

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

JUNE 30, 2005

NEWS RELEASE

Nolte, Cornman & Johnson P.C. today released an audit report on the Algona Community School District in Algona, Iowa.

The District's revenues for the governmental funds totaled \$13,468,251 for the year ended June 30, 2005 and included \$5,742,171 in local tax, \$5,285,230 from the state, \$676,384 from the federal government, \$27,523 in interest on investments and \$2,800 from the sale of equipment.

Governmental fund expenditures for the year totaled \$13,026,441 and included \$9,058,067 for instruction, \$3,121,331 for support services and \$847,043 for other expenditures.

A copy of the audit report is available for review in the office of the Auditor of State and the District Secretary's office.

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Algona Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2004 Election)		
Pam Wymore	President	2005
Carl Westling	Vice President	2006
Floyd Lavrenz	Board Member	2004
Dale Person	Board Member	2005
Marc Singer	Board Member	2005
David Fenchel	Board Member	2004
Keith Kuecker	Board Member	2006
Board of Education (After September 2004 Election)		
Pam Wymore	President	2005
Carl Westling	Vice President	2006
Floyd Lavrenz	Board Member	2007
Dale Person	Board Member	2005
Marc Singer	Board Member	2005
David Fenchel	Board Member	2007
Keith Kuecker	Board Member	2006
School Officials		
Harold D. Prior	Superintendent	2005
Gail I. Carroll	District Secretary	2005
Carol Kenyon	District Treasurer	2005
Stephen F. Avery	Attorney	2005

NOLTE, CORNMAN & JOHNSON P.C.
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(a professional corporation)
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Algona Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Algona Community School District, Algona, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with Government Auditing Standards, we have also issued our reports dated March 23, 2006 on our consideration of Algona Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of those reports are to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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 12 and 32 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board.

Members American Institute & Iowa Society of Certified Public Accountants

We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Algona Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

March 23, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$11,403,841 in fiscal 2004 to \$11,952,955 in fiscal 2005, while General Fund expenditures increased from \$11,472,688 in fiscal 2004 to \$11,847,183 in fiscal 2005. This resulted in an increase in the District's General Fund balance from \$1,008,342 in fiscal 2004 to a balance of \$1,116,914 in fiscal 2005.
- The increase in General Fund revenues was attributable to an increase in local tax, tuition and federal revenue in fiscal 2005. The increase in expenditures was due primarily to an increase in spending in instruction and support services. One reason the General Fund balance increased slightly is because the increase in revenues offset the increase in expenditures during the year.
- Overall the District experienced an increase in net assets in the governmental-type activities of \$406,420 and a decrease in the business-type activities of \$14,794, respectively.
- During the year, the District continued to receive Local Option Sales and Service Tax from Kossuth County. This resulted in an increase in revenue in the Capital Projects Fund of \$457,401.
- The September 2004 Certified Enrollment count resulted in a decrease of 46.3 students, representing a 3.6% decrease compared to the prior year.

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

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

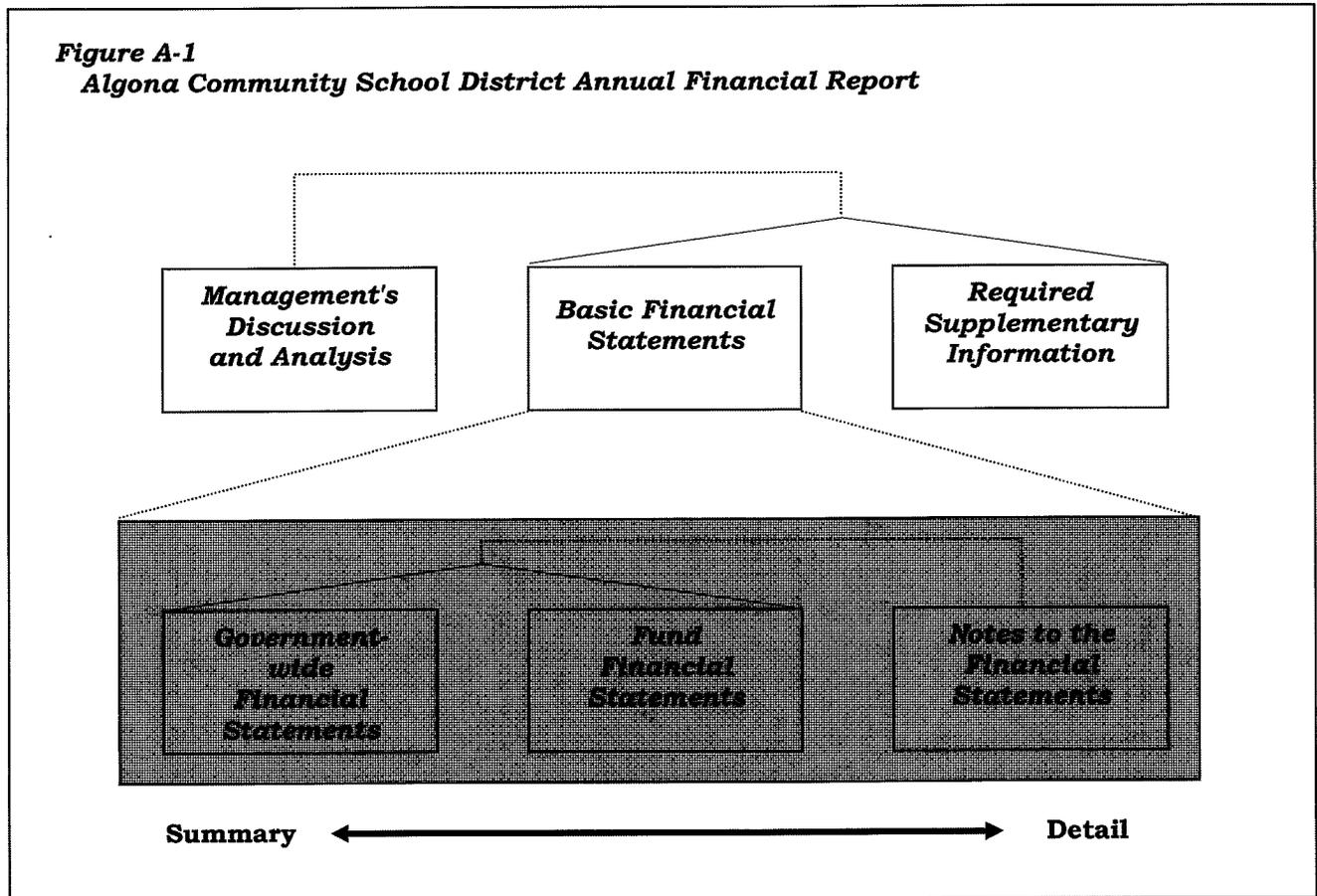


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2			
Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
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
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 net assets • Statement of cash flows
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
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
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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

The two government-wide financial statements report the District’s net assets and how they have changed. Net assets – the difference between the District’s assets and liabilities – are one way to measure the District’s financial health or position. Over time, increases or decreases in the

District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2005 compared to June 30, 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Current and other assets	\$ 7,363,832	6,852,736	17,989	20,352	7,381,821	6,873,088	7.40%
Capital assets	3,491,051	3,542,248	15,653	19,602	3,506,704	3,561,850	-1.55%
Total assets	10,854,883	10,394,984	33,642	39,954	10,888,525	10,434,938	4.35%
Long-term obligations	126	5,526	0	0	126	5,526	-97.72%
Other liabilities	4,729,435	4,670,556	9,000	518	4,738,435	4,671,074	1.44%
Total liabilities	4,729,561	4,676,082	9,000	518	4,738,561	4,676,600	1.32%
Net assets:							
Invested in capital assets, net of related debt	3,491,051	3,542,248	15,653	19,602	3,506,704	3,561,850	-1.55%
Restricted	916,325	581,287	0	0	916,325	581,287	57.64%
Unrestricted	1,717,946	1,595,367	8,989	19,834	1,726,935	1,615,201	6.92%
Total net assets	\$ 6,125,322	5,718,902	24,642	39,436	6,149,964	5,758,338	6.80%

The District's combined net assets increased by 6.8% or \$391,626 over the prior year. The largest portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets increased \$335,038 or 58% over the prior year. The increase was primarily a result of the increase in the Capital Projects fund balance during the year.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - increased \$111,734 or nearly 7%. This increase in unrestricted net assets was a result of an increase in the General fund balance during the year.

Figure A-4 shows the changes in net assets for the year ended June 30, 2005 compared to June 30, 2004.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Revenues:							
Program revenues:							
Charges for services	\$ 1,734,143	1,532,684	292,883	284,083	2,027,026	1,816,767	11.57%
Operating grants and contributions and restricted interest	1,569,680	1,393,681	188,047	185,707	1,757,727	1,579,388	11.29%
General revenues:							
Property tax	5,043,028	5,415,420	0	0	5,043,028	5,415,420	-6.88%
Local option sales and service tax	722,379	267,144	0	0	722,379	267,144	170.41%
Unrestricted state grants	4,391,934	4,368,880	0	0	4,391,934	4,368,880	0.53%
Other	30,323	44,811	0	0	30,323	44,811	-32.33%
Total revenues	13,491,487	13,022,620	480,930	469,790	13,972,417	13,492,410	3.56%
Program expenses:							
Governmental activities:							
Instructional	9,097,260	8,843,133	0	0	9,097,260	8,843,133	2.87%
Support services	3,178,242	2,849,528	0	0	3,178,242	2,849,528	11.54%
Non-instructional programs	0	17,800	495,724	471,080	495,724	488,880	1.40%
Other expenses	809,565	824,702	0	0	809,565	824,702	-1.84%
Total expenses	13,085,067	12,535,163	495,724	471,080	13,580,791	13,006,243	4.42%
Changes in net assets	406,420	487,457	(14,794)	(1,290)	391,626	486,167	-19.45%
Net assets beginning of year	5,718,902	5,231,445	39,436	40,726	5,758,338	5,272,171	9.22%
Net assets end of year	\$ 6,125,322	5,718,902	24,642	39,436	6,149,964	5,758,338	6.80%

Property tax, local option sales and service tax and unrestricted state grants account for 73% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 90% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$13,491,487 and expenses were \$13,085,067.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 9,097,260	6,397,462
Support services	3,178,242	3,004,944
Other expenses	809,565	378,838
Totals	\$ 13,085,067	9,781,244

-
- The cost financed by users of the District's programs was \$1,734,143.
 - Federal and state governments subsidized certain programs with grants and contributions totaling \$1,569,680.
 - The net cost of governmental activities was financed with \$5,043,028 in property tax, \$722,379 in local option sales and service tax, \$4,391,934 in unrestricted state grants and \$27,523 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$480,930 and expenses were \$495,724. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,995,187, compared to last year's ending fund balances of \$1,553,377. However, the primary reason for the increase was due to the increase of local option sales and service tax revenues in the Capital Projects Fund.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. Increase in property tax, tuition and federal grants resulted in an increase in revenues. The increase in revenues offset the increase in General Fund expenditures ensuring the increase in the financial position of the District.
- The District had its first full year of local option sales and service tax, which resulted in an increase in the Capital Projects fund balance from \$194,890 in 2004 to \$516,716 in 2005.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$39,436 at June 30, 2004 to \$24,642 at June 30, 2005, representing a decrease of approximately 37.5%.

BUDGETARY HIGHLIGHTS

Over the course of the year, Algona Community School District amended its budget one time to reflect additional disbursements. The amendment increased disbursements in all functional program areas.

The District's revenues were \$1,149,460 more than budgeted revenues, a variance of 9%. The most significant variance resulted from the District receiving more in miscellaneous income than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending

through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$3,506,704, 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 amount represents a net decrease of 1.55% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$430,764.

The original cost of the District's capital assets was \$11,710,503. Governmental funds account for \$11,605,031 with the remainder of \$105,472 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$370,112 at June 30, 2004 compared to \$0 at June 30, 2005. This decrease resulted from the completion of the wrestling room during the current year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2005	2004	2005	2004	2005	2004	2004-05
Land	\$ 37,674	37,674	0	0	37,674	37,674	0.00%
Construction in progress	0	370,112	0	0	0	370,112	-100.00%
Buildings	2,777,108	2,462,299	0	0	2,777,108	2,462,299	12.79%
Land improvements	110,919	110,403	0	0	110,919	110,403	0.47%
Machinery and equipment	565,350	561,760	15,653	19,602	581,003	581,362	-0.06%
Total	\$ 3,491,051	3,542,248	15,653	19,602	3,506,704	3,561,850	-1.55%

Long-Term Debt

At June 30, 2005, the District had long-term debt outstanding of \$126 in early retirement. This represents a decrease of approximately 97.7% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding early retirement payable from the Special Revenue, Management Levy Fund of \$126 at June 30, 2005.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total
	2005	2004	Change
	Early retirement	\$ 126	5,526

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- A pattern of declining enrollment persists in the District. Enrollment has declined for the past 5 years, and projections of enrollment and the birth rate indicate several more years of decline. This will reduce the amount of revenue available to fund educational programs and service in the future.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- The elimination of the "budget guarantee" at 10% each year is reducing revenues to the District each year.
- Rapid and persistent increases in insurance costs and energy costs will create more financial hardships for the District in the future.

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 Harold D. Prior, Ph. D, Superintendent of Schools, Algona Community School District, Box 717, 200 North Phillips, Algona, Iowa, 50511.

BASIC FINANCIAL STATEMENTS

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 1,850,413	7,110	1,857,523
Receivables:			
Property tax:			
Delinquent	83,054	0	83,054
Succeeding year	4,450,062	0	4,450,062
Income surtax	385,700	0	385,700
Interfund	9,000	0	9,000
Accounts	237,180	1,399	238,579
Accrued interest	248	0	248
Due from other governments	348,175	0	348,175
Inventories	0	9,480	9,480
Capital assets, net of accumulated depreciation (Note 4)	3,491,051	15,653	3,506,704
TOTAL ASSETS	10,854,883	33,642	10,888,525
LIABILITIES			
Accounts payable	5,291	0	5,291
Interfund payable	0	9,000	9,000
Salaries and benefits payable	58,466	0	58,466
ISEBA assessment payable (Note 7)	75,000	0	75,000
Incurred but not reported	140,000	0	140,000
Deferred revenue:			
Succeeding year property tax	4,450,062	0	4,450,062
Other	616	0	616
Long-term liabilities (Note 5):			
Portion due within one year:			
Early retirement	126	0	126
TOTAL LIABILITIES	4,729,561	9,000	4,738,561
NET ASSETS			
Investment in capital assets, net of related debt	3,491,051	15,653	3,506,704
Restricted for:			
Talented and gifted	28,152	0	28,152
Early intervention	9,474	0	9,474
Salary improvement program	552	0	552
Capital projects	516,716	0	516,716
Physical plant & equipment levy	34,691	0	34,691
Management levy	189,927	0	189,927
Other special revenue purposes	136,813	0	136,813
Unrestricted	1,717,946	8,989	1,726,935
TOTAL NET ASSETS	\$ 6,125,322	24,642	6,149,964

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 5,007,206	506,216	993,431
Special instruction	2,592,875	606,443	0
Other instruction	1,497,179	593,708	0
	<u>9,097,260</u>	<u>1,706,367</u>	<u>993,431</u>
Support services:			
Student services	293,643	0	0
Instructional staff services	206,755	0	0
Administration services	1,168,510	0	0
Operation and maintenance of plant services	1,050,836	0	0
Transportation services	458,498	27,776	145,522
	<u>3,178,242</u>	<u>27,776</u>	<u>145,522</u>
Other expenditures:			
Facility acquisitions	176,437	0	0
AEA flowthrough	430,727	0	430,727
Depreciation (unallocated)*	202,401	0	0
	<u>809,565</u>	<u>0</u>	<u>430,727</u>
Total governmental activities	13,085,067	1,734,143	1,569,680
Business-Type activities:			
Non-instructional programs:			
Nutrition services	495,724	292,883	188,047
Total business-type activities	<u>495,724</u>	<u>292,883</u>	<u>188,047</u>
Total	<u>\$ 13,580,791</u>	<u>2,027,026</u>	<u>1,757,727</u>

General Revenues:

Property tax levied for:
 General purposes
 Capital outlay
Local option sales and service tax
Unrestricted state grants
Unrestricted investment earnings
Gain on sale of equipment

Total general revenues

Changes in net assets

Net assets beginning of year

Net assets end of year

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

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(3,507,559)	0	(3,507,559)
(1,986,432)	0	(1,986,432)
(903,471)	0	(903,471)
<u>(6,397,462)</u>	<u>0</u>	<u>(6,397,462)</u>
(293,643)	0	(293,643)
(206,755)	0	(206,755)
(1,168,510)	0	(1,168,510)
(1,050,836)	0	(1,050,836)
(285,200)	0	(285,200)
<u>(3,004,944)</u>	<u>0</u>	<u>(3,004,944)</u>
(176,437)	0	(176,437)
0	0	0
(202,401)	0	(202,401)
<u>(378,838)</u>	<u>0</u>	<u>(378,838)</u>
(9,781,244)	0	(9,781,244)
0	(14,794)	(14,794)
<u>0</u>	<u>(14,794)</u>	<u>(14,794)</u>
<u>(9,781,244)</u>	<u>(14,794)</u>	<u>(9,796,038)</u>
\$ 4,957,544	0	4,957,544
85,484	0	85,484
722,379	0	722,379
4,391,934	0	4,391,934
27,523	0	27,523
2,800	0	2,800
<u>10,187,664</u>	<u>0</u>	<u>10,187,664</u>
406,420	(14,794)	391,626
5,718,902	39,436	5,758,338
<u>\$ 6,125,322</u>	<u>24,642</u>	<u>6,149,964</u>

ALGONA COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	Other			Total
	General	Capital Projects	Governmental Funds	
ASSETS				
Cash and pooled investments	\$ 877,614	385,840	347,162	1,610,616
Receivables:				
Property tax				
Delinquent	77,907	0	5,147	83,054
Succeeding year	4,099,508	0	350,554	4,450,062
Income surtax	385,700	0	0	385,700
Interfund	0	0	9,000	9,000
Accounts	8,467	0	0	8,467
Accrued interest	0	0	248	248
Due from other governments	217,299	130,876	0	348,175
TOTAL ASSETS	\$ 5,666,495	516,716	712,111	6,895,322
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 5,291	0	0	5,291
Salaries and benefits payable	58,466	0	0	58,466
Deferred revenue:				
Succeeding year property tax	4,099,508	0	350,554	4,450,062
Income surtax	385,700	0	0	385,700
Other	616	0	0	616
Total liabilities	4,549,581	0	350,554	4,900,135
Fund balances:				
Reserved for:				
Talented and gifted	28,152	0	0	28,152
Early intervention	9,474	0	0	9,474
Salary improvement program	552	0	0	552
Unreserved:				
General	1,078,736	0	0	1,078,736
Capital projects	0	516,716	0	516,716
Management levy	0	0	190,053	190,053
Physical plant and equipment levy	0	0	34,691	34,691
Other special revenue purposes	0	0	136,813	136,813
Total fund balances	1,116,914	516,716	361,557	1,995,187
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,666,495	516,716	712,111	6,895,322

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

Total fund balances of governmental funds (page 16)	\$ 1,995,187
 <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 in the governmental funds.	3,491,051
Blending of the Internal Service Funds to be reflected on an entity-wide basis.	328,510
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	385,700
ISEBA assessment payable, is not yet due and payable in the current period due to the completion of a lawsuit settlement and, therefore, are not reported as liabilities in the governmental funds.	(75,000)
Early retirement is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	<u>(126)</u>
Net assets of governmental activites (page 13)	<u><u>\$ 6,125,322</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	General	Capital Projects	Other Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 4,735,107	0	284,685	5,019,792
LOSST	0	722,379	0	722,379
Tuition	1,112,659	0	0	1,112,659
Other	143,832	2,557	502,618	649,007
State sources	5,284,973	0	257	5,285,230
Federal sources	676,384	0	0	676,384
Total revenues	<u>11,952,955</u>	<u>724,936</u>	<u>787,560</u>	<u>13,465,451</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	4,825,375	0	94,868	4,920,243
Special instruction	2,610,995	0	0	2,610,995
Other instruction	1,035,703	0	491,126	1,526,829
	<u>8,472,073</u>	<u>0</u>	<u>585,994</u>	<u>9,058,067</u>
Support services:				
Student services	294,861	0	0	294,861
Instructional staff services	207,896	0	0	207,896
Administration services	1,089,151	0	3,012	1,092,163
Operation and maintenance of plant services	948,588	0	94,936	1,043,524
Transportation services	403,887	0	79,000	482,887
	<u>2,944,383</u>	<u>0</u>	<u>176,948</u>	<u>3,121,331</u>
Other expenditures:				
Facilities acquisitions	0	403,110	13,206	416,316
AEA flowthrough	430,727	0	0	430,727
	<u>430,727</u>	<u>403,110</u>	<u>13,206</u>	<u>847,043</u>
Total expenditures	<u>11,847,183</u>	<u>403,110</u>	<u>776,148</u>	<u>13,026,441</u>
Excess of revenues over expenditures	105,772	321,826	11,412	439,010
Other financing sources:				
Sale of equipment	2,800	0	0	2,800
Net change in fund balances	108,572	321,826	11,412	441,810
Fund balance beginning of year	1,008,342	194,890	350,145	1,553,377
Fund balance end of year	<u>\$ 1,116,914</u>	<u>516,716</u>	<u>361,557</u>	<u>1,995,187</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2005

	Business-Type	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
ASSETS		
Cash and cash equivalents	\$ 7,110	239,797
Receivables:		
Accounts	1,399	228,713
Inventories	9,480	0
Capital assets, net of accumulated depreciation (Note 4)	15,653	0
TOTAL ASSETS	33,642	468,510
LIABILITIES		
Interfund payable	9,000	0
Incurring but not reported	0	140,000
	9,000	140,000
NET ASSETS		
Investment in capital assets	15,653	0
Unrestricted	8,989	328,510
TOTAL NET ASSETS	\$ 24,642	328,510

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2005

	Business-Type	
	Activities:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
OPERATING REVENUE:		
Local sources:		
Other local sources:		
Charges for services	\$ 292,883	1,958,430
TOTAL OPERATING REVENUES	<u>292,883</u>	<u>1,958,430</u>
OPERATING EXPENSES:		
Salaries	148,950	0
Benefits	83,632	1,896,259
Services	3,186	0
Supplies	255,997	0
Depreciation	3,949	0
Other	10	0
TOTAL OPERATING EXPENSES	<u>495,724</u>	<u>1,896,259</u>
OPERATING INCOME (LOSS)	<u>(202,841)</u>	<u>62,171</u>
NON-OPERATING REVENUES:		
State sources	6,492	0
Federal sources	181,555	0
TOTAL NON-OPERATING REVENUES	<u>188,047</u>	<u>0</u>
Change in net assets	(14,794)	62,171
Net assets beginning of year	<u>39,436</u>	<u>266,339</u>
Net assets end of year	<u>\$ 24,642</u>	<u>328,510</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2005

	Business-Type	
	Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 285,107	0
Cash received from miscellaneous operating activities	5,859	1,729,717
Cash payments to employees for services	(232,582)	(1,756,259)
Cash payments to suppliers for goods or services	(226,072)	0
Net cash used in operating activities	<u>(167,688)</u>	<u>(26,542)</u>
Cash flows from non-capital financing activities:		
Transfer from Activity Fund	9,000	0
State grants received	6,492	0
Federal grants received	154,051	0
Net cash provided by non-capital financing activities	<u>169,543</u>	<u>0</u>
Net increase(decrease) in cash and cash equivalents	1,855	(26,542)
Cash and cash equivalents at beginning of year	<u>5,255</u>	<u>266,339</u>
Cash and cash equivalents at end of year	<u>\$ 7,110</u>	<u>239,797</u>
Reconciliation of operating income(loss) to net cash used in operating activities:		
Operating income(loss)	\$ (202,841)	62,171
Adjustments to reconcile operating income(loss) to net cash used in operating activities:		
Commodities consumed	27,504	0
Depreciation	3,949	0
Increase in accounts receivable	0	(228,713)
Decrease in inventories	5,617	0
Increase in incurred but not reported	0	140,000
Decrease in deferred revenue	(1,917)	0
Net cash used in operating activities	<u>\$ (167,688)</u>	<u>(26,542)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:		
Current assets:		
Cash and pooled investments	<u>\$ 7,110</u>	<u>239,797</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2005, the District received Federal commodities valued at \$27,504.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

(1) **Summary of Significant Accounting Policies**

The Algona Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Algona and Burt, Iowa, and the predominate agricultural territory in Kossuth 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, Algona 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 Algona Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference

reported as net assets. Net assets are reported in three categories:

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

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

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

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

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

The District reports the following major governmental funds:

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

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

The District reports the following major propriety funds:

The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which

it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

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

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

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

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

The District maintains its financial records on the cash basis. The financial statements of the District are prepared

by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

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

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

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the

government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 3,500
Buildings	3,500
Land improvements	3,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	3,500

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

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

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

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

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

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that

are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements in the support services exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

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

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

The District had no investments at June 30, 2005.

(3) **Interfund Receivables and Payables**

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

Receivable Fund	Payable Fund	Amount
Special Revenue, Student Activity	Enterprise, School Nutrition	\$ 9,000

(4) **Capital Assets**

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

	Balance		Balance
	Beginning	End	End
	of Year	Increases	Decreases
Business-type activities:			
Machinery and equipment	\$ 105,472	0	0
Less accumulated depreciation	85,870	3,949	0
Business-type activities capital assets, net	<u>\$ 19,602</u>	<u>(3,949)</u>	<u>0</u>
			<u>15,653</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 37,674	0	0	37,674
Construction in progress	370,112	0	370,112	0
Total capital assets not being depreciated	407,786	0	370,112	37,674
Capital assets being depreciated:				
Buildings	7,143,860	501,033	0	7,644,893
Land improvements	537,285	16,693	0	553,978
Machinery and equipment	3,221,929	228,004	81,447	3,368,486
Total capital assets being depreciated	10,903,074	745,730	81,447	11,567,357
Less accumulated depreciation for:				
Buildings	4,681,561	186,224	0	4,867,785
Land improvements	426,882	16,177	0	443,059
Machinery and equipment	2,660,169	224,414	81,447	2,803,136
Total accumulated depreciation	7,768,612	426,815	81,447	8,113,980
Total capital assets being depreciated, net	3,134,462	318,915	0	3,453,377
Governmental activities capital assets, net	\$ 3,542,248	318,915	370,112	3,491,051

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 48,504
Other		5,272
Support services:		
Administration services		82,858
Operation and maintenance of plant services		14,164
Transportation		73,616
		224,414
Unallocated depreciation		202,401
Total governmental activities depreciation expense		\$ 426,815
Business-type activities:		
Food services		\$ 3,949

(5) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Early retirement	\$ 5,526	0	5,400	126	126

Early Retirement

The District had previously offered a voluntary early retirement plan to its certified employees, however benefits are still payable on this plan. Early retirement benefits paid during the year ended June 30, 2005 totaled \$5,400. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(6) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$395,567, \$384,964, and \$375,684, respectively, equal to the required contributions for each year.

(7) Risk Management

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

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members that terminated from ISEBA on June 30, 2004 received an assessment in December 2004 which is due July 1, 2005. The total assessment for terminated members is approximately \$1.95 million. The District's share of this assessment was \$75,000 which is recorded on the district-wide Statement of Net Assets as a liability as of June 30, 2005.

Algona Community 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.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$430,727 for

the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2005, disbursements in the support services functional program area exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

ALGONA COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF RECEIPTS, DISBURSEMENTS AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 7,671,604	290,966
State sources	5,319,681	6,492
Federal sources	415,477	181,555
Total receipts	13,406,762	479,013
Disbursements:		
Instruction	9,122,674	0
Support services	3,034,312	0
Non-instructional programs	16,699	486,158
Other expenditures	847,043	0
Total disbursements	13,020,728	486,158
Excess(deficiency) of receipts over(under) disbursements	386,034	(7,145)
Other financing sources, net	2,800	0
Excess(deficiency) of receipts and other financing sources over(under) disbursements	388,834	(7,145)
Balance beginning of year	1,230,782	5,255
Balance end of year	\$ 1,619,616	(1,890)

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
7,962,570	6,894,461	6,894,461	1,068,109
5,326,173	5,376,354	5,376,354	(50,181)
597,032	465,500	465,500	131,532
<u>13,885,775</u>	<u>12,736,315</u>	<u>12,736,315</u>	<u>1,149,460</u>
9,122,674	8,693,543	9,500,000	377,326
3,034,312	2,673,124	3,000,000	(34,312)
502,857	412,179	600,000	97,143
847,043	967,709	1,250,000	402,957
<u>13,506,886</u>	<u>12,746,555</u>	<u>14,350,000</u>	<u>843,114</u>
378,889	(10,240)	(1,613,685)	1,992,574
2,800	1,000	1,000	1,800
381,689	(9,240)	(1,612,685)	1,994,374
<u>1,236,037</u>	<u>1,798,991</u>	<u>1,798,991</u>	<u>(562,954)</u>
<u>1,617,726</u>	<u>1,789,751</u>	<u>186,306</u>	<u>1,431,420</u>

ALGONA COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE-
 BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2005

	Governmental Fund Types		
	Cash Basis	Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 13,406,762	58,689	13,465,451
Expenses	13,020,728	5,713	13,026,441
Net	386,034	52,976	439,010
Other financing sources, net	2,800	0	2,800
Beginning fund balances	1,230,782	322,595	1,553,377
Ending fund balances	\$ 1,619,616	375,571	1,995,187

	Proprietary Fund Type		
	Cash Basis	Enterprise	
		Adjust- ments	Accrual Basis
Revenues	\$ 479,013	1,917	480,930
Expenses	486,158	9,566	495,724
Net	(7,145)	(7,649)	(14,794)
Beginning net assets	5,255	34,181	39,436
Ending net assets	\$ (1,890)	26,532	24,642

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

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, 2005, the District adopted one budget amendment increasing budgeted disbursements by \$1,603,445.

During the year ended June 30, 2005, disbursements in the support services program area exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

ALGONA COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2005

	Management Levy	Physical Plant and Equipment Levy	Student Activity	Special Revenue- Total
ASSETS				
Cash and pooled investments	\$ 186,232	33,117	127,813	347,162
Receivables:				
Property tax:				
Current year delinquent	3,602	1,545	0	5,147
Succeeding year	250,000	100,554	0	350,554
Interfund	0	0	9,000	9,000
Accrued interest	219	29	0	248
TOTAL ASSETS	\$ 440,053	135,245	136,813	712,111
LIABILITIES AND FUND EQUITY				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	\$ 250,000	100,554	0	350,554
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	190,053	34,691	136,813	361,557
Total fund balances	190,053	34,691	136,813	361,557
TOTAL LIABILITIES AND FUND EQUITY	\$ 440,053	135,245	136,813	712,111

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2005

	Management Levy	Physical Plant and Equipment Levy	Student Activity	Total Other Governmental Funds
REVENUES:				
Local sources:				
Local tax	\$ 199,201	85,484	0	284,685
Other	4,743	17,367	480,508	502,618
State sources	180	77	0	257
TOTAL REVENUES	204,124	102,928	480,508	787,560
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	94,868	0	0	94,868
Other instruction	0	0	491,126	491,126
	94,868	0	491,126	585,994
Support services:				
Administration services	3,012	0	0	3,012
Operation and maintenance of plant services	80,122	14,814	0	94,936
Transportation services	18,634	60,366	0	79,000
	101,768	75,180	0	176,948
Other expenditures:				
Facilities acquisition	0	13,206	0	13,206
TOTAL EXPENDITURES	196,636	88,386	491,126	776,148
Excess (deficiency) of revenues over (under) expenditures	7,488	14,542	(10,618)	11,412
Fund balance beginning of year	182,565	20,149	147,431	350,145
Fund balance end of year	\$ 190,053	34,691	136,813	361,557

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2005

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Concession	\$ (3,442)	30,963	37,983	(10,462)
Concession equipment	3,100	705	1,969	1,836
Interest	0	1,033	1,033	0
Pepsi	0	4,290	17,991	(13,701)
Public broadcasting	290	412	0	702
Special advertising	19,907	16,555	17,904	18,558
Book fair-Bertha Godfrey	4,086	4,205	6,344	1,947
Leadership-Bertha Godfrey	6,155	25,101	27,528	3,728
Book fair-Bryant	848	4,349	3,503	1,694
Leadership-Bryant	2,605	4,390	4,761	2,234
Book fair-Lucia Wallace	1,512	3,544	3,785	1,271
Leadership-Lucia Wallace	11,488	28,444	23,204	16,728
MS-vocal music	301	0	42	259
MS-instrumental music	(1,060)	247	566	(1,379)
MS-vocal/band uniforms	409	462	0	871
MS-book fair	751	2,242	2,794	199
MS-cheerleaders	902	191	0	1,093
MS-leadership	4,981	539	27	5,493
MS-quiz bowl	437	380	322	495
MS-science fair	731	2,095	2,249	577
MS-student senate	2,986	6,941	4,143	5,784
MS-student travel	668	29,732	30,666	(266)
MS-teams	1,231	26,531	26,131	1,631
MS-teams 6th grade	2,851	2,783	2,292	3,342
MS-teams 7th grade	2,101	2,538	2,578	2,061
MS-teams 8th grade	1,333	3,038	2,634	1,737
HS drama/speech	1,517	11,123	11,886	754
HS-vocal music	(1,205)	5,480	4,275	0
HS-instrumental music	(2,998)	4,577	1,879	(300)
HS-vocal/band uniforms	2,103	1,410	1,127	2,386
HS swing choir & band	1,424	1,290	760	1,954
HS band tour	14,461	41,884	40,216	16,129
HS vocal tour	4,128	4,641	1,785	6,984
HS athletics general	11,890	11,953	11,410	12,433
HS cross country	0	866	866	0
HS boys basketball	0	3,725	3,725	0
HS boys football	0	9,605	9,605	0
HS baseball	0	4,685	4,685	0
HS boys track	0	2,481	2,481	0
HS boys golf	0	1,184	1,184	0
HS wrestling	0	4,102	4,102	0
HS girls basketball	0	4,519	4,519	0
HS volleyball	0	5,267	5,267	0
HS softball	0	5,958	5,958	0
HS girls track	0	4,308	4,308	0
HS girls golf	0	510	510	0
HS academics	4,372	6,532	5,560	5,344
HS-ACT-ELC	2,527	233	279	2,481
HS AFS	6,324	101	0	6,425
HS book fair	147	16	0	163
HS cheerleaders	550	5,785	4,825	1,510

ALGONA COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2005

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Class of 2005	538	592	1,130	0
Class of 2006	3,483	167	3,244	406
Class of 2007	1,721	1,030	99	2,652
Class of 2008	0	4,537	3,291	1,246
HS drill team	2,070	12,093	9,104	5,059
FFA	4,629	34,547	37,876	1,300
Construction club	0	905	93	812
HOSA	0	278	278	0
HS leadership	100	859	861	98
MMH	1,932	530	589	1,873
HS mock trial/ACAD	100	14,063	14,163	0
Model UN	309	1,561	1,782	88
National honor society	100	408	508	0
Outdoor club	908	938	991	855
P.E. club	10,995	8,594	11,722	7,867
Peer helpers	648	1,353	1,703	298
Pep council	1	0	0	1
Prom improvement	37	821	337	521
HS quiz bowl	793	1,907	2,588	112
HS spanish club	3,068	0	340	2,728
HS student senate	779	1,580	2,057	302
TV. productions	1,111	2,704	1,992	1,823
Weight lifting club	4	297	327	(26)
HS yearbook	342	17,734	19,290	(1,214)
HS special math	64	0	0	64
HS special bowling	232	1,487	1,342	377
HS special cross country	(322)	0	0	(322)
HS special swim team	630	3,679	2,142	2,167
HS special boys basketball	1,611	147	1,100	658
HS special football	640	2,695	3,037	298
HS special baseball	(688)	4,094	3,632	(226)
HS special boys track	193	1,025	1,136	82
HS special boys golf	217	945	344	818
HS special wrestling	(76)	2,551	2,438	37
HS special girls basketball	737	3,062	3,647	152
HS special volleyball	990	714	519	1,185
HS special softball	(1,017)	7,253	4,162	2,074
HS special girls track	891	1,317	2,115	93
HS special girls golf	(750)	96	(514)	(140)
Total	<u>\$ 147,431</u>	<u>480,508</u>	<u>491,126</u>	<u>136,813</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 5,742,171	5,725,990	5,161,361	5,047,733
Tuition	1,112,659	886,818	840,316	650,778
Other	649,007	689,877	560,056	747,444
State sources	5,285,230	5,335,106	5,512,326	5,730,077
Federal sources	676,384	427,455	323,790	307,432
Total	\$ 13,465,451	13,065,246	12,397,849	12,483,464
Expenditures:				
Instruction:				
Regular instruction	\$ 4,920,243	5,123,535	4,831,378	4,865,825
Special instruction	2,610,995	2,538,533	2,414,339	2,311,376
Other instruction	1,526,829	1,344,987	1,245,368	1,279,893
Support services:				
Student services	294,861	302,558	284,007	278,741
Instructional staff services	207,896	283,626	241,899	218,150
Administration services	1,092,163	935,202	886,629	836,813
Operation and maintenance of plant services	1,043,524	941,734	905,488	814,676
Transportation services	482,887	318,694	249,530	306,768
Non-instructional	0	17,800	8,432	7,375
Other expenditures:				
Facilities acquisitions	416,316	576,657	515,566	510,240
Long Term Debt:				
Principal	0	600,000	24,180	235,285
Interest	0	34,740	1,059	8,486
AEA flow-through	430,727	440,718	472,533	477,549
Total	\$ 13,026,441	13,458,784	12,080,408	12,151,177

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2005

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION (non-cash)	10.550	FY 05	\$ <u>27,504</u>
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 05	24,206
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 05	<u>129,845</u>
			<u>154,051</u>
IOWA STATE UNIVERSITY:			
COOPERATIVE EXTENSION SERVICE			
(YOUTH MARKEPLACE PROGRAM)	10.500	FY 05	<u>562</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	0126-G-04	14,101
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	0126-G	144,232
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	0126-GC	<u>12,149</u>
			<u>170,482</u>
INNOVATIVE EDUCATION PROGRAM			
STRATEGIES (TITLE V PROGRAM)	84.298	FY 04	77
INNOVATIVE EDUCATION PROGRAM	84.298	FY 05	<u>6,695</u>
STRATEGIES (TITLE V PROGRAM)			<u>6,772</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS			
	84.186	FY 05	<u>13,256</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM			
	84.367	FY 05	<u>77,771</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES			
	84.369	FY 05	<u>7,626</u>
GRANTS FOR ENHANCED ASSESSMENT INSTRUMENTS			
	84.368	FY 05	<u>1,000</u>

ALGONA COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2005

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES (SUCCESS 4)	84.027	FY 05	<u>2,693</u>
TECH-PREP EDUCATION	84.243	FY 05	<u>2,152</u>
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 05	<u>78,271</u>
IOWA PUBLIC TELEVISION:			
STAR SCHOOLS	84.215K	FY 05	<u>24,994</u>
TOTAL			<u>\$ 567,134</u>

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

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

To the Board of Education of the
Algona Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Algona Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 23, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

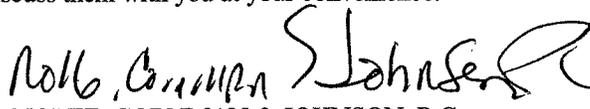
As part of obtaining reasonable assurance about whether Algona Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements non-compliance with which could have a direct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

immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Algona Community School District and other parties to Algona Community School District may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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


NOLTE, CORNMAN & JOHNSON, P.C.

March 23, 2006

NOLTE, CORNMAN & JOHNSON P.C.

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(a professional corporation)

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Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Board of Education of
Algona Community School District

Compliance

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

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

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

Internal Control Over Compliance

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

We noted a matter involving the internal control over compliance and its operations that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in

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our judgment, could adversely affect Algona Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-A-05 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance 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 III-A-05 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 Algona Community School District and other parties to whom Algona Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

Nolte, Cornman & Johnson
NOLTE, CORNMAN & JOHNSON, P.C.

March 23, 2006

ALGONA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - Individual Program:
 - CFDA Number 84.010 - Title I grants to Local Educational agencies
 - Clustered Programs:
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Algona Community School District did not qualify as a low-risk auditee.

ALGONA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Part II: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

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

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

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

II-B-05 Check Signatures - We noted during our audit, instances of unauthorized signatures on the District's checks. Chapter 291.1 of the Code of Iowa requires the Board President and Board Secretary to sign all checks. Also pursuant to this section, the Board President may designate an individual to sign warrants on his/her behalf. However, the Board Secretary may not designate an individual to sign in their absence.

Recommendation - The District should review their procedures to ensure that the proper signatures are on all checks before sending them out, in order to be in compliance with Chapter 291.1 and 291.8 of the Code of Iowa.

Response - We will make the necessary changes in order to comply with the recommendation.

Conclusion - Response accepted.

II-C-05 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year.

Recommendation - The District should research the outstanding checks to determine if they should be re-issued, voided or submitted to the Treasurer of Iowa as unclaimed property.

Response - We will comply.

Conclusion - Response accepted.

II-D-05 Exclusive Vendor Contracts - The District entered into an exclusive vendor contract with Pepsi for a five year period. The District is to receive quarterly payments of \$2,755 or \$11,000 annually, plus additional commissions on the vending sales monthly. Currently, the District is receipting the contract and commission checks into the Student Activity and

Nutrition Funds. Attorney General's Opinion dated February 15, 2000 indicates that the exclusive contract part of the contract, \$11,000 per year, should be reported into the General Fund.

Recommendation - The District should transfer the collections recorded in the Student Activity and Nutrition Funds to the General Fund and record future collections in the General Fund.

Response - We will comply.

Conclusion - Response accepted.

ALGONA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 10.553: School Breakfast and
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2005
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Educational Agencies
Agency Numbers: 0126-G and 0126-GC
Federal Award Year: 2005
U.S. Department of Education
Passed through the Iowa Department of Education

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

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

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

ALGONA COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2005

Part IV: Other Findings Related to Statutory Reporting

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

IV-B-05 Certified Budget - District disbursements for the year ended June 30, 2005 exceeded the amount budgeted in the support services program area.

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

Response - We will amend the budget if necessary in the future.

Conclusion - Response accepted.

IV-C-05 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-05 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

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

Name, Title and Business Connection	Transaction Description	Amount
Rick Adams, Director of Buildings and Grounds Owner, with wife, of Adam's Rubber Stamp Services	Stamps	\$37
Lisa Hardman, Teacher Associate Spouse built storage shelves	Storage shelves	\$307
Dawn Bjustrom, Teacher Son	Charperone	\$2,100
Karilyn Claude, Teacher Spouse	Official	\$880
Richard Dewein, Choir Director Spouse helped with choir concert	Clerical services	\$60
Chris and Anita Gerhardt, Teachers Owns Gerhardt Construction	Walnut plaques	\$28
Tracy Harmon, Kitchen Manager	Catering	\$960

Name, Title and Business Connection	Transaction Description	Amount
Sande Rodemeyer, Teacher Spouse	Official	\$100
Sande Rodemeyer, Teacher Son	Official	\$470
Sande Rodemeyer, Teacher Daughter	Official	\$110
Jan Struck, Building Secretary Spouse	Official	\$110
Pat Twait, Teacher Son	Services	\$490
Dale Person, Board Member	Official	\$260
Dale Person, Board Member Son	Official	\$100
Paul and Theresa DeLange, Sub Driver Owns Premier Choice	Fundraising items	\$30,254
Paul and Theresa DeLange, Sub Driver Owns Premier Pizza	Pizza/Concession	\$8,931

In accordance with Chapter 279.7A of the Code of Iowa, the transactions with the Board Members do not appear to be a conflict of interest.

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with the District's teachers, Director of Building & Grounds, Kitchen Manager and sub bus drivers do not appear to represent a conflict of interest.

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with the family members of the District's employees and board members do not appear to represent a conflict of interest.

- IV-F-05 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-G-05 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- IV-H-05 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- IV-I-05 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

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

IV-K-05 Financial Condition - We noted during our audit that there were negative individual account balances in the Student Activity Fund.

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

Response - We will comply.

Conclusion - Response accepted.