u>	<u>\$ 90,349</u>	<u>\$ 11,350</u>

See accompanying Independent Auditor's Report.

TIPTON COMMUNITY SCHOOL DISTRICT
Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds
For the Last Four Years

Schedule 5

	<u>Modified Accrual Basis</u>			
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues				
Local sources				
Local tax	\$ 2,921,860	\$ 2,618,774	\$ 2,218,624	\$ 2,298,198
Tuition	374,366	39,820	259,762	258,124
Other	303,341	854,314	669,495	1,046,260
State sources	3,133,521	3,199,989	3,280,051	3,414,833
Federal sources	<u>188,166</u>	<u>162,859</u>	<u>139,680</u>	<u>127,014</u>
 Total revenues	 <u>\$ 6,921,254</u>	 <u>\$ 6,875,756</u>	 <u>\$ 6,567,612</u>	 <u>\$ 7,144,429</u>
 Expenditures				
Instruction				
Regular instruction	2,719,327	2,685,768	2,767,717	2,650,910
Special instruction	878,801	867,514	773,255	705,729
Other instruction	664,135	522,145	462,134	455,592
Support services				
Student services	175,088	170,022	163,441	158,803
Instructional staff services	407,272	353,565	355,201	378,486
Administration services	654,132	629,851	681,663	619,661
Operation and maintenance of plant services	573,476	544,533	531,537	568,366
Transportation services	149,043	161,003	179,751	166,550
Central support services	5,002	4,681	4,144	5,345
Non-instructional programs	39,068	27,554	22,511	59,435
Other expenditures				
Facilities acquisition	137,044	75,708	365,824	1,588,108
Long-term debt				
Principal	270,946	238,840	223,840	228,840
Interest and other charges	178,573	190,036	200,968	199,334
AEA flowthrough	<u>232,780</u>	<u>249,979</u>	<u>252,012</u>	<u>263,059</u>
 Total expenditures	 <u>\$ 7,084,687</u>	 <u>\$ 6,721,199</u>	 <u>\$ 6,983,998</u>	 <u>\$ 8,048,218</u>

See accompanying Independent Auditor's Report.

KAY L. CHAPMAN, CPA PC

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Muscatine, Iowa 52761

563-264-1385

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

To the Board of Education
Tipton Community School District
Tipton, Iowa

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

Compliance

As part of obtaining reasonable assurance about whether Tipton Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of noncompliance that are described below.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my 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 not been resolved. Current year statutory comments are detailed as follows:

1. Official Depositories - A resolution naming official depositories has been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
2. Certified Budget - Expenditures for the year ended June 30, 2004, did not exceed the amended amounts budgeted.

3. Questionable Disbursements - I noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
4. 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.
5. Business Transactions - Business transactions between the District and District officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Steve Emrich, Board Member owner Main Street Cafe.	Refreshments	\$ 54

The transactions with the Board member do not appear to represent a conflict of interest since the total did not exceed \$2,500 for the fiscal year, as allowed by Chapter 279.7A of the Code of Iowa.

Recommendation - The District should consult legal counsel to determine the disposition of this matter.

Response - We will review the situation.

Conclusion - Response accepted.

6. 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.
7. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
8. Certified Enrollment - The number of basic resident students reported to the Iowa Department of Education on line 7 of the Certified Enrollment Certification Form for September 2003 was overstated. (The District's certified enrollment count included 10 non-resident students in line 1 which were also included in line 8 as open enrolled in nonresident students and did not include 2 tuitioned out students on line 3. This resulted in overstating the total actual enrollment on line 7 by 8 students.)

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

Response - We will contact the Iowa Department of Education and the Department of Management.

Conclusion - Response accepted.

9. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
10. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely and I noted no significant deficiencies in the amounts reported.
11. Financial Condition - The District had an unreserved, undesignated deficit in the Special Revenue, Physical Plant and Equipment Levy Fund of \$297,514 at June 30, 2004.

Recommendation - The District should continue to monitor this account and investigate alternatives to eliminate this deficit.

Response - The deficit in the Physical Plant and Equipment Levy Fund is due to a loan owed to the General Fund, which will be repaid over a six-year period.

Conclusion - Response accepted.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Tipton Community School District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Tipton Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Prior year reportable conditions have not been resolved. Current year reportable conditions are as follows:

- A. 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. I noted that the bank deposits, bank reconciliations, the posting of cash journals, payroll and payroll records are all done by the same person.

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

Response - We will investigate available alternatives and implement as deemed necessary.

Conclusion - Response accepted.

- B. Certified Enrollment Documentation - The District did not maintain proper documentation for the amounts reported on the September 2003 Certified Enrollment Certification Form. There were no class lists or lists of students to document the numbers reported on the Certified Enrollment Form.

Recommendation - The District needs to ensure that proper documentation is maintained for all students reported on the Certified Enrollment Certification Form each year. This documentation should include a list of student names representing the numbers reported on each line of the Certified Enrollment Certification Form.

Response - We will maintain proper documentation for Certified Enrollment in the future.

Conclusion - Response accepted.

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. My 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, I believe the lack of segregation of duties is a material weakness.

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

I would like to acknowledge the many courtesies and assistance extended to me by the personnel of the Tipton Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



Kay L. Chapman, CPA PC
July 30, 2004

TIPTON COMMUNITY SCHOOL DISTRICT

Audit Staff
June 30, 2004

This audit was performed by

Kay Chapman, CPA