

TIPTON COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

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TIPTON COMMUNITY SCHOOL DISTRICT  
 Officials  
 June 30, 2005

Name	Title	Term Expires
<b>Board of Education</b>		
(Before September 2004 Election)		
Robert Young	Board President	2005
Karla Gaul	Board Member	2004
Steve Emrich	Board Member	2004
Bill Schwitzer	Board Member	2006
Ed Pelzer	Board Member	2006
(After September 2004 Election)		
Robert Young	Board President	2005
Ed Pelzer	Board Member	2006
Joan Frazier	Board Member	2007
Steve Emrich	Board Member	2007
Bill Schwitzer	Board Member	2007
<b>School Officials</b>		
Jeffory Corkery	Superintendent	2005
James Becker	District Secretary/Treasurer	2005
Brian Gruhn	Attorney	2005

# KAY L. CHAPMAN, CPA PC

210 Cedar Street  
Muscatine, Iowa 52761  
563-264-1385

## Independent Auditor's Report

To the Board of Education  
Tipton Community School District

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of Tipton Community School District, Tipton, Iowa, as of and for the year ended June 30, 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. My responsibility is to express opinions on these financial statements based on my audit.

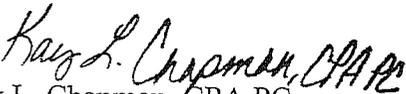
I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Tipton Community School District as of June 30, 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, I have also issued my report dated August 2, 2005 on my consideration of Tipton Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 14 and 47 through 48 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Tipton Community School District's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
Kay L. Chapman, CPA PC  
August 2, 2005

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Tipton Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 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 \$5,939,101 in fiscal 2004 to \$6,084,283 in fiscal 2005, while General Fund expenditures increased from \$6,149,178 in fiscal 2004 to \$6,285,574 in fiscal 2005. The District's General Fund balance decreased from \$839,525 in fiscal 2004 to \$618,837 in fiscal 2005, a 26% decrease.
- The increase in General Fund revenues was attributable to an increase in federal grant revenue, open enrollment students coming into the district, and an increase in interest income in fiscal 2005. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits. One reason the General Fund balance decreased is because the negotiated salary and benefits settlement was greater than the District's increase in General Fund revenue for fiscal 2005. As a result, the District funded a portion of the current year General Fund salaries and benefits from the carryover fund balance.
- During fiscal 2005, the District issued general obligation bonds of \$2,250,000 for the construction of an indoor pool and aquatic center to be shared with the City of Tipton. General obligation bonds were also issued in an amount of \$2,780,000 as a result of a cross over refunding of an older issue.
- An increase in interest rates during the 2005 fiscal year resulted in interest earnings in the General Fund alone increasing from \$18,836 in fiscal 2004 to \$37,830 in fiscal 2005.

### USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Tipton Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Tipton Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Tipton Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

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

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

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

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

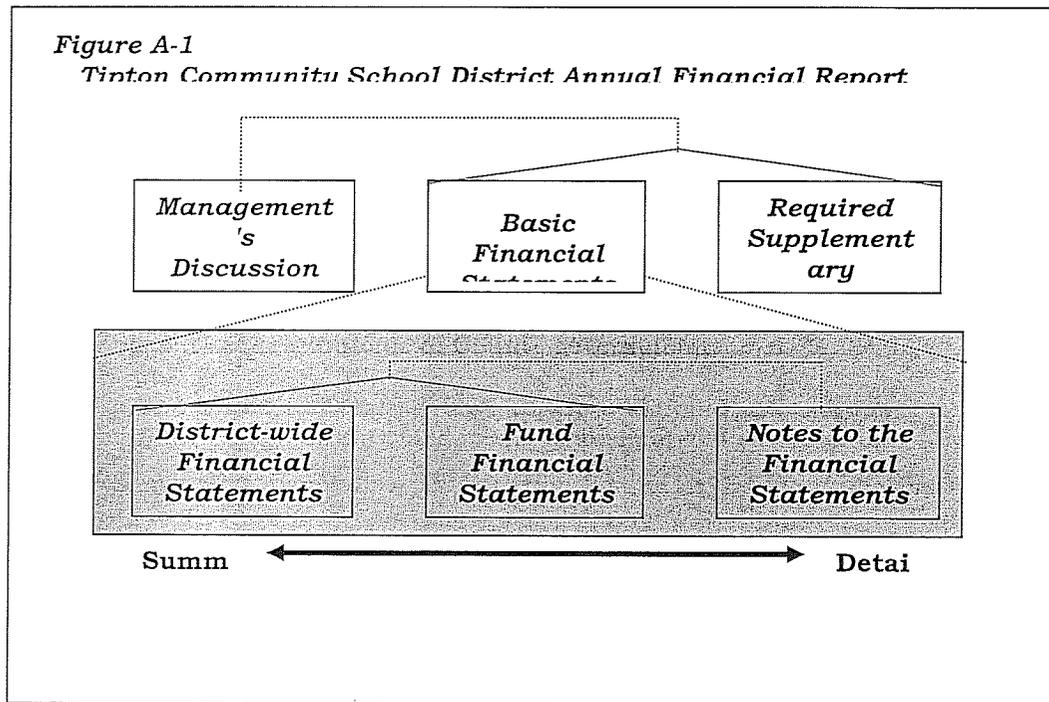


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

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

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

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

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

### *Fund Financial Statements*

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

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

The District has three kinds of funds:

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

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

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

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

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

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

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	Condensed Statement of Net Assets						
	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2004-2005</u>
Current and other assets	\$ 8,092,300	\$ 4,946,417	\$ 53,013	\$ 42,859	\$ 8,145,313	\$ 4,989,276	63.26%
Capital assets	<u>6,543,946</u>	<u>6,651,582</u>	<u>101,541</u>	<u>115,554</u>	<u>6,645,487</u>	<u>6,767,136</u>	-1.80%
Total assets	<u>14,636,246</u>	<u>11,597,999</u>	<u>154,554</u>	<u>158,413</u>	<u>14,790,800</u>	<u>11,756,412</u>	25.81%
Long-term obligations	8,296,068	3,455,058	-	-	8,296,068	3,455,058	140.11%
Other liabilities	<u>4,535,261</u>	<u>4,133,194</u>	<u>18,003</u>	<u>16,729</u>	<u>4,553,264</u>	<u>4,149,923</u>	9.72%
Total liabilities	<u>12,831,329</u>	<u>7,588,252</u>	<u>18,003</u>	<u>16,729</u>	<u>12,849,332</u>	<u>7,604,981</u>	68.96%
Net assets							
Invested in capital assets, net of related debt	577,533	3,196,524	101,541	115,554	679,074	3,312,078	-79.50%
Restricted	3,005,643	279,509	-	-	3,005,643	279,509	975.33%
Unrestricted	<u>(1,778,259)</u>	<u>533,712</u>	<u>35,010</u>	<u>26,130</u>	<u>(1,743,249)</u>	<u>559,842</u>	-411.38%
Total net assets	<u>\$ 1,804,917</u>	<u>\$ 4,009,745</u>	<u>\$136,551</u>	<u>\$ 141,684</u>	<u>\$ 1,941,468</u>	<u>\$ 4,151,429</u>	-53.23%

The District's combined net assets decreased by approximately 53%, or \$2,209,961, from the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased by \$2,726,134, or 975% from the prior year. The increase was primarily a result of a cross over refunding of an older bond issue.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased by \$2,303,091, or approximately 411%. This reduction in unrestricted net assets was a result of the District issuing bonds for the construction of a shared indoor pool and aquatic center with the City of Tipton. The City of Tipton is the owner of the facility, however, the debt is shown by the District.

Figure A-4 shows the change in net assets for the years ended June 30, 2005 and 2004.

Figure A-4

	Change in Net Assets					
	Governmental Activities		Business Type Activities		Total District	
	2005	2004	2005	2004	2005	2004
Revenues						
Program revenues						
Charges for service and sales	\$ 694,957	\$ 630,066	\$ 218,893	\$ 210,871	\$ 913,850	\$ 840,937
Operating grants, contributions and restricted interest	693,249	659,624	105,842	102,484	799,091	762,108
General revenues						
Property tax	3,144,116	2,921,860	-	-	3,144,116	2,921,860
Unrestricted state grants	2,802,492	2,662,063	-	-	2,802,492	2,662,063
Unrestricted investment earnings	49,512	24,600	196	141	49,708	24,741
Other	<u>46,193</u>	<u>23,041</u>	<u>-</u>	<u>-</u>	<u>46,193</u>	<u>23,041</u>
Total revenues	<u>7,430,519</u>	<u>6,921,254</u>	<u>324,931</u>	<u>313,496</u>	<u>7,755,450</u>	<u>7,234,750</u>
Program expenses						
Governmental activities						
Instruction	4,426,316	4,262,264	-	-	4,426,316	4,262,264
Support services	2,022,858	2,023,824	-	-	2,022,858	2,023,824
Non-instructional programs	39,178	39,068	330,064	308,004	369,242	347,072
Other expenses	<u>3,146,995</u>	<u>583,509</u>	<u>-</u>	<u>-</u>	<u>3,146,995</u>	<u>583,509</u>
Total expenses	<u>9,635,347</u>	<u>6,908,665</u>	<u>330,064</u>	<u>308,004</u>	<u>9,965,411</u>	<u>7,216,669</u>
Change in net assets	<u><u>\$ (2,204,828)</u></u>	<u><u>\$ 12,589</u></u>	<u><u>\$ (5,133)</u></u>	<u><u>\$ 5,492</u></u>	<u><u>\$ (2,209,961)</u></u>	<u><u>\$ 18,081</u></u>

Property tax and unrestricted state grants account for 80% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 67% of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$7,430,519 and expenses were \$9,635,347.

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

Figure A-5

	Total and Net Cost of Governmental Activities	
	Total Cost of Services	Net Cost of Services
Instruction	\$ 4,426,316	\$ 3,299,999
Support services	2,022,858	2,018,738
Non-instructional programs	39,178	39,178
Other expenses	<u>3,146,995</u>	<u>2,889,226</u>
Total expenses	<u><u>\$ 9,635,347</u></u>	<u><u>\$ 8,247,141</u></u>

- The cost financed by users of the District's programs was \$694,957.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$693,249.
- The net cost of governmental activities was financed with \$3,144,116 in property and other taxes and \$2,802,492 in unrestricted state grants.

### **Business Type Activities**

Revenues for business type activities were \$324,931 and expenses were \$330,064. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2005, the District increased meal prices by \$.05 per meal, which follows a schedule established in 2001-02. This increase resulted in increased revenue to the School Nutrition Fund. The District has used this revenue to increase salaries and benefits for nutrition staff and replace obsolete kitchen equipment.

## **INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$3,633,544, well above last year's ending fund balances of \$804,997. However, the primary reason for the increase in combined fund balances in fiscal 2005 is due to the District executing a cross over refunding of \$2,780,000 general obligation bonds originally issued in fiscal year 1998.

### **Governmental Fund Highlights**

- The District's deteriorating General Fund financial position is the result of many factors. Growth during the year in open enrollment revenue, interest income and grants resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures requiring the District to use carryover fund balance to meet its financial obligations during the year.
- The General Fund balance decreased from \$839,525 to \$618,837, due in large part to the negotiated salary and benefits and existing expenditure commitments of the District.
- The Capital Projects Fund balance increased from nothing in fiscal 2004 to \$126,452 in fiscal 2005. The District passed a one-cent sales tax in fiscal 2004, which took effect July 1, 2005. Fiscal 2005 was the first year the District began receiving funds from the one-cent sales tax.

- The Debt Service Fund balance increased from \$17,676 in fiscal 2004 to \$2,758,948 in fiscal 2005. This was a result of the District doing a crossover refunding of an older bond issue.

### **Proprietary Fund Highlights**

School Nutrition Fund net assets decreased from \$141,684 at June 30, 2004 to \$136,551 at June 30, 2005, representing an decrease of approximately 4%. For fiscal 2005, the District increased meal prices \$.05 per meal, resulting in an increase in current assets. Depreciation of capital assets more than offset the increase in current assets, which resulted in the overall decrease in net assets.

## **BUDGETARY HIGHLIGHTS**

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

The District's receipts were \$398,803 more than budgeted receipts, a variance of 5%. Receipts were more than budget in several areas. The most significant variance resulted from the District receiving more from the local option sales tax than originally budgeted.

Total expenditures were \$124,874 less than the amended budget, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2005, the District had invested \$6,645,487, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 1.8% from last year. More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$304,077.

The original cost of the District's capital assets was \$10,475,578. Governmental funds account for \$10,247,510, with the remainder of \$228,068 accounted for in the Proprietary, School Nutrition Fund.

The decrease in capital assets during the year occurred due to the fact that accumulated depreciation incurred on the capital assets during the year was greater than the additional capital assets purchased during the 2005 fiscal 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	2004-2005
Land	\$ 43,300	\$ 43,300	\$ -	\$ -	\$ 43,300	\$ 43,300	0.00%
Buildings and improvements	217,855	231,870	-	-	217,855	231,870	-6.04%
Improvements, other than buildings	5,927,166	6,078,295	-	-	5,927,166	6,078,295	-2.49%
Furniture and equipment	<u>355,625</u>	<u>298,119</u>	<u>101,541</u>	<u>115,554</u>	<u>457,166</u>	<u>413,673</u>	10.51%
Totals	<u>\$6,543,946</u>	<u>\$6,651,584</u>	<u>\$101,541</u>	<u>\$115,554</u>	<u>\$6,645,487</u>	<u>\$6,767,138</u>	-1.80%

### Long-Term Debt

At June 30, 2005, the District had \$8,296,068 in general obligation, revenue and other long-term debt outstanding. This represents an increase of approximately 140% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

The District's general obligation bonds consist of the following:

- An issue dated March 1, 1998, having an interest rate varying from 4.4% to 5.125% and an unpaid balance of \$2,900,000.
- An issue dated March 15, 2005, having an interest rate varying from 3.125% to 3.5% and an unpaid balance of \$2,780,000.
- An issue dated January 5, 2005, having an interest rate varying from 2.2% to 4.3% and an unpaid balance of \$2,250,000.

The District had total outstanding bonded indebtedness at June 30, 2005 of \$7,930,000.

The District also had total outstanding Capital Loan Notes payable from the Physical Plant and Equipment Levy Fund of \$260,000 at June 30, 2005.

Figure A-7

	Outstanding Long-term Obligations		
	Total		Total
	School District		Change
	2005	2004	2004-2005
General obligation bonds	\$7,930,000	\$3,070,000	158.31%
Capital loan notes	260,000	340,000	-23.53%
Capital leases	26,413	45,058	-41.38%
Early retirement	<u>79,655</u>	<u>-</u>	0.00%
Total	<u>\$8,296,068</u>	<u>\$3,455,058</u>	140.11%

## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

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

- Tipton Community School District has experienced declining certified enrollment for the past five years. The District expects a slight decline in enrollment over the next few years as larger class sizes will be graduating.
- The District negotiated a new 2-year agreement with the Tipton Education Association (TEA) during fiscal 2005. A package settlement of 4.38% for fiscal 2006 exceeded allowable growth in state funding and will have an adverse effect on fiscal 2006. A package settlement of 4.36% for fiscal 2007 may also have an adverse effect if this amount exceeds allowable growth in state funding.
- The District executed a \$2,780,000 cross over refunding in fiscal 2005 to pay off general obligation bonds originally sold in fiscal 1998. The old bonds will be paid off in June 2006. This will have a minimal positive effect for the remaining life of the bonds.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jim Becker, District Secretary/Treasurer, Tipton Community School District, 400 East 6<sup>th</sup> Street, Tipton, Iowa 52772.

## Basic Financial Statements

TIPTON COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2005

Exhibit A

	<u>Governmental</u> <u>Activities</u>	<u>Business Type</u> <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents			
ISCAP	\$ 1,156,215	\$ -	\$ 1,156,215
Other	3,947,879	30,463	3,978,342
Receivables			
Property tax			
Delinquent	38,676	-	38,676
Succeeding year	2,595,519	-	2,595,519
Accrued interest			
ISCAP	247	-	247
Other	816	-	816
Due from other governments	352,948	-	352,948
Inventories	-	22,550	22,550
Capital assets, net of accumulated depreciation	<u>6,543,946</u>	<u>101,541</u>	<u>6,645,487</u>
Total assets	<u>14,636,246</u>	<u>154,554</u>	<u>14,790,800</u>
 <b>LIABILITIES</b>			
Accounts payable	105,527	-	105,527
Salaries and benefits payable	566,982	18,003	584,985
Due to other governments	24,049	-	24,049
Accrued interest payable	76,505	-	76,505
Deferred revenue - succeeding year property tax	2,595,519	-	2,595,519
ISCAP warrants payable	1,151,000	-	1,151,000
ISCAP accrued interest payable	221	-	221
ISCAP unamortized premium	15,458	-	15,458
Long-term liabilities			
Portion due within one year			
Notes payable	85,000	-	85,000
Bonds payable	230,000	-	230,000
Capital leases payable	18,645	-	18,645
Early retirement payable	53,297	-	53,297

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

TIPTON COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2005

Exhibit A

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
<b>LIABILITIES (continued)</b>			
Long-term liabilities (continued)			
Portion due after one year			
Notes payable	\$ 175,000	\$ -	\$ 175,000
Bonds payable	7,700,000	-	7,700,000
Capital leases payable	7,768	-	7,768
Early retirement payable	26,358	-	26,358
Total liabilities	<u>12,831,329</u>	<u>18,003</u>	<u>12,849,332</u>
 <b>NET ASSETS</b>			
Invested in capital assets, net of related debt	577,533	101,541	679,074
Restricted for			
Management levy	69,139	-	69,139
Debt service levy	49,947	-	49,947
Capital projects	2,758,948	-	2,758,948
Other special revenue purposes	127,609	-	127,609
Unrestricted	<u>(1,778,259)</u>	<u>35,010</u>	<u>(1,743,249)</u>
Total net assets	<u>\$ 1,804,917</u>	<u>\$ 136,551</u>	<u>\$ 1,941,468</u>

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

TIPTON COMMUNITY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2005

Exhibit B

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b><u>Functions/Programs</u></b>							
Governmental activities							
Instruction							
Regular instruction	\$ 2,744,510	\$ 234,871	\$ 283,355	\$ -	\$ (2,226,284)	\$ -	\$ (2,226,284)
Special instruction	1,034,977	215,533	156,169	-	(663,275)	-	(663,275)
Other instruction	646,829	214,009	22,380	-	(410,440)	-	(410,440)
	<u>4,426,316</u>	<u>664,413</u>	<u>461,904</u>	<u>-</u>	<u>(3,299,999)</u>	<u>-</u>	<u>(3,299,999)</u>
Support services							
Student services	186,444	-	-	-	(186,444)	-	(186,444)
Instructional staff services	393,572	-	-	-	(393,572)	-	(393,572)
Administration services	670,930	-	-	-	(670,930)	-	(670,930)
Operation and maintenance of plant services	561,701	4,120	-	-	(557,581)	-	(557,581)
Transportation services	210,211	-	-	-	(210,211)	-	(210,211)
Central support services	-	-	-	-	-	-	-
	<u>2,022,858</u>	<u>4,120</u>	<u>-</u>	<u>-</u>	<u>(2,018,738)</u>	<u>-</u>	<u>(2,018,738)</u>
	<u>39,178</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(39,178)</u>	<u>-</u>	<u>(39,178)</u>
Non-instructional programs							
Other expenditures							
Facilities acquisition	2,399,117	-	-	-	(2,399,117)	-	(2,399,117)
Long-term debt interest	345,860	26,424	-	-	(319,436)	-	(319,436)
AEA flowthrough	231,345	-	231,345	-	-	-	-
Depreciation (unallocated)*	170,673	-	-	-	(170,673)	-	(170,673)
	<u>3,146,995</u>	<u>26,424</u>	<u>231,345</u>	<u>-</u>	<u>(2,889,226)</u>	<u>-</u>	<u>(2,889,226)</u>
	<u>9,635,347</u>	<u>694,957</u>	<u>693,249</u>	<u>-</u>	<u>(8,247,141)</u>	<u>-</u>	<u>(8,247,141)</u>
Total governmental activities							

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

TIPTON COMMUNITY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2005

Exhibit B

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Business-type activities						
Non-instructional programs						
Food service operations	\$ 330,064	\$ 218,893	\$ 105,842	\$ -	\$ (5,329)	\$ (5,329)
Total	<u>\$ 9,965,411</u>	<u>\$ 913,850</u>	<u>\$ 799,091</u>	<u>\$ -</u>	<u>(5,329)</u>	<u>(8,252,470)</u>
<b>General Revenues</b>						
Property tax levied for						
General purposes				2,537,184	-	2,537,184
Debt service				246,222	-	246,222
Sales taxes for capital projects				360,710	-	360,710
Unrestricted state grants				2,802,492	-	2,802,492
Unrestricted investment earnings				49,512	196	49,708
Other				46,193	-	46,193
Total general revenues				<u>6,042,313</u>	<u>196</u>	<u>6,042,509</u>
Change in net assets				(2,204,828)	(5,133)	(2,209,961)
Net assets, beginning of year				4,009,745	141,684	4,151,429
Net assets, end of year				<u>\$ 1,804,917</u>	<u>\$ 136,551</u>	<u>\$ 1,941,468</u>

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

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

TIPTON COMMUNITY SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2005

Exhibit C

**ASSETS**

Cash and pooled investments

ISCAP

Other

Receivables

Property tax

Delinquent

Succeeding year

Accrued interest

ISCAP

Other

Due from other funds

Due from other governments

Total assets

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Nonmajor Special Revenue Funds</u>	<u>Total</u>
	\$ 1,156,215	\$ -	\$ -	-	\$ 1,156,215
	848,828	31,686	2,755,126	312,239	3,947,879
	30,344	-	3,822	4,510	38,676
	1,922,161	-	412,044	261,314	2,595,519
	247	-	-	-	247
	-	-	-	816	816
	244,000	-	-	460	244,460
	170,595	182,353	-	-	352,948
	<u>\$ 4,372,390</u>	<u>\$ 214,039</u>	<u>\$ 3,170,992</u>	<u>\$ 579,339</u>	<u>\$ 8,336,760</u>

**LIABILITIES AND FUND BALANCES**

Liabilities

Accounts payable

Salaries and benefits payable

Due to other funds

Due to other governments

	\$ 76,532	\$ 18,587	\$ -	\$ 10,408	\$ 105,527
	563,672	-	-	3,310	566,982
	460	69,000	-	175,000	244,460
	24,049	-	-	-	24,049

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

TIPTON COMMUNITY SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2005

Exhibit C

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Nonmajor Special Revenue Funds</u>	<u>Total</u>
Liabilities (continued)					
ISCAP warrants payable	\$ 1,151,000	-	-	-	\$ 1,151,000
ISCAP accrued interest payable	221	-	-	-	221
ISCAP unamortized premium	15,458	-	-	-	15,458
Deferred revenue					
Succeeding year property tax	1,922,161	-	412,044	261,314	2,595,519
Total liabilities	<u>3,753,553</u>	<u>87,587</u>	<u>412,044</u>	<u>450,032</u>	<u>4,703,216</u>
Fund balances					
Reserved for					
Talented and gifted	3,022	-	-	-	3,022
Wellness	3,954	-	-	-	3,954
Debt service	-	-	2,758,948	-	2,758,948
Designated for special purpose	8,128	-	-	-	8,128
Unreserved, undesignated	603,733	126,452	-	129,307	859,492
Total fund balances	<u>618,837</u>	<u>126,452</u>	<u>2,758,948</u>	<u>129,307</u>	<u>3,633,544</u>
Total liabilities and fund balances	<u>\$ 4,372,390</u>	<u>\$ 214,039</u>	<u>\$ 3,170,992</u>	<u>\$ 579,339</u>	<u>\$ 8,336,760</u>

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

TIPTON COMMUNITY SCHOOL DISTRICT  
Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets  
June 30, 2005

Exhibit D

Total fund balances of governmental funds	\$ 3,633,544
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	6,543,946
--	-----------

Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(76,505)
--	----------

Long-term liabilities, including early retirement, bonds payable and notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(8,296,068)</u>
--	--------------------

Net assets of governmental activities	<u>\$ 1,804,917</u>
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See notes to financial statements and Independent Auditor's Report.

TIPTON COMMUNITY SCHOOL DISTRICT  
 Statement of Revenues, Expenditures and Changes in Fund Balances  
 Governmental Funds  
 For the Year Ended June 30, 2005

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Nonmajor Special Revenue</u>	<u>Total</u>
<b>Revenues</b>					
Local sources					
Local tax	\$ 2,090,466	\$ 360,710	\$ 246,004	\$ 444,754	\$ 3,141,934
Tuition	418,697	-	-	-	418,697
Other	77,670	2,631	1,608	263,887	345,796
State sources	3,281,860	-	218	-	3,282,078
Federal sources	215,590	-	-	-	215,590
<b>Total revenues</b>	<u>6,084,283</u>	<u>363,341</u>	<u>247,830</u>	<u>708,641</u>	<u>7,404,095</u>
<b>Expenditures</b>					
Current					
Instruction					
Regular instruction	2,636,249	-	-	-	2,636,249
Special instruction	1,034,977	-	-	-	1,034,977
Other instruction	409,225	-	-	249,088	658,313
	<u>4,080,451</u>	<u>-</u>	<u>-</u>	<u>249,088</u>	<u>4,329,539</u>
Support services					
Student services	186,142	-	-	-	186,142
Instructional staff services	438,747	-	-	-	438,747
Administration services	631,156	1,140	-	35,719	668,015
Operation & maintenance of plant services	529,737	-	-	32,810	562,547
Transportation services	148,818	-	-	7,846	156,664
	<u>1,934,600</u>	<u>1,140</u>	<u>-</u>	<u>76,375</u>	<u>2,012,115</u>

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

TIPTON COMMUNITY SCHOOL DISTRICT

Exhibit E

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2005

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Nonmajor Special Revenue</u>	<u>Total</u>
Expenditures (continued)	\$ 39,178	\$ -	\$ -	\$ -	\$ 39,178
Current (continued)					
Non-instructional programs	-	2,365,840	-	102,165	2,468,005
Other expenditures					
Facilities acquisition	-	-	268,645	-	268,645
Long-term debt	-	30,009	233,236	-	263,245
Principal					
Interest and fiscal charges	231,345	-	-	-	231,345
AEA flowthrough	231,345	2,395,849	501,881	102,165	3,231,240
Total expenditures	6,285,574	2,396,989	501,881	427,628	9,612,072
Excess (deficiency) of revenues over (under) expenditures	(201,291)	(2,033,648)	(254,051)	281,013	(2,207,977)
Other financing sources (uses)					
Proceeds of long-term debt, net of discount of \$19,900	-	2,231,001	2,805,523	-	5,036,524
Interfund operating transfers	(19,397)	(70,901)	189,800	(99,502)	-
Total other financing sources (uses)	(19,397)	2,160,100	2,995,323	(99,502)	5,036,524
Net change in fund balances	(220,688)	126,452	2,741,272	181,511	2,828,547
Fund balance, beginning of year	839,525	-	17,676	(52,204)	804,997
Fund balance, end of year	\$ 618,837	\$ 126,452	\$ 2,758,948	\$ 129,307	\$ 3,633,544

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

TIPTON COMMUNITY SCHOOL DISTRICT  
 Reconciliation of the Statement of Revenues, Expenditures and  
 Changes in Fund Balances-Governmental Funds  
 to the Statement of Activities  
 For the Year Ended June 30, 2005

Exhibit F

Net change in fund balances - total governmental funds \$ 2,828,547

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

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

Capital outlays	\$ 179,930	
Depreciation expense	<u>(287,570)</u>	(107,640)

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

Issued	(5,030,000)	
Repaid	<u>268,645</u>	(4,761,355)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. (62,715)

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

Early retirement		<u>(101,665)</u>
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Change in net assets of governmental activities \$ (2,204,828)

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

TIPTON COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
Proprietary Fund  
June 30, 2005

Exhibit G

	<u>Nonmajor School Nutrition</u>
<b>ASSETS</b>	
Cash and pooled investments	\$ 30,463
Inventories	22,550
Capital assets, net of accumulated depreciation	<u>101,541</u>
Total assets	<u>154,554</u>
<b>LIABILITIES</b>	
Liabilities	
Salaries and benefits payable	<u>18,003</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	101,541
Unreserved retained earnings	<u>35,010</u>
Total net assets	<u><u>\$ 136,551</u></u>

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

TIPTON COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Fund  
For the Year Ended June 30, 2005

Exhibit H

	Nonmajor School <u>Nutrition</u>
Operating revenue	
Local sources	
Charges for service	<u>\$ 218,893</u>
 Operating expenses	
Non-instructional programs	
Salaries	111,630
Benefits	13,831
Purchased services	5,140
Supplies	182,956
Depreciation	<u>16,507</u>
Total operating expenses	<u>330,064</u>
 Operating loss	 <u>(111,171)</u>
 Non-operating revenue	
Interest income	196
State sources	4,336
Federal sources	<u>101,506</u>
Total non-operating revenue	<u>106,038</u>
 Change in net assets	 (5,133)
Net assets, beginning of year	<u>141,684</u>
 Net assets, end of year	 <u><u>\$ 136,551</u></u>

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

TIPTON COMMUNITY SCHOOL DISTRICT  
Statement of Cash Flows  
Proprietary Fund  
For the Year Ended June 30, 2005

Exhibit I

	<u>Nonmajor School Nutrition</u>
Cash flows from operating activities	
Cash received from sale of lunches and breakfasts	\$ 218,893
Cash payments to employees for services	(124,187)
Cash payments to suppliers for goods and services	<u>(166,767)</u>
Net cash used in operating activities	<u>(72,061)</u>
Cash flows from non-capital financing activities	
State grants received	4,336
Federal grants received	<u>79,567</u>
Net cash provided by non-capital financing activities	<u>83,903</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	<u>(2,494)</u>
Cash flows from investing activities	
Interest on investments	<u>196</u>
Net increase in cash and cash equivalents	9,544
Cash and cash equivalents, beginning of year	<u>20,919</u>
Cash and cash equivalents, end of year	<u>\$ 30,463</u>
<b>Reconciliation of operating loss to net cash used in operating activities</b>	
Operating loss	\$(111,171)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	16,507
Commodities used	21,939
(Increase) in inventories	(610)
(Increase) in salaries and benefits payable	<u>1,274</u>
Net cash used in operating activities	<u>\$ (72,061)</u>

**Non-cash investing, capital and financing activities**

During the year ended June 30, 2005, the District received \$21,939 of federal commodities.

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

TIPTON COMMUNITY SCHOOL DISTRICT  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2005

Exhibit J

	<u>Private Purpose Trust</u>	
	<u>Scholarships</u>	<u>Agency</u>
Assets		
Cash and pooled investments	\$ 745,603	\$ 12,141
Accrued interest receivable	5,467	-
Total assets	<u>751,070</u>	<u>12,141</u>
Liabilities		
Accounts payable	7	-
Due to others	-	12,141
Total liabilities	<u>7</u>	<u>12,141</u>
Net assets		
Reserved for scholarships	<u>\$ 751,063</u>	<u>\$ -</u>

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

TIPTON COMMUNITY SCHOOL DISTRICT  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
For the Year Ended June 30, 2005

Exhibit K

	Private Purpose Trust <u>Scholarships</u>
Additions	
Local sources	
Gifts and contributions	\$ 305,897
Interest	<u>13,169</u>
Total additions	319,066
 Deductions	
Support services	
Scholarships awarded	<u>10,466</u>
 Change in net assets	308,600
Net assets, beginning of year	<u>442,463</u>
 Net assets, end of year	<u>\$ 751,063</u>

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

TIPTON COMMUNITY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2005

**Note 1. Summary of Significant Accounting Policies**

The Tipton Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. The geographic area served includes the City of Tipton, Iowa, and the agricultural territory in Cedar County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, Tipton Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. The Tipton Community School District has no component units, which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The District reports the following nonmajor proprietary fund:

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

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

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

### C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

#### D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 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, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

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

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

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

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

Early Retirement - District employees meeting certain requirements are eligible for early retirement benefits. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2005. The early retirement liability attributable to the governmental activities will be paid primarily from the Management Fund.

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

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

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

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

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

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

#### E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, expenditures did not exceed the amounts budgeted nor did the District exceed its General Fund unspent authorized budget.

**Note 2. Cash and Pooled Investments**

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

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

At June 30, 2005, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	\$ 816,559

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Investment rate risk. The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

**Note 3. Due From and Due to Other Funds**

The detail of interfund receivables and payables at June 30, 2005 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Physical Plant and Equipment Levy	\$ 175,000
General	Capital Project	69,000
Student Activity	General	<u>460</u>
		<u>\$ 244,460</u>

The Physical Plant and Equipment Levy Fund borrowed \$605,000 from the General Fund during the year ended June 30, 2002 for improvements to the buildings, in connection with a remodeling project. The loan has no payment schedule and the District did not make any repayments during the year ended June 30, 2005. However, the District anticipates repaying the remaining balance over the next five years from taxes generated from the Physical Plant and Equipment Levy. The General Fund loaned money to the Capital Projects Fund to help pay for costs associated with the construction project.

**Note 4. Interfund Transfers**

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Physical Plant and Equipment Levy	General	\$ 19,397
Debt Service	Physical Plant and Equipment Levy	118,899
Debt Service	Capital Projects	<u>70,901</u>
		<u>\$ 209,197</u>

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

**Note 5. Iowa Schools Cash Anticipation Program (ISCAP)**

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2005, is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>	<u>Unamortized Premium</u>
2004-05A	6/30/04	6/30/05	\$ 116	\$ -	\$ -	\$ -	\$ -
2004-05B	1/28/05	1/27/05	-	-	-	-	-
2005-06A	6/30/05	6/30/06	<u>1,156,099</u>	<u>247</u>	<u>1,151,000</u>	<u>221</u>	<u>15,458</u>
			<u>\$ 1,156,215</u>	<u>\$ 247</u>	<u>\$ 1,151,000</u>	<u>\$ 221</u>	<u>\$15,458</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2005 is as follows:

<u>Series</u>	Balance, <u>of Year</u>	Advances <u>Received</u>	Advances <u>Repaid</u>	Balance, <u>End of</u> <u>Year</u>
2004-05A	\$ -	\$ 100,000	\$ 100,000	\$ -

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

<u>Series</u>	<u>Interest</u> <u>Rates on</u> <u>Warrants</u>	<u>Interest</u> <u>Rates on</u> <u>Investments</u>
2004-05A	3.000%	2.4630%
2004-05B	3.500%	2.2800%
2005-06A	3.500%	3.9030%

## Note 6. Capital Assets

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

<u>Governmental activities</u>	Balance, <u>Beginning</u> <u>of Year</u>	<u>Additions</u>	<u>Deletions</u>	Balance, <u>End of</u> <u>Year</u>
Capital assets not being depreciated:				
Land	\$ 43,300	\$ -	\$ -	\$ 43,300
Capital assets being depreciated:				
Buildings and improvements	459,198	4,975	-	464,173
Improvements other than buildings	8,516,479	-	-	8,516,479
Furniture and equipment	1,128,718	174,955	(80,115)	1,223,558
Total capital assets being depreciated	10,104,391	179,930	(80,115)	10,204,210
Less accumulated depreciation for:				
Buildings and improvements	227,326	18,992	-	246,318
Improvements other than buildings	2,438,184	151,129	-	2,589,313
Furniture and equipment	830,599	117,449	(80,115)	867,933
Total accumulated depreciation	3,496,109	287,570	(80,115)	3,703,564
Total capital assets being depreciated, net	6,608,282	(107,640)	-	6,500,646
Governmental activities capital assets, net	\$ 6,651,582	\$ (107,640)	\$ -	\$ 6,543,946

Business type activities

Furniture and equipment	\$ 225,574	\$ 2,494	\$ -	\$ 228,068
Less accumulated depreciation	<u>110,020</u>	<u>16,507</u>	<u>-</u>	<u>126,527</u>
Business type activities capital assets, net	<u>\$ 115,554</u>	<u>\$ (14,013)</u>	<u>\$ -</u>	<u>\$ 101,541</u>

Depreciation expense was charged to the following functions:

**Governmental activities**

Instruction	
Regular	\$ 36,993
Other	2,661
Support services	
Student	302
Instructional staff	18,725
Administration	2,915
Operation and maintenance of plant	1,754
Transportation	53,547
Unallocated depreciation	<u>170,673</u>
Total governmental activities depreciation expense	<u>\$ 287,570</u>

**Business type activities**

Food services	<u>\$ 16,507</u>
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**Note 7. Long-term Liabilities**

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

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
General obligation bonds	\$ 3,070,000	\$ 5,030,000	\$(170,000)	\$ 7,930,000	\$ 230,000
Capital loan notes	340,000	-	(80,000)	260,000	85,000
Capital leases	45,058	-	(18,645)	26,413	18,645
Early retirement	<u>-</u>	<u>79,655</u>	<u>-</u>	<u>79,655</u>	<u>53,297</u>
Totals	<u>\$ 3,455,058</u>	<u>\$ 5,109,655</u>	<u>\$(268,645)</u>	<u>\$ 8,296,068</u>	<u>\$ 386,942</u>

### Early Retirement

Certified District employees who have 15 years of continuous service and are over age 55 and under age 65 are eligible for early retirement benefits. The amount of compensation is determined as follows. Certified employees between the ages of 55-59 with 15 or more years of continuous service to the District will receive a retirement incentive equal to 100 days per diem of their previous year contract. Certified employees between the ages of 60-64 with 20 or more years of continuous service to the District will receive a retirement incentive equal to 50 days per diem of their previous year contract.

The employee must notify the Board by March 1<sup>st</sup> to receive the early retirement benefits. At June 30, 2005 there was \$79,655 of early retirement benefits payable. Vacation does not accrue and sick leave is not payable except in conjunction with retirement and therefore, the District does not have a liability for compensated absences at June 30, 2005.

### Capital Leases

The District has entered into a contractual agreement to lease copiers. This agreement represents a lease-purchase agreement and, in substance, is a capital lease as ownership of the property transfers to the District at the end of the lease term. A schedule of future minimum lease payments and the present value of net minimum lease payments as of June 30, 2005 is as follows:

Year Ending June 30,	Payments
2006	\$ 19,397
2007	8,610
	<u>28,007</u>
Less amount representing interest	<u>(1,594)</u>
Present value of net minimum lease payments	<u>\$ 26,413</u>

### Capital Loan Notes

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

Year Ending June 30,	Interest	Principal	Total
2006	\$ 14,950	\$ 85,000	\$ 99,950
2007	10,062	85,000	95,062
2008	<u>5,175</u>	<u>90,000</u>	<u>95,175</u>
Totals	<u>\$ 30,187</u>	<u>\$ 260,000</u>	<u>\$ 290,187</u>

Bonds Payable

The District's general obligation bond debt is as follows:

- a) An issue dated March 1, 1998, having an interest rate varying from 4.4% to 5.125% and an unpaid balance of \$2,900,000.
- b) An issue dated March 15, 2005, having an interest rate varying from 3.125% to 3.5% and an unpaid balance of \$2,780,000.
- c) An issue dated January 5, 2005, having an interest rate varying from 2.2% to 4.3% and an unpaid balance of \$2,250,000.

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

Year Ending June 30,	Bond Issue Date			Total
	March 1, 1998	March 15, 2005	January 5, 2005	
2006	\$ 180,000	\$ -	\$ 50,000	\$ 230,000
2007	190,000	210,000	90,000	490,000
2008	200,000	220,000	95,000	515,000
2009	210,000	225,000	95,000	530,000
2010	220,000	235,000	100,000	555,000
2011	230,000	240,000	100,000	570,000
2012	245,000	250,000	105,000	600,000
2013	255,000	260,000	110,000	625,000
2014	270,000	270,000	110,000	650,000
2015	285,000	280,000	115,000	680,000
2016	300,000	290,000	120,000	710,000
2017	315,000	300,000	125,000	740,000
2018	-	-	130,000	130,000
2019	-	-	135,000	135,000
2020	-	-	140,000	140,000
2021	-	-	145,000	145,000
2022	-	-	155,000	155,000
2023	-	-	160,000	160,000
2024	-	-	170,000	170,000
Totals	<u>\$ 2,900,000</u>	<u>\$ 2,780,000</u>	<u>\$ 2,250,000</u>	<u>\$ 7,930,000</u>

Details of the general bond interest requirements to maturity as of June 30, 2005, is as follows:

Year Ending June 30.	Bond Issue Date			Total
	March 1, 1998	March 15, 2005	January 5, 2005	
2006	\$ 137,220	\$ -	\$ 114,824	\$ 252,044
2007	127,995	91,242	79,952	299,189
2008	118,590	84,680	77,882	281,152
2009	109,790	77,750	75,508	263,048
2010	100,340	70,663	72,943	243,946
2011	90,220	63,260	69,943	223,423
2012	79,525	55,340	66,793	201,658
2013	68,010	47,090	63,327	178,427
2014	56,025	38,510	59,643	154,178
2015	43,200	29,600	55,847	128,647
2016	29,520	20,360	51,765	101,645
2017	15,120	10,500	47,385	73,005
2018	-	-	42,635	42,635
2019	-	-	37,565	37,565
2020	-	-	32,165	32,165
2021	-	-	26,565	26,565
2022	-	-	20,620	20,620
2023	-	-	14,110	14,110
2024	-	-	7,310	7,310
Totals	<u>\$ 975,555</u>	<u>\$ 588,995</u>	<u>\$ 1,016,782</u>	<u>\$ 2,581,332</u>

#### Note 8. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 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 \$220,844, \$165,015 and \$207,272 respectively, equal to the required contributions for each year.

## **Note 9. Risk Management**

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

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members continuing membership in the Association had their deficit recovery assessment included in their annual premium for the 2004-2005 and 2005-2006 plan years. The deficit recovery is equal to 2% of the annual premium. The total amount of the deficit recoveries of current members is estimated to be \$2.2 million. The District's share of this assessment was \$9,679, none of which was paid with the 2004-2005 premium. The entire amount of the assessment is to be paid during the fiscal year ending June 30, 2006. Since the program is now fully insured, there will be no additional assessments due to claims exceeding premiums charged to members.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General fund at the time of payment to the risk pool. The District contributions to ISEBA for the year ended June 30, 2005 were \$7,277

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

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

## **Note 10. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$231,345 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.

**Note 11. Related Party Transactions**

The District had business transactions between the District and a board member, totaling \$84 during the year ended June 30, 2005.

**Note 12. Deficit Balance**

The District had an unreserved, undesignated fund deficit of \$147,096 in the Special Revenue, Physical Plant and Equipment Levy Fund at June 30, 2005.

**Note 14. Subsequent Event – Construction Project**

The District will begin a remodeling project at the high school building in the summer of 2005. This project is expected to be financed by the Local Option Sales and Services Tax and should be completed during the year ending June 30, 2006.

**Note 15. Aquatic Center**

The District entered into a 28E agreement with the City of Tipton in July 2004 for the financing and construction of a community aquatic center. The District sold bonds during the year ended June 30, 2005 to fund the construction of this project. Once constructed, the center will be the property of the City of Tipton, which will be responsible for its operations.

## Required Supplementary Information

TIPTON COMMUNITY SCHOOL DISTRICT  
 Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual  
 All Governmental Funds and Proprietary Fund  
 Required Supplementary Information  
 For the Year Ended June 30, 2005

	Governmental Funds <u>Actual</u>	Proprietary Fund <u>Actual</u>	Total <u>Actual</u>	Budgeted Amounts <u>Original</u>	Final <u>Final</u>	Final to Actual <u>Variance</u>
Revenues						
Local sources	\$ 3,906,427	\$ 219,089	\$ 4,125,516	\$ 3,793,869	\$ 3,793,869	\$ 331,647
Intermediate sources	-	-	-	1,450	1,450	(1,450)
State sources	3,282,078	4,336	3,286,414	3,341,315	3,341,315	(54,901)
Federal sources	215,590	101,506	317,096	193,589	193,589	123,507
Total revenues	<u>7,404,095</u>	<u>324,931</u>	<u>7,729,026</u>	<u>7,330,223</u>	<u>7,330,223</u>	<u>398,803</u>
Expenditures						
Instruction	4,329,539	-	4,329,539	4,206,463	4,456,463	126,924
Support services	2,012,115	-	2,012,115	2,033,574	2,083,574	71,459
Non-instructional programs	39,178	330,064	369,242	339,922	379,922	10,680
Other expenditures	3,231,240	-	3,231,240	817,042	3,117,042	(114,198)
Total expenditures	<u>9,612,072</u>	<u>330,064</u>	<u>9,942,136</u>	<u>7,397,001</u>	<u>10,037,001</u>	<u>94,865</u>
Deficiency of revenues under expenditures	(2,207,977)	(5,133)	(2,213,110)	(66,778)	(2,706,778)	493,668
Other financing sources, net	<u>5,036,524</u>	-	<u>5,036,524</u>	<u>116,500</u>	<u>2,756,500</u>	<u>2,280,024</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	2,828,547	(5,133)	2,823,414	49,722	49,722	2,773,692
Balance, beginning of year	804,997	141,684	946,681	1,693,017	1,693,017	(746,336)
Balance, end of year	<u>\$ 3,633,544</u>	<u>\$ 136,551</u>	<u>\$ 3,770,095</u>	<u>\$ 1,742,739</u>	<u>\$ 1,742,739</u>	<u>\$ 2,027,356</u>

See accompanying Independent Auditor's Report.

TIPTON COMMUNITY SCHOOL DISTRICT  
Notes to Required Supplementary Information – Budgetary Reporting  
For the Year Ended June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund, each major Special Revenue Fund, Capital Projects Fund and Debt Service 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 District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$2,640,000.

During the year ended June 30, 2005, District expenditures exceeded the amount budgeted in the Other Expenditures function. However, General Fund expenditures did not exceed the unspent authorized budget.

## Other Supplementary Information

TIPTON COMMUNITY SCHOOL DISTRICT  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2005

Schedule 1

	Special Revenue			
	Management	Student Activity	Physical Plant and Equipment Levy	Total
<b>ASSETS</b>				
Cash and pooled investments	\$ 147,352	\$ 140,051	\$ 24,836	\$ 312,239
Receivables				
Property tax				
Delinquent	1,442	-	3,068	4,510
Succeeding year	90,000	-	171,314	261,314
Accrued interest	-	816	-	816
Due from other fund	-	460	-	460
Total assets	<u>\$ 238,794</u>	<u>\$ 141,327</u>	<u>\$ 199,218</u>	<u>\$ 579,339</u>
 <b>LIABILITIES AND FUND EQUITY</b>				
Liabilities				
Accounts payable	\$ -	\$ 10,408	\$ -	\$ 10,408
Salaries and benefits payable	-	3,310	-	3,310
Due to other fund	-	-	175,000	175,000
Deferred revenue				
Succeeding year property tax	90,000	-	171,314	261,314
Total liabilities	<u>90,000</u>	<u>13,718</u>	<u>346,314</u>	<u>450,032</u>
 Fund equity				
Unreserved fund balances	148,794	127,609	(147,096)	129,307
Total liabilities and fund equity	<u>\$ 238,794</u>	<u>\$ 141,327</u>	<u>\$ 199,218</u>	<u>\$ 579,339</u>

See accompanying Independent Auditor's Report.

TIPTON COMMUNITY SCHOOL DISTRICT  
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2005

Schedule 2

	Special Revenue			<u>Total</u>
	<u>Management</u>	<u>Student Activity</u>	<u>Physical Plant and Equipment Levy</u>	
Revenues				
Local sources				
Local taxes	\$ 90,262	\$ -	\$ 354,492	\$ 444,754
Other	1,950	260,494	1,443	263,887
Total revenues	92,212	260,494	355,935	708,641
Expenditures				
Current Instruction				
Other instruction	-	249,088	-	249,088
Support services				
Administration services	53,883	-	3,850	57,733
Operation and maintenance of plant services	32,810	-	-	32,810
Transportation services	7,846	-	-	7,846
Other expenditures				
Facilities acquisition and construction	-	-	102,165	102,165
Total expenditures	94,539	249,088	106,015	449,642
Excess of revenue over expenditures	(2,327)	11,406	249,920	258,999
Other financing sources				
Interfund operating transfers in	-	-	19,397	19,397
Interfund operating transfers (out)	-	-	(118,899)	(118,899)
Total financing uses	-	-	(99,502)	(99,502)
Excess of revenues over expenditures and other financing uses	(2,327)	11,406	150,418	159,497
Fund balances, beginning of year	151,121	116,203	(297,514)	(30,190)
Fund balances, end of year	\$ 148,794	\$ 127,609	\$ (147,096)	\$ 129,307

See accompanying Independent Auditor's Report.

TIPTON COMMUNITY SCHOOL DISTRICT  
Schedule of Changes in Special Revenue Fund, Student Activity Accounts  
For the Year Ended June 30, 2005

Schedule 3

Account	Balance, Beginning of <u>Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Intrafund Transfers</u>	Balance, End of <u>Year</u>
Academic decathlon	\$ 492	\$ 1,344	\$ 1,702	\$ -	\$ 134
Yearbook	915	10,414	10,636	-	693
Athletics	8,124	8,058	20,891	15,850	11,141
Band fund	3,360	602	1,220	545	3,287
Baseball	629	10,408	11,279	2,679	2,437
Basketball - boys	-	10,073	9,009	(1,064)	-
Choir	3,685	19,875	20,596	-	2,964
Class of					
2005	1,797	-	371	-	1,426
2006	721	10,597	11,308	365	375
2007	195	828	388	15	650
2008	-	315	89	5	231
Cross country special	926	5,979	6,005	250	1,150
Drama club	2,524	3,355	3,836	400	2,443
FFA	2,062	18,400	20,290	7	179
Forensic fund	1,507	4,866	3,319	-	3,054
Girls basketball	2,491	13,620	11,073	(341)	4,697
Grade fund - elementary	4,250	12,733	11,796	-	5,187
Honor Society	104	-	142	38	-
Investment account interest	59,371	4,563	1,011	(6,196)	56,727
Invention convention	39	125	61	-	103
Jump Rope for Heart	702	-	-	-	702
Golf special	383	1,370	1,282	(52)	419
Spanish club	(103)	-	-	329	226
M.D.T. room	427	1,144	1,339	264	496
Middle School fund	(214)	23,779	25,702	2,137	-
Middle School music	2,977	1,688	2,227	-	2,438

See accompanying Independent Auditor's Report.

TIPTON COMMUNITY SCHOOL DISTRICT  
Schedule of Changes in Special Revenue Fund, Student Activity Accounts  
For the Year Ended June 30, 2005

Schedule 3

Account	Balance, Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance, End of Year
Gifted and Talented	\$ 520	\$ -	\$ -	\$ -	\$ 520
Football cheerleaders	834	2,595	2,514	545	1,460
Thespians	121	1,452	1,345	-	228
Senior high student council	3,767	6,129	5,130	(30)	4,736
Volleyball	2,356	7,122	6,503	1,109	4,084
Athletic strength and conditioning	186	4,116	2,670	(1,632)	-
Special projects	109	929	498	759	1,299
Activity tickets	119	11,037	-	(10,904)	252
Football fund	1,033	14,325	9,866	(1,973)	3,519
Swim team	948	2,089	3,572	1,804	1,269
Elementary library	185	5,383	5,370	-	198
Wrestling	1,661	11,535	9,891	(1,661)	1,644
Softball fund	989	6,084	7,232	1,142	983
Art club	103	730	23	-	810
Wrestling cheerleaders	1,031	800	1,845	545	531
Basketball cheerleaders	420	-	-	-	420
Girls track	2,107	9,174	5,654	(2,722)	2,905
Boys track	852	9,354	6,230	(2,758)	1,218
Dance squad	1,498	3,762	5,431	545	374
Totals	<u>\$ 116,203</u>	<u>\$ 260,752</u>	<u>\$ 249,346</u>	<u>\$ -</u>	<u>\$ 127,609</u>

See accompanying Independent Auditor's Report.

TIPTON COMMUNITY SCHOOL DISTRICT  
 Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund  
 For the Year Ended June 30, 2005

Schedule 4

	Balance, Beginning of <u>Year</u>	<u>Additions</u>	<u>Deductions</u>	Balance, End of <u>Year</u>
Assets				
Cash	<u>\$ 11,350</u>	<u>\$ 44,285</u>	<u>\$ 43,494</u>	<u>\$ 12,141</u>
 Liabilities				
Due to others	<u>\$ 11,350</u>	<u>\$ 44,285</u>	<u>\$ 43,494</u>	<u>\$ 12,141</u>

See accompanying Independent Auditor's Report.

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

Schedule 5

	Modified Accrual Basis			
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Revenues				
Local sources				
Local tax	\$ 3,141,934	\$ 2,921,860	\$ 2,618,774	\$ 2,218,624
Tuition	418,697	374,366	39,820	259,762
Other	345,796	303,341	854,314	669,495
State sources	3,282,078	3,133,521	3,199,989	3,280,051
Federal sources	215,590	188,166	162,859	139,680
Total revenues	<u>\$ 7,404,095</u>	<u>\$ 6,921,254</u>	<u>\$ 6,875,756</u>	<u>\$ 6,567,612</u>
Expenditures				
Instruction				
Regular instruction	2,636,249	2,719,327	2,685,768	2,767,717
Special instruction	1,034,977	878,801	867,514	773,255
Other instruction	658,313	664,135	522,145	462,134
Support services				
Student services	186,142	175,088	170,022	163,441
Instructional staff services	438,747	407,272	353,565	355,201
Administration services	668,015	654,132	629,851	681,663
Operation and maintenance of plant services	562,547	573,476	544,533	531,537
Transportation services	156,664	149,043	161,003	179,751
Central support services	-	5,002	4,681	4,144
Non-instructional programs	39,178	39,068	27,554	22,511
Other expenditures				
Facilities acquisition	2,468,005	137,044	75,708	365,824
Long-term debt				
Principal	268,645	270,946	238,840	223,840
Interest and other charges	263,245	178,573	190,036	200,968
AEA flowthrough	231,345	232,780	249,979	252,012
Total expenditures	<u>\$ 9,612,072</u>	<u>\$ 7,084,687</u>	<u>\$ 6,721,199</u>	<u>\$ 6,983,998</u>

See accompanying Independent Auditor's Report.

# KAY L. CHAPMAN, CPA PC

210 Cedar Street  
Muscatine, Iowa 52761  
563-264-1385

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  
Tipton Community School District

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Tipton 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 my report thereon dated August 2, 2005. I conducted my 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 my audit, I considered Tipton Community School District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings 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. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe item I believe item I-A-05, Segregation of Duties is a material weakness.

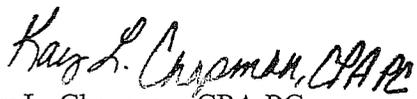
## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tipton 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

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

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

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

  
Kay L. Chapman, CPA PC  
August 2, 2005

TIPTON COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2005

**Part I. Findings Related to the Financial Statements**

INSTANCES OF NON-COMPLIANCE

No matters were noted.

REPORTABLE CONDITIONS

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

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

Response and Corrective Action Planned - We will review our procedures and implement changes to improve internal control, as we deem necessary.

Conclusion - Response accepted.

TIPTON COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2005

**Part II. Other Findings Related to Statutory Reporting:**

1. Official Depositories - A resolution naming official depositories has been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
2. Certified Budget - Expenditures for the year ended June 30, 2005 exceeded the amended amount budgeted in the Other Expenditures functional area.

Recommendation - The District should have amended the budget in a sufficient amount before expenditures were allowed to exceed the budget.

Response - We will be more attentive of this in the future and amend the budget in sufficient amounts, as necessary.

Conclusion - Response accepted.

3. Questionable Disbursements - I noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
4. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
5. Business Transactions - Business transactions between the District and District officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Steve Emrich, Board Member owner Main Street Cafe	Refreshments	\$ 84

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

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

Response - We will review the situation.

Conclusion - Response accepted.

TIPTON COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2005

6. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
7. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
8. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
9. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
10. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely and I noted no significant deficiencies in the amounts reported.
11. Financial Condition - The District had an unreserved, undesignated deficit in the Special Revenue, Physical Plant and Equipment Levy Fund of \$147,096 at June 30, 2005.

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

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

Conclusion - Response accepted.

TIPTON COMMUNITY SCHOOL DISTRICT  
Audit Staff  
June 30, 2005

This audit was performed by

Kay Chapman, CPA  
Christina Chamberlin