

TITONKA CONSOLIDATED SCHOOL DISTRICT

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

June 30, 2004

Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-13
Basic Financial Statements:	<u>Exhibit</u>	
Government-Wide Financial Statements:		
Statement of Net Assets	A	15
Statement of Activities	B	16-17
Governmental Fund Financial Statements:		
Balance Sheet	C	18
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	19
Statement of Revenues, Expenditures and Changes in Fund Balances	E	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	21
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	22
Statement of Revenues, Expenses, and Changes in Net Assets	H	23
Statement of Cash Flows	I	24
Notes to Financial Statements		25-33
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund		35
Budget to GAAP Reconciliation		36
Notes to Required Supplementary Information - Budgetary Reporting		37
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	39
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	40
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	41
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	4	42
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		43-44
Schedule of Findings		45-47

Independent Auditor's Report

To the Board of Education of
Titonka Consolidated School District:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Titonka Consolidated 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 8 to the financial statements, during the year ended June 30, 2004, Titonka Consolidated School District adopted Governmental Accounting Standards Board Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement Number 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement Number 38, Certain Financial Statement Note Disclosures; Statement Number 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation Number 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated October 26, 2004, on our consideration of Titonka Consolidated School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 35 through 37 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise [Titonka Consolidated](#) School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003, (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

October 26, 2004

Management Discussion and Analysis

The Titonka Consolidated 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.

Financial Highlights

- General Fund revenues for fiscal 2004 were \$1,659,545 while General Fund expenditures were \$1,747,079. This resulted in a decrease in the District's General Fund balance from \$361,442 in fiscal 2003 to \$274,511 in fiscal 2004, or a \$86,931 decrease from the prior year.
- The decrease in General Fund revenues was attributable to an across the board state budget cut of 2.5% which for the Titonka Consolidated School District amounted to \$21,000. The district was billed for tuition to another district for the 2003 school year also in the amount of \$40,000.
- The District was involved in a Local Option Sales and Services for School Infrastructure Election for Kossuth County on July 29, 2003 that passed with a 54% yes vote and was effective as of July 1, 2004. This new source of funding will produce approximately \$96,000 for the 2004-2005 school year.
- The District was involved in a Local Option Sales and Services for School Infrastructure Election for Hancock County on April 1, 2003 that passed with a 80% yes vote and was effective as of July 1, 2003. This new source of funding will produce approximately \$1,380 for the 2004-2005 school year.
- The Management Fund dollars raised by property taxes in 2004-05 were \$34,838. These funds are expended for The District's property insurance.
- PPEL Funds were received in the amount of \$68,313 in 2004-05 and they were a combination of property taxes and state aid in the form of the voted levy and the regular levy. A portion of these funds may be used for our school infrastructure needs, for computer equipment and the possible purchase of a school bus.
- The District also maintains accounts for food service and student activities. These amounts vary from year to year.

Overview of the Financial Statements

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

- The first two statements are government-wide financial statements that provide both *short-term* and *long-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education were financed in the short term as well as what remains for future spending.
- The statement for *proprietary funds* offer short-term and long-term financial information about the activities the district operates like businesses, such as food services.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

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

Figure A-1

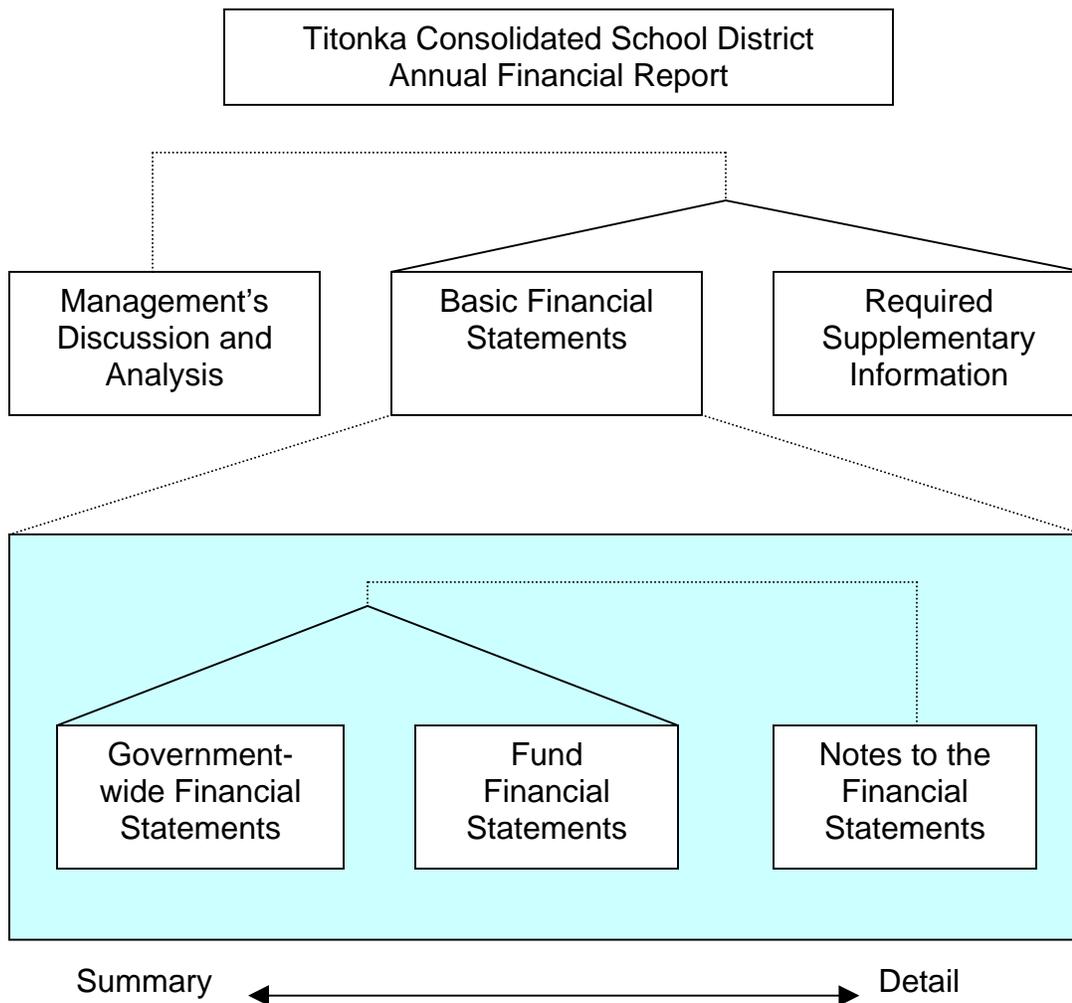


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights the structure and contents of each of the statements.

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 change in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statements of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Government-wide Financial Statements

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

The two Government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school building and other facilities.

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

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property 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 two kinds of funds:

- *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental 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. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.
 - The District's governmental funds include the General Fund, Special Revenue Funds and Capital Projects Fund.
- *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the Government-wide statements.
 - The District's enterprise funds, one type of proprietary fund, are the same as 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 District's internal service fund, the other type of proprietary fund, is used to account for the employee flexible benefit program.

Financial Analysis of the District as a Whole

Net assets – Figure A-3 below provides a summary of the District’s net assets for the year ended June 30, 2004 compared to 2003.

**Figure A-3
Condensed Statement of Net Assets**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total School District</u>		<u>Total Change</u>
	2004	2003	2004	2003	2004	2003	2003-2004
Current and other assets	\$1,263,504	\$1,669,708	\$ (1)	\$2,522	\$ 1,263,503	\$1,672,230	- 24.4%
Capital assets	224,400	222,124	664	1,213	225,064	223,337	.8%
Total assets	1,487,904	1,891,832	663	3,735	1,488,567	1,895,567	-21.5%
Current liabilities	746,246	1,121,512			746,246	1,121,512	- 33.5%
Long-term liabilities	-	-	-	-	-	-	
Total liabilities	746,246	1,121,512	-	-	746,246	1,121,512	-33.5%
Net assets							
Invested in capital assets, net of related debt	224,400	222,124	664	1,213	225,064	223,337	.8%
Restricted	232,637	183,707	-	-	232,637	183,707	26.6%
Unrestricted	284,621	364,489	(1)	2,522	284,620	367,011	-22.4%
Total net assets	\$ 741,658	\$ 770,320	\$ 663	\$3,735	\$ 742,321	\$ 774,055	-4.1%

Most of the decrease to current and other assets and current liabilities was due to the District not using/investing in ISCAP in FY 2004, plus additional tuition to a district who double billed us in FY 04 for FY 03-04. There was a 2.5% decrease in State Aid due to the State’s across the board cuts.

The decrease in unrestricted net assets was primarily due to the District’s loss of anticipated revenue mentioned above combined with extra expenditures for Special Education and additional open enrollment tuition.

Figure A-4

Changes in Net Assets from Operating Results

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total School District</u>
	<u>2004</u>	<u>2004</u>	<u>2004</u>
	\$	\$	\$
Revenues			
Program Revenues			
Charges for services	164,825	34,233	199,058

Operating Grants & Contributions	244,975	34,364	279,339
Capital Grants & Contributions	-	-	-
General Revenues			
Property taxes & other taxes	840,674	-	840,674
Unrestricted State Grants	621,936	-	621,936
Unrestricted Investment Earnings	7,624	4	7,628
Other Revenue	<u>1,026</u>	<u>-</u>	<u>1,026</u>
Total Revenues	1,881,060	68,601	1,949,661
Expenses			
Instruction	1,254,961	-	1,254,961
Support Services	571,050	-	571,050
Non-Instructional Programs	9,233	71,673	80,906
Other Expenses	<u>74,478</u>	<u>-</u>	<u>74,478</u>
Total Expenses	1,909,722	71,673	1,981,395
Change in Net Assets	<u>(28,662)</u>	<u>(3,072)</u>	<u>(31,734)</u>

Governmental Activities

Revenues for governmental activities were \$1,881,060 and expenses were \$1,909,722. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

Figure A-5 The following graph presents the total Revenue for the District's major governmental activities: state aid, federal and state grants, property taxes, charges for services and other incomes.

Figure A-5

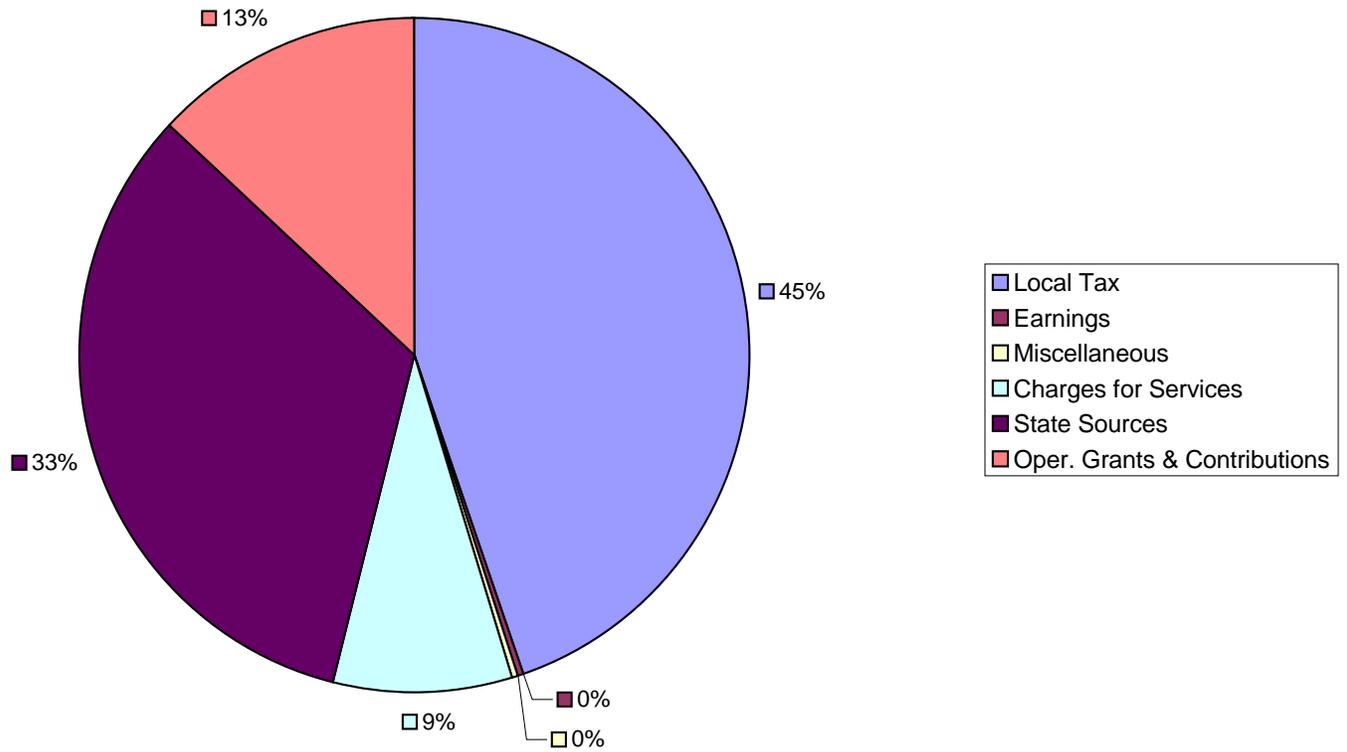


Figure A-6 The following graph presents the total Expenditures for the District’s major governmental activities: instruction, student & instructional services, administration & business, operations & maintenance, transportation and AEA flow thru.

Figure A-6

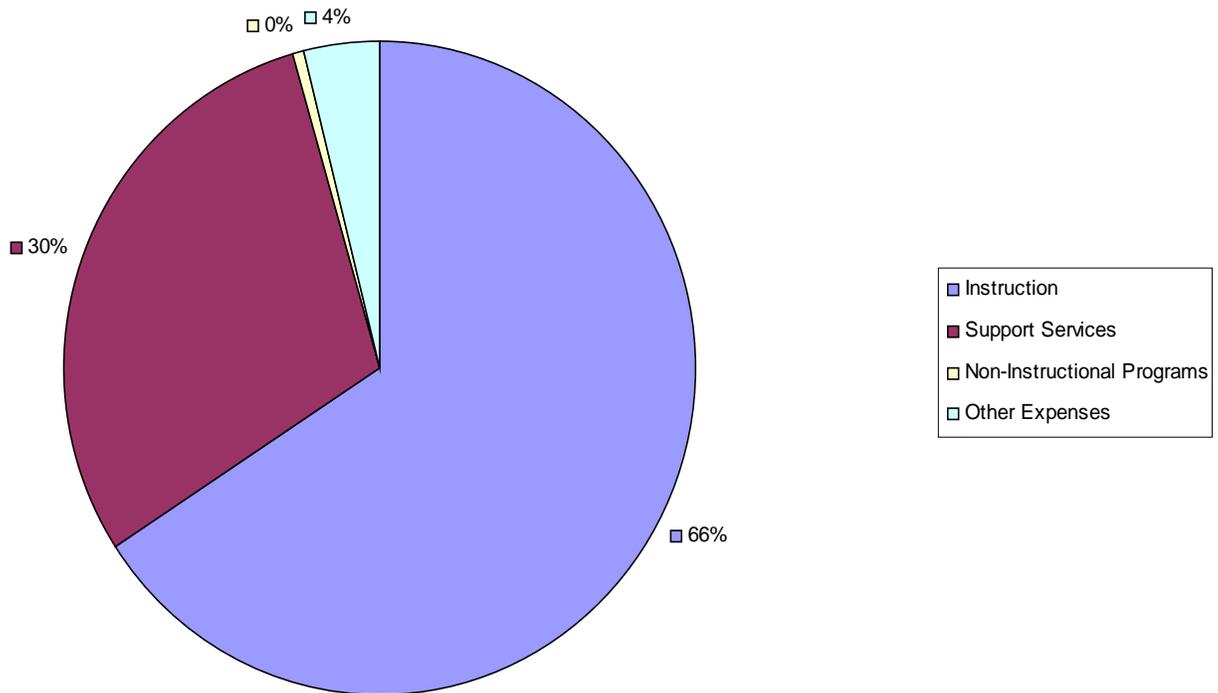


Figure A-7 presents the cost of four major district activities. The table also shows each activity’s net cost (total cost less fees generated by the activities). The net cost of services shows the expenses covered by the District’s taxpayers for each of these functions.

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$1,254,961	\$ 910,925
Support services	571,050	570,318
Non-instructional programs	9,233	9,233
Other expenses	74,478	9,446
Total	\$1,909,722	\$ 1,499,922

- The cost of all governmental activities this year was \$1,909,722
- The cost financed by users of the District’s programs was \$164,825. These revenues include tuition charged to other schools and student activity revenues.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$244,975. These grants must be used for specific purposes.

- The net cost of governmental activities was financed with \$840,674 of property and other local taxes and \$621,936 of unrestricted state aid.

Business-Type Activities

Revenues of the District's business-type activities were \$68,601 and expenses were \$71,673. 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, sold A La Carte tickets for seconds of the menu item. This increase resulted in the hopes of not being in the negative by year end.

Financial Analysis of the District's Funds

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$470,405 which is below last year's balance of \$504,233.

Governmental Fund Highlights

The District's deteriorating General Fund financial position is the product of many factors. Reductions during the year in tax and grants resulted in a decrease in revenues. The decrease in revenues required the District to use carryover fund balance to meet its financial obligations during the year.

- The General Fund balance decreased from \$361,442 to \$274,511, due in part to the negotiated salary and benefits settlement and the 2.5% reduction in state aid and existing expenditure commitments of the District.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$117,110 to \$145,604. In the past, this fund has been utilized to help maintain the school building and the school site along with making selected computer hardware purchases. As a District, we are allowing the PPEL fund to increase as we need to do major renovations and remodeling to our current school physical plant. This may include a demolition of the 1918 portion of the building and replacing it with a more efficient and accessible building. This fund will also support the needed work to be done to the remaining portions of our building to comply with recommendations and requirements made by the State Fire Marshall's Office and the removal of all asbestos from our building.
- The Capital Projects Fund is the fund in which we are receipting money into for the first time in the 2003-2004 school year. The funds come from the local option sales tax dollars. It is estimated that the District will receive approximately \$112,000 in the 2004-2005 school year. The District is currently working with an architect to develop plans regarding the replacement of the 1918 building and other related issues mentioned in the PPEL discussion. If a bond referendum on the building project is successful, then the Capital Project Funds would go toward the payment of the bonds.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$3,735 to \$663. As previously noted, the District increased meal prices, and added A La Carte to the menu at a cost of \$1.00 for a second portion of the meal.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except its private-purpose trust and agency funds. Although the budget document presents functional are expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District’s budget is prepared on the cash basis.

Legal Budgetary Highlights

The District’s total actual receipts were approximately \$162,310 less than the total budgeted receipts, a variance of 7.8%. The most significant change resulted in the District receiving less in various components of state aid than originally anticipated.

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

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

Capital Asset and Debt Administration

Capital Assets

At June 30, 2004, the District had invested \$225,064 in a broad range of assets, including school buildings, athletic facilities, computer and audio-visual equipment, and transportation equipment. (See Figure A-7) During fiscal year 2004 the District spent approximately \$12,000 for building and land improvements and \$37,000 for equipment including a pickup, computers, stage curtain and two pianos.

Figure A-8			
Capital Assets (net of depreciation)			
Governmental Activities	Business-type Activities	Total School District	Total Percentage Change

	2003	2004	2003	2004	2003	2004	2003-04
	\$	\$	\$	\$	\$	\$	%
Land	2,210	2,210	-	-	2,210	2,210	-
Buildings	32,747	36,113	-	-	32,747	36,113	10.3
Improvements	14,259	13,458	-	-	14,259	13,458	-3
Equipment & Furniture	172,908	172,619	1,213	664	174,121	173,283	-5
TOTAL	222,124	224,400	1,213	664	223,337	225,064	.8

Long-Term Debt

The District does not have any long-term debt.

Factors Bearing on the District's Future

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

- The District has negotiated a new salary agreement during Fiscal 2005. The settlement was 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 is in the process of investigating the possibly constructing a new elementary building, which would take the place of the 1918 building currently used for the Middle School. This would also deal with our handicapped accessibility problem. The funds that would be used for this would be the Local Option Sales Tax and bonds.
- District enrollment declined in fiscal year 2004-2005 by 16 students. Under Iowa's school funding formula, District funding is highly dependent upon District enrollments and the current budget guarantee. Future enrollment stability is a critical element in maintaining a sound financial foundation.
- The national recession that has adversely impacted the State of Iowa's budget has translated into reduced levels of state aid to schools; (allowable growth) will be predicated upon the condition of the national economy. State funding growth for public schools for fiscal year 2004, previously set during the 2003 legislative session at 4% was subsequently reduced to 2% during the 2004 legislative session. However, current legislation has indicated a 4% allowable growth for FY 2006.

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 Mary Beth Wubben, District Secretary/Treasurer and Business Manager, Titonka Consolidated School District, 543 Dieckman St., Titonka, IA 50480.

BASIC FINANCIAL STATEMENTS

TITONKA CONSOLIDATED SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	414,945	785	415,730
Receivables:			
Property tax:			
Delinquent	12,383	-	12,383
Succeeding year	721,990	-	721,990
Accounts	81	-	81
Due from other governments	109,230	-	109,230
Interfund receivable/payable	3,685	(3,685)	-
Inventories	-	2,899	2,899
Prepaid expense	1,190	-	1,190
Capital assets, net of accumulated depreciation	224,400	664	225,064
Total assets	1,487,904	663	1,488,567
Liabilities			
Accounts payable	24,256	-	24,256
Deferred revenue:			
Succeeding year property tax	721,990	-	721,990
Total liabilities	746,246	-	746,246
Net assets			
Invested in capital assets, net of related debt	224,400	664	225,064
Restricted for:			
Phase III	17	-	17
Gifted and talented program	18,409	-	18,409
Iowa early intervention block grant	16,217	-	16,217
Physical plant and equipment levy	145,604	-	145,604
Other special revenue purposes	7,716	-	7,716
Local option sales tax capital projects	44,674	-	44,674
Unrestricted	284,621	(1)	284,620
Total net assets	741,658	663	742,321

TITONKA CONSOLIDATED SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	839,612	75,826	175,596	-
Special instruction	229,658	26,711	4,347	-
Other instruction	185,691	61,556	-	-
	<u>1,254,961</u>	<u>164,093</u>	<u>179,943</u>	<u>-</u>
Support services:				
Student services	15,145	-	-	-
Instructional staff services	61,316	-	-	-
Administration services	249,262	-	-	-
Operation and maintenance of plant services	158,468	732	-	-
Transportation services	86,859	-	-	-
	<u>571,050</u>	<u>732</u>	<u>-</u>	<u>-</u>
Non-instructional programs	<u>9,233</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
AEA flowthrough	65,032	-	65,032	-
Depreciation (unallocated)*	9,446	-	-	-
	<u>74,478</u>	<u>-</u>	<u>65,032</u>	<u>-</u>
Total governmental activities	<u>1,909,722</u>	<u>164,825</u>	<u>244,975</u>	<u>-</u>
Business type activities				
Non-instructional programs:				
Food service operations	<u>71,673</u>	<u>34,233</u>	<u>34,364</u>	<u>-</u>
Total	<u>1,981,395</u>	<u>199,058</u>	<u>279,339</u>	<u>-</u>

General Revenues:

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

Total general revenues

Change in net assets

Net assets beginning of year, as restated

Net assets end of year

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

TITONKA CONSOLIDATED SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
(588,190)	-	(588,190)
(198,600)	-	(198,600)
(124,135)	-	(124,135)
<u>(910,925)</u>	<u>-</u>	<u>(910,925)</u>
(15,145)	-	(15,145)
(61,316)	-	(61,316)
(249,262)	-	(249,262)
(157,736)	-	(157,736)
(86,859)	-	(86,859)
<u>(570,318)</u>	<u>-</u>	<u>(570,318)</u>
(9,233)	-	(9,233)
-	-	-
(9,446)	-	(9,446)
<u>(9,446)</u>	<u>-</u>	<u>(9,446)</u>
(1,499,922)	-	(1,499,922)
-	(3,076)	(3,076)
<u>(1,499,922)</u>	<u>(3,076)</u>	<u>(1,502,998)</u>
680,315	-	680,315
68,157	-	68,157
47,590	-	47,590
44,612	-	44,612
621,936	-	621,936
7,624	4	7,628
1,026	-	1,026
<u>1,471,260</u>	<u>4</u>	<u>1,471,264</u>
(28,662)	(3,072)	(31,734)
<u>770,320</u>	<u>3,735</u>	<u>774,055</u>
<u>741,658</u>	<u>663</u>	<u>742,321</u>

TITONKA CONSOLIDATED SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2004

	General Fund	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments:	231,492	145,676	37,137	414,305
Receivables:				
Property tax:				
Delinquent	10,529	1,128	726	12,383
Succeeding year	622,254	57,037	42,699	721,990
Accounts	6	-	75	81
Interfund receivable	3,685	-	-	3,685
Due from other governments	92,870	-	16,360	109,230
Prepaid expenses	1,190	-	-	1,190
	<u>962,026</u>	<u>203,841</u>	<u>96,997</u>	<u>1,262,864</u>
Total assets	962,026	203,841	96,997	1,262,864
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	19,048	1,200	4,008	24,256
Deferred revenue:				
Succeeding year property tax	622,254	57,037	42,699	721,990
Other	46,213	-	-	46,213
Total liabilities	<u>687,515</u>	<u>58,237</u>	<u>46,707</u>	<u>792,459</u>
Fund balances:				
Reserved for:				
Phase III	17	-	-	17
Gifted and talented program	18,409	-	-	18,409
Iowa early intervention block grant	16,217	-	-	16,217
Unreserved	239,868	145,604	50,290	435,762
Total fund balances	<u>274,511</u>	<u>145,604</u>	<u>50,290</u>	<u>470,405</u>
Total liabilities and fund balances	962,026	203,841	96,997	1,262,864

TITONKA CONSOLIDATED SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2004

Total fund balances of governmental funds (Exhibit C)	470,405
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	224,400
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	46,213
An internal service fund is used by the District's management to charge the costs of the employee flexible benefit program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	<u>640</u>
Net assets of governmental activities (Exhibit A)	<u><u>741,658</u></u>

TITONKA CONSOLIDATED SCHOOL DISTRICT

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

Year ended June 30, 2004

	General Fund	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	681,681	68,157	88,556	838,394
Tuition	86,531	-	-	86,531
Other	28,422	156	61,763	90,341
Intermediate sources	2,500	-	-	2,500
State sources	784,946	-	-	784,946
Federal sources	75,465	-	-	75,465
Total revenues	<u>1,659,545</u>	<u>68,313</u>	<u>150,319</u>	<u>1,878,177</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	844,663	-	-	844,663
Special instruction	229,658	-	-	229,658
Other instruction	105,956	-	74,730	180,686
	<u>1,180,277</u>	<u>-</u>	<u>74,730</u>	<u>1,255,007</u>
Support services:				
Student services	15,145	-	-	15,145
Instructional staff services	61,316	-	-	61,316
Administration services	204,645	-	41,747	246,392
Operation and maintenance of plant services	144,844	39,819	-	184,663
Transportation services	75,820	-	-	75,820
	<u>501,770</u>	<u>39,819</u>	<u>41,747</u>	<u>583,336</u>
Non-instructional programs	-	-	9,233	9,233
Other expenditures:				
AEA flowthrough	65,032	-	-	65,032
Total expenditures	<u>1,747,079</u>	<u>39,819</u>	<u>125,710</u>	<u>1,912,608</u>
Excess (deficiency) of revenues over (under) expenditures	(87,534)	28,494	24,609	(34,431)
Other financing sources (uses):				
Sales of materials and equipment	603	-	-	603
Net change in fund balances	(86,931)	28,494	24,609	(33,828)
Fund balances beginning of year, as restated	<u>361,442</u>	<u>117,110</u>	<u>25,681</u>	<u>504,233</u>
Fund balances end of year	<u><u>274,511</u></u>	<u><u>145,604</u></u>	<u><u>50,290</u></u>	<u><u>470,405</u></u>

See notes to financial statements.

TITONKA CONSOLIDATED SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds to the
Statement of Activities

Year ended June 30, 2004

\$

\$

Net change in fund balances - total governmental funds (Exhibit E)		(33,828)
---	--	-----------------

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the year as follows:

Expenditures for capital assets	49,280	
Depreciation expense	<u>(47,004)</u>	2,276

Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.		2,280
---	--	-------

An internal service fund is used by the District's management to charge the costs of the employee flexible benefit program to the individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.		<u>610</u>
--	--	------------

Changes in net assets of governmental activities (Exhibit B)		<u><u>(28,662)</u></u>
---	--	-------------------------------

TITONKA CONSOLIDATED SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2004

	Enterprise Fund	Governmental Activities - Internal Service Fund
	Nonmajor School Nutrition	
	\$	\$
Assets		
Cash and cash equivalents	785	640
Inventories	2,899	-
Capital assets, net of accumulated depreciation	664	-
Total assets	4,348	640
Liabilities		
Interfund payables	3,685	-
Net assets		
Invested in capital assets, net of related debt	664	-
Unrestricted	(1)	640
Total net assets	663	640

TITONKA CONSOLIDATED SCHOOL DISTRICT

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

Year ended June 30, 2004

	Enterprise Fund <u>Nonmajor School Nutrition</u> \$	Governmental Activities - Internal Service Fund <u> </u> \$
Operating revenue:		
Local sources:		
Charges for service	34,233	5,215
	<u> </u>	<u> </u>
Operating expenses:		
Non-instructional programs:		
Salaries	24,940	-
Benefits	8,962	4,605
Purchased services	894	-
Supplies	36,328	-
Depreciation	549	-
Other	-	-
	<u>71,673</u>	<u>4,605</u>
Operating gain (loss)	<u>(37,440)</u>	<u>610</u>
Non-operating revenue:		
State sources	955	-
Federal sources	33,409	-
Interest income	4	-
Total non-operating revenue	<u>34,368</u>	<u>-</u>
Change in net assets	(3,072)	610
Net assets beginning of year	<u>3,735</u>	<u>30</u>
Net assets end of year	<u><u>663</u></u>	<u><u>640</u></u>

TITONKA CONSOLIDATED SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2004

	<u>Enterprise Fund</u>	<u>Governmental</u>
	Nonmajor School Nutrition	Activities - Internal Service Fund
	\$	\$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	34,233	-
Cash received from services provided to other funds	-	5,215
Cash payments to employees for services	(33,902)	(4,605)
Cash payments to suppliers for goods or services	<u>(30,383)</u>	<u>-</u>
Net cash provided by (used by) operating activities	<u>(30,052)</u>	<u>610</u>
Cash flows from non-capital financing activities:		
Net loans from other funds	845	-
State grants received	955	-
Federal grants received	26,601	-
Net cash provided by non-capital financing activities	<u>28,401</u>	<u>-</u>
Cash flows from capital and related financing activities:	<u>-</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>4</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(1,647)	610
Cash and cash equivalents at beginning of year	<u>2,432</u>	<u>30</u>
Cash and cash equivalents at end of year	<u><u>785</u></u>	<u><u>640</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:		
Operating gain (loss)	(37,440)	610
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	6,808	-
Depreciation	549	-
Decrease (increase) in inventories	<u>31</u>	<u>-</u>
Net cash used in operating activities	<u><u>(30,052)</u></u>	<u><u>610</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$6,808 of federal commodities.

TITONKA CONSOLIDATED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2004

1. Summary of Significant Accounting Policies

[Titonka Consolidated](#) School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of [Titonka](#), Iowa and the predominately agricultural territory in a portion of [Kossuth, Winnebago and Hancock](#) Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, [Titonka Consolidated](#) 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 [Titonka Consolidated](#) School District [has no component units that](#) meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instruction, support and other costs.

The Physical Plant and Equipment Levy Fund is a special revenue fund that is used to account for the revenues from and expenditures of the physical plant and equipment property tax levy.

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's internal service fund is also reported as a proprietary fund. The internal service fund is used to account for the District's employee flexible benefit plan.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 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 repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	-
Buildings	1,000
Improvements other than buildings	1,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	1,000

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	20-50 years
Improvements other than buildings	20 years
Furniture and equipment	5-15 years

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

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

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

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets. The District had no long-term liabilities at June 30, 2004.

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements in the instruction function exceeded the amount budgeted..

2. Cash and Pooled Investments

The District's deposits in banks 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 no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

3. Interfund Receivables and Payables

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

Receivable Fund	Payable Fund	Amount
		\$
General Fund	Enterprise: School Nutrition Fund	3,685

The School Nutrition Fund owes the General Fund money for salaries that were paid by the General Fund. The amount will be repaid during the next fiscal year.

4. Capital Assets

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

	Balance Beginning of Year, as Restated	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	2,210	-	-	2,210
Capital assets being depreciated:				
Buildings	451,366	5,511	-	456,877
Improvements other than buildings	151,735	6,500	-	158,235
Furniture and equipment	767,356	37,269	25,520	779,105
Total capital assets being deprec.	<u>1,370,457</u>	<u>49,280</u>	<u>25,520</u>	<u>1,394,217</u>
Less accumulated depreciation for:				
Buildings	418,619	2,145	-	420,764
Improvements other than buildings	137,476	7,301	-	144,777
Furniture and equipment	594,448	37,558	25,520	606,486
Total accumulated depreciation	<u>1,150,543</u>	<u>47,004</u>	<u>25,520</u>	<u>1,172,027</u>
Total capital assets being depreciated, net	<u>219,914</u>	<u>2,276</u>	-	<u>222,190</u>
Governmental activities capital assets, net	<u>222,124</u>	<u>2,276</u>	-	<u>224,400</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	67,432	-	-	67,432
Less accumulated depreciation	66,219	549	-	66,768
Business type activities capital assets, net	<u>1,213</u>	<u>(549)</u>	-	<u>664</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	17,389
Other	5,005
Support Services:	
Administration services	2,870
Operation and maintenance of plant services	1,255
Transportation	11,039
	<hr/> 37,558
Unallocated depreciation	9,446
	<hr/> 47,004
Total depreciation expense – governmental activities	
Business type activities:	
Food services	549
	<hr/>

5. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$55,939, \$54,010, and \$52,504 respectively, equal to the required contributions for each year.

6. Risk Management

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

Each member's contributions to ISEBA fund current operations and provide 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. The District's annual contributions to ISEBA for the year ended June 30, 2004, were \$96,783.

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 ISEBA 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. ISEBA will pay claims incurred before the termination date.

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

7. 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 \$65,032 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.

8. Accounting Change and Restatement

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			Total
	General	PPEL	Nonmajor	
	\$	\$	\$	\$
Net assets, June 30, 2003, as previously reported	361,442	117,110	25,681	504,233
GASB Interpretation 6 adjustments	-	-	-	-
Net assets, July 1, 2003, as restated for Governmental funds	<u>361,442</u>	<u>117,110</u>	<u>25,681</u>	<u>504,233</u>
GASB 34 adjustments:				
Capital assets net of accumulated depreciation of		\$1,150,543		222,124
Net assets and liabilities of Internal Service Fund				30
Deferred revenue				<u>43,933</u>
Net assets, July 1, 2003, as restated				<u>770,320</u>

REQUIRED SUPPLEMENTARY INFORMATION

TITONKA CONSOLIDATED SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Receipts:						
Local sources	1,015,595	34,237	1,049,832	1,125,302	1,125,302	(75,470)
Intermediate sources	1,250	-	1,250	250	250	1,000
State sources	782,698	955	783,653	836,920	836,920	(53,267)
Federal sources	63,018	33,409	96,427	131,000	131,000	(34,573)
Total receipts	<u>1,862,561</u>	<u>68,601</u>	<u>1,931,162</u>	<u>2,093,472</u>	<u>2,093,472</u>	<u>(162,310)</u>
Disbursements:						
Instruction	1,292,356	-	1,292,356	1,267,610	1,267,610	(24,746)
Support services	582,939	-	582,939	1,104,691	1,104,691	521,752
Non-instructional programs	9,233	71,093	80,326	93,499	93,499	13,173
Other expenditures	65,032	-	65,032	69,705	69,705	4,673
Total disbursements	<u>1,949,560</u>	<u>71,093</u>	<u>2,020,653</u>	<u>2,535,505</u>	<u>2,535,505</u>	<u>514,852</u>
Excess (deficiency) of receipts over (under) disbursements	(86,999)	(2,492)	(89,491)	(442,033)	(442,033)	352,542
Other financing sources (uses) net	<u>(242)</u>	<u>845</u>	<u>603</u>	<u>-</u>	<u>-</u>	<u>603</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements	(87,241)	(1,647)	(88,888)	(442,033)	(442,033)	353,145
Balance beginning of year	<u>501,546</u>	<u>2,432</u>	<u>503,978</u>	<u>455,500</u>	<u>455,500</u>	<u>48,478</u>
Balance end of year	<u><u>414,305</u></u>	<u><u>785</u></u>	<u><u>415,090</u></u>	<u><u>13,467</u></u>	<u><u>13,467</u></u>	<u><u>401,623</u></u>

TITONKA CONSOLIDATED SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
	\$	\$	\$
Revenues	1,862,561	15,616	1,878,177
Expenditures	1,949,560	(36,952)	1,912,608
Net	(86,999)	52,568	(34,431)
Other financing sources (uses) net	(242)	845	603
Beginning fund balances	501,546	2,687	504,233
Ending fund balances	<u>414,305</u>	<u>56,100</u>	<u>470,405</u>
	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
	\$	\$	\$
Revenues	68,601	-	68,601
Expenditures	71,093	580	71,673
Net	(2,492)	(580)	(3,072)
Other financing sources (uses) net	845	(845)	-
Beginning fund balances	2,432	1,303	3,735
Ending fund balances	<u>785</u>	<u>(122)</u>	<u>663</u>

TITONKA CONSOLIDATED SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

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 the [cash basis](#). Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

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

During the year ended June 30, [2004](#), disbursements in the [instruction](#) function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

TITONKA CONSOLIDATED SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2004

Assets	Special Revenue Funds			Capital Projects Funds	Total
	Management Levy	Student Activity Fund	Public Education and Recreation Levy	Local Option Sales Tax	
	\$	\$	\$	\$	
Cash and pooled investments	1,334	7,489	-	28,314	37,137
Receivables:					
Property tax:					
Delinquent	574	-	152	-	726
Succeeding year	35,000	-	7,699	-	42,699
Accounts	-	75	-	-	75
Due from other governments	-	-	-	16,360	16,360
Total assets	36,908	7,564	7,851	44,674	96,997
Liabilities & Fund Balances					
Liabilities:					
Accounts payable	4,008	-	-	-	4,008
Deferred revenue:					
Succeeding year property tax	35,000	-	7,699	-	42,699
Total liabilities	39,008	-	7,699	-	46,707
Fund balances:					
Unreserved fund balance	(2,100)	7,564	152	44,674	50,290
Total liabilities and fund balances	36,908	7,564	7,851	44,674	96,997

TITONKA CONSOLIDATED SCHOOL DISTRICT

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

Year ended June 30, 2004

	Special Revenue Funds			Projects Funds	Total
	Management Levy	Student Activity Fund	Public Education and Recreation Levy	Local Option Sales Tax	
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	34,744	-	9,200	44,612	88,556
Other	94	61,607	-	62	61,763
Total revenues	<u>34,838</u>	<u>61,607</u>	<u>9,200</u>	<u>44,674</u>	<u>150,319</u>
Expenditures:					
Current:					
Instruction:					
Other instruction	-	74,730	-	-	74,730
Support services:					
Administration services	41,747	-	-	-	41,747
Non-instructional programs	-	-	9,233	-	9,233
Total expenditures	<u>41,747</u>	<u>74,730</u>	<u>9,233</u>	<u>-</u>	<u>125,710</u>
Excess (deficiency) of revenues over (under) expenditures	(6,909)	(13,123)	(33)	44,674	24,609
Fund balances beginning of year, as restated	<u>4,809</u>	<u>20,687</u>	<u>185</u>	<u>-</u>	<u>25,681</u>
Fund balances end of year	<u>(2,100)</u>	<u>7,564</u>	<u>152</u>	<u>44,674</u>	<u>50,290</u>

TITONKA CONSOLIDATED SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Elem./MS activities	1,064	-	984	80
Musical and play	95	423	406	112
Pride club	361	-	159	202
Jazz band	459	1,906	2,125	240
Co-ed athletics	3,958	16,328	15,382	4,904
Annual	485	2,126	2,602	9
Washington D. C. trip	11,574	38,676	50,327	(77)
Class of 2007	543	-	543	-
Class of 2008	1,221	162	240	1,143
Class of 2009	55	142	-	197
Class of 2010	-	192	-	192
National Honor Society	147	403	430	120
Interest	348	55	275	128
Student council	146	1,119	1,257	8
Cheerleading	231	-	-	231
Ending accruals	-	75	-	75
	<u>20,687</u>	<u>61,607</u>	<u>74,730</u>	<u>7,564</u>
Total	<u>20,687</u>	<u>61,607</u>	<u>74,730</u>	<u>7,564</u>

TITONKA CONSOLIDATED SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2004	2003	2002	2001
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	838,394	825,335	774,602	749,815
Tuition	86,531	121,660	130,210	108,249
Other	90,341	102,759	88,102	73,547
Intermediate sources	2,500	-	-	-
State sources	784,946	778,827	759,476	847,496
Federal sources	75,465	116,839	79,381	46,335
Total revenues	<u>1,878,177</u>	<u>1,945,420</u>	<u>1,831,771</u>	<u>1,825,442</u>
Expenditures:				
Instruction:				
Regular instruction	844,663	811,245	805,580	772,794
Special instruction	229,658	208,154	195,435	204,929
Other instruction	180,686	154,425	143,706	117,364
Support services:				
Student services	15,145	14,962	17,620	25,266
Instructional staff services	61,316	68,521	73,897	55,802
Administration services	246,392	238,337	271,767	199,218
Operation and maintenance of plant services	184,663	173,599	153,587	150,371
Transportation services	75,820	73,739	98,337	78,675
Central support services	-	-	612	626
Non-instructional programs	9,233	9,183	9,261	8,982
Other expenditures:				
Facilities acquisition	-	-	7,453	19,570
AEA flowthrough	65,032	66,047	66,182	69,735
Total expenditures	<u>1,912,608</u>	<u>1,818,212</u>	<u>1,843,437</u>	<u>1,703,332</u>

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting

To the Board of Education of the
Titonka Consolidated School District:

We have audited the financial statements of the Titonka Consolidated School District as of and for the year ended June 30, 2004, and have issued our report thereon dated October 26, 2004. We conducted our 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 Titonka Consolidated School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved.

Internal Control over Financial Reporting

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

A material weakness is a 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item [04-I-A](#) is a material weakness. Prior year reportable conditions have all been resolved except for item [04-I-A](#).

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the [Titonka Consolidated](#) 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.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of [Titonka Consolidated](#) School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

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

[October 26, 2004](#)

TITONKA CONSOLIDATED SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported

Reportable Conditions:

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

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

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

Conclusion: Response accepted.

TITONKA CONSOLIDATED SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

04-II-A Official Depositories: Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

04-II-B Certified Budget: Disbursement for the year ended June 30, 2004, exceeded the amount budgeted in the instruction function.

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

District Response: Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion: Response accepted.

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

04-II-D Travel Expenses: No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Mike Heyer, board member	Assistant coach	\$ 1,824

The transaction does not appear to represent a conflict of interest since the dollar amount was less than \$2,500.

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

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

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

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

TITONKA CONSOLIDATED SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

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

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

04-II-K Deficit Balances: The District has a deficit fund balance in the Management Fund of \$2,100 at June 30, 2004.

Recommendation: The District should continue to monitor this fund and investigate alternatives to eliminate the deficit.

District Response: The deficit will be covered by property tax revenues during the next year.

Conclusion: Response accepted.