

TITONKA CONSOLIDATED SCHOOL DISTRICT

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

June 30, 2005

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Independent Auditor's Report

To the Board of Education of
Titonka Consolidated School District:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Titonka Consolidated 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, we have also issued our report dated October 12, 2005, on our consideration of Titonka Consolidated School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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 our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 34 through 36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Tiltonka Consolidated School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004, (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

October 12, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Titonka Consolidated School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 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 \$1,659,545 in fiscal 2004 to \$1,815,500 in fiscal 2005, while General Fund expenditures increased from \$1,747,079 in fiscal 2004 to \$1,828,341 in fiscal 2005. The District's General Fund balance decreased from \$274,511 in fiscal 2004 to \$258,308 in fiscal 2005, a 6% decrease.
- The increase in General Fund revenues was attributable to an increase in state and federal grant revenue in fiscal 2005. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures. 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 in fiscal 2005. As a result, the District funded a portion of the current year General Fund salaries and benefits from the carryover fund balance.

Overview of the Financial Statements

This 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 Titonka Consolidated 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 Titonka Consolidated 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 Titonka Consolidated School District acts solely as an agent or custodian for the benefit of those outside of District 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 nonmajor Special Revenue Funds.

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

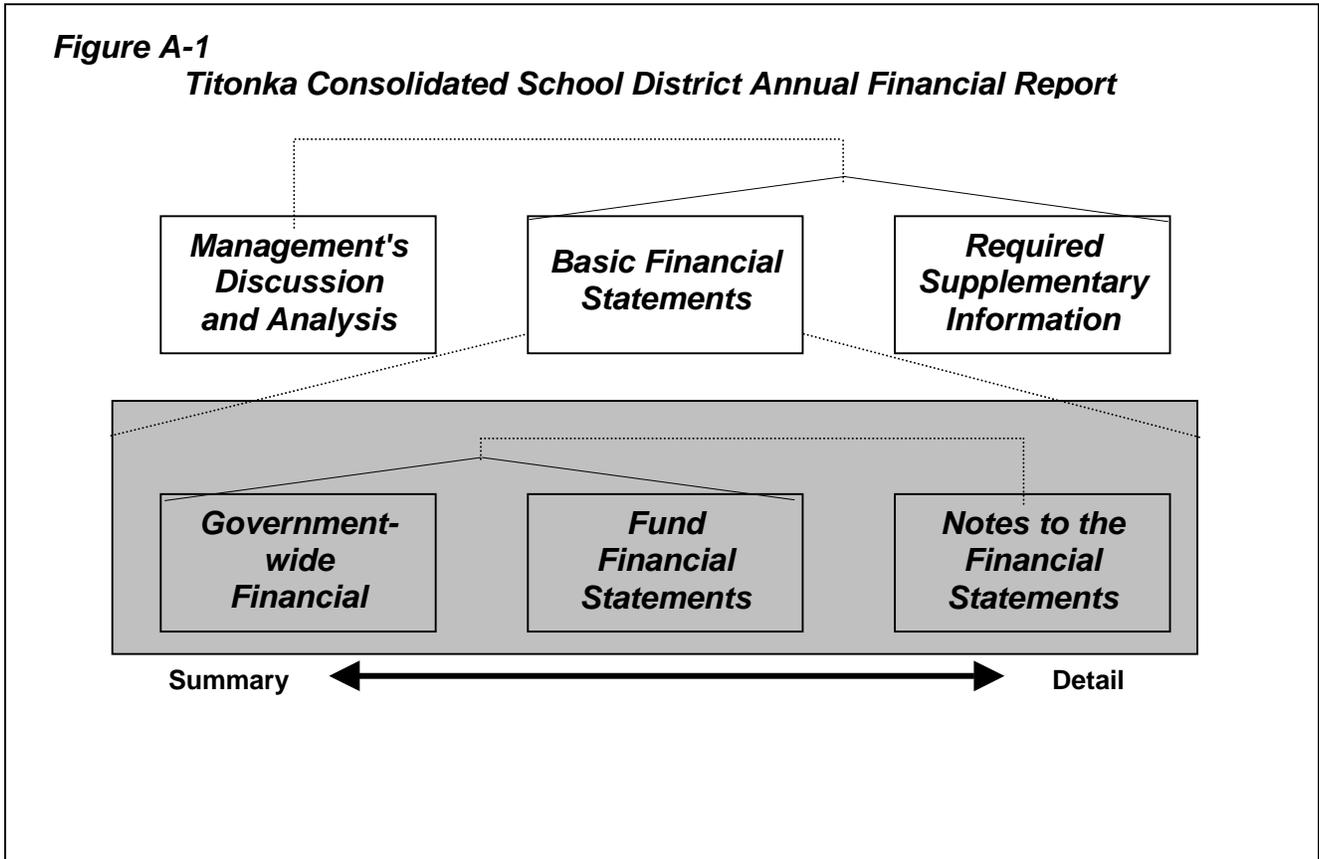


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

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 two kinds of funds:

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

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

2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund. The District uses *internal service funds*, the other kind of proprietary fund, to report activities that provide supplies and services for its other programs and activities. The District currently has one internal service fund used to account for the District's employee flexible benefit plan.

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.

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.

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2004-2005
	Governmental Activities		Business-type Activities		Total School District		
	2005	2004	2005	2004	2005	2004	
	\$	\$	\$	\$	\$	\$	
Current and other assets	1,427,703	1,263,504	3,237	(1)	1,430,940	1,263,503	13.25%
Capital assets	202,649	224,400	683	664	203,332	225,064	-9.66%
Total assets	1,630,352	1,487,904	3,920	663	1,634,272	1,488,567	9.79%
Long-term liabilities	-	-	-	-	-	-	-
Other liabilities	800,175	746,246	2,466	-	802,641	746,246	7.56%
Total liabilities	800,175	746,246	2,466	-	802,641	746,246	7.56%
Net Assets:							
Invested in capital assets, net of related debt	202,649	224,400	683	664	203,332	225,064	-9.66%
Restricted	375,248	232,637	-	-	375,248	232,637	61.30%
Unrestricted	252,280	284,621	771	(1)	253,051	284,620	-11.09%
TOTAL NET ASSETS	830,177	741,658	1,454	663	831,631	742,321	12.03%

The District's combined net assets increased by 12.03%, or approximately \$89,000, over the prior year.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$143,000 or 61% over the prior year. The increase was primarily a result of saving money in the Physical Plant and Equipment Levy and Capital Projects Funds.

Fund in order to finance the remodeling and construction the District plans to accomplish in the future.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$32,000 or 11%.

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						Percentage Change 2004-2005
	Governmental Activities		Business-type Activities		Total School District		
	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$	
Revenues							
Program Revenues:							
Charges for services	164,042	164,825	34,030	34,233	198,072	199,058	-50%
Operating grants & contributions	279,239	244,975	35,541	34,364	314,780	279,339	12.69%
Capital grants & contributions	-	-	-	-	-	-	-
General Revenues:							
Property taxes	722,976	748,472	-	-	722,976	748,472	-3.41%
Income Surtax	47,980	47,590	-	-	47,980	47,590	.82%
Local option sales tax	125,172	44,612	-	-	125,172	44,612	180.58%
Unrestricted state grants	753,782	621,936	-	-	753,782	621,936	21.20%
Unrestricted investment earnings	8,700	7,624	4	4	8,704	7,628	14.11%
Other revenue	335	1,026	-	-	335	1,026	-67.35%
Total Revenues	2,102,226	1,881,060	69,575	68,601	2,171,801	1,949,661	11.39%
Expenses:							
Instruction	1,301,577	1,254,961	-	-	1,301,577	1,254,961	3.71%
Support services	590,403	571,050	-	-	590,403	571,050	3.39%
Non-instructional programs	7,731	9,233	72,854	71,673	80,585	80,906	-.40%
Other expenditures	109,926	74,478	-	-	109,926	74,478	47.60%
Total expenses	2,009,637	1,909,722	72,854	(3,076)	2,082,491	1,981,395	5.25%
Change in net assets before Transfers	92,589	(28,662)	(3,279)	(3,072)	89,310	(31,734)	-381.43%
Transfers	(4,070)	-	4,070	-	-	-	-
CHANGE IN NET ASSETS	88,519	(28,662)	791	(3,072)	89,310	(31,734)	-381.43%
Net assets beginning of year	741,658	770,320	663	3,735	742,321	774,055	-4.10%
Net assets end of year	830,177	741,658	1,454	663	831,631	742,321	12.03%

Property tax and unrestricted state grants account for 68% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 91% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$2,102,226 and expenses were \$2,009,637. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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 2005	Total Cost of Services 2004	Net Cost of Services 2005	Net Cost of Services 2004
	\$	\$	\$	\$
Instruction	1,301,577	1,254,961	948,816	910,925
Support Services	590,403	571,050	566,767	570,318
Non-instructional Programs	7,731	9,233	7,731	9,233
Other Expenses	109,926	74,478	43,042	9,446
TOTAL	<u>2,009,637</u>	<u>1,909,722</u>	<u>1,566,356</u>	<u>1,499,922</u>

- The cost of all governmental activities this year was \$2,009,637.
- The portion of the cost financed by users of the District's programs was \$164,042.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$279,239.
- The net cost of governmental activities was financed with \$722,976 in property tax, \$753,782 in state foundation aid, \$173,152 in other taxes and \$8,700 in interest income.

Business Type Activities

Revenues for business type activities were \$69,575 and expenses were \$72,854. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2004 the District increased meal prices by \$.10 per lunch and increased another \$.10 per lunch by the year ended June 30, 2005. This increase resulted in increased revenue to the School Nutrition Fund in the hopes of having less deficit than the previous year in the School Nutrition Fund.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$583,906, well above last year's ending fund balances of \$470,405.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the result of many factors. Growth during the year in tax 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 \$274,511 to \$258,308, due in part to the negotiated salary and benefits settlement, the prior year reduction in state aid and existing expenditure commitments of the District.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$145,604 in fiscal 2004 to \$184,435 in fiscal 2005. The District substantially reduced spending from the PPEL Fund allowing the fund to increase as we need to do major renovations and remodeling to our current school physical plant. This fund will support the needed work to be done to comply with recommendations and requirements made by the State Fire Marshall's Office and to facilitate the removal of all asbestos from our building.
- The Capital Projects Fund is the fund in which we are receipting money from the local option sales tax dollars. It is estimated that the District will receive approximately \$125,000 in the 2006-2007 school year. The District is currently working with an architect to start the first phase of renovating the elementary wing by replacing the outside windows.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$663 at June 30, 2004 to \$1,454 at June 30, 2005. As previously noted, the District increased meal prices by \$.10 per lunch from 2004. An A La Carte option was added to the menu at a cost of \$1.00 for a second portion of the meal. These added increases resulted in increased revenue to the School Nutrition

Fund that the District hopes will help with the deficit that the School Nutrition Fund faces each year.

BUDGETARY HIGHLIGHTS

The District's total receipts were \$48,322 less than the total budgeted receipts, a variance of 3%. The most significant change resulted in the District receiving less in various components of state aid than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the instruction and other expenditures functional areas due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$203,332 in a broad range of assets including school buildings, athletic facilities, computer and audio-visual equipment, and transportation equipment. (See figure A-7). During fiscal year 2005 the District spent approximately \$7,000 for building and land improvements and \$20,000 for equipment including a copier, mower and refrigerator for the kitchen.

Figure A-6

Capital Assets (net of depreciation)

	Governmental Activities		Business type Activities		Total School District		Percentage Change 2004-2005
	2005	2004	2005	2004	2005	2004	
	\$	\$	\$	\$	\$	\$	
Land	2,210	2,210	-	-	2,210	2,210	-
Construction in progress							
Buildings	33,830	36,113	-	-	33,830	36,113	-6.32%
Improvements	15,300	13,458	-	-	15,300	13,458	13.69%
Equipment & Furniture	151,309	172,619	683	664	151,992	173,283	-12.29%
TOTAL	202,649	224,400	683	664	203,332	225,064	-9.66%

Long-Term Debt

The District does not have any long-term debt.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- School financing is highly dependent upon student enrollment. The District's September 2005 enrollment decreased by four students. This drop in enrollment will decrease the District's funding for fiscal year 2007.
- The District is continuing its pursuit of constructing a new middle school building which would take the place of the 1918 building currently used for the middle school. This would also deal with our handicapped accessibility and fire safety problems. The funds that would be used for this would be the Local Option Sales Tax, PPEL, a Construction grant, a Fire Safety grant and bonds.
- The District has evaluated the condition of buses and anticipates replacing the fleet on a rotating basis.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mary Beth Wubben, District Secretary/Treasurer and Business Manager, Titonka Consolidated School District, 543 Dieckman Street, Titonka, Iowa, 50480.

BASIC FINANCIAL STATEMENTS

TITONKA CONSOLIDATED SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business Type	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	537,854	-	537,854
Receivables:			
Property tax:			
Delinquent	12,333	-	12,333
Succeeding year	759,825	-	759,825
Accounts	100	-	100
Due from other governments	117,591	-	117,591
Inventories	-	3,237	3,237
Capital assets, net of accumulated depreciation	202,649	683	203,332
Total assets	1,630,352	3,920	1,634,272
Liabilities			
Excess of warrants over bank balances	-	2,379	2,379
Accounts payable	40,350	87	40,437
Deferred revenue:			
Succeeding year property tax	759,825	-	759,825
Total liabilities	800,175	2,466	802,641
Net assets			
Invested in capital assets, net of related debt	202,649	683	203,332
Restricted for:			
Phase III	17	-	17
Gifted and talented program	22,935	-	22,935
Iowa early intervention block grant	16,218	-	16,218
Physical plant and equipment levy	184,435	-	184,435
Other special revenue purposes	24,192	-	24,192
Local option sales tax capital projects	127,451	-	127,451
Unrestricted	252,280	771	253,051
Total net assets	830,177	1,454	831,631

TITONKA CONSOLIDATED SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	842,718	65,635	137,904	-
Special instruction	280,902	35,037	16,039	-
Other instruction	177,957	62,676	35,470	-
	<u>1,301,577</u>	<u>163,348</u>	<u>189,413</u>	<u>-</u>
Support services:				
Student services	16,655	-	-	-
Instructional staff services	66,735	-	-	-
Administration services	230,573	-	-	-
Operation and maintenance of plant services	198,579	664	22,972	-
Transportation services	77,861	-	-	-
	<u>590,403</u>	<u>664</u>	<u>22,972</u>	<u>-</u>
Non-instructional programs	<u>7,731</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	36,092	-	-	-
AEA flowthrough	66,884	-	66,884	-
Depreciation (unallocated)*	6,950	-	-	-
	<u>109,926</u>	<u>-</u>	<u>66,884</u>	<u>-</u>
Total governmental activities	<u>2,009,637</u>	<u>164,012</u>	<u>279,269</u>	<u>-</u>
Business type activities:				
Non-instructional programs:				
Food service operations	72,854	34,030	35,541	-
Total	<u>2,082,491</u>	<u>198,042</u>	<u>314,810</u>	<u>-</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
Transfers				
Total general revenues and transfers				

Change in net assets

Net assets beginning of year

Net assets end of year

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

TITONKA CONSOLIDATED SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
(639,179)	-	(639,179)
(229,826)	-	(229,826)
(79,811)	-	(79,811)
<u>(948,816)</u>	<u>-</u>	<u>(948,816)</u>
(16,655)	-	(16,655)
(66,735)	-	(66,735)
(230,573)	-	(230,573)
(174,943)	-	(174,943)
(77,861)	-	(77,861)
<u>(566,767)</u>	<u>-</u>	<u>(566,767)</u>
<u>(7,731)</u>	<u>-</u>	<u>(7,731)</u>
(36,092)	-	(36,092)
-	-	-
(6,950)	-	(6,950)
<u>(43,042)</u>	<u>-</u>	<u>(43,042)</u>
(1,566,356)	-	(1,566,356)
-	(3,283)	(3,283)
<u>(1,566,356)</u>	<u>(3,283)</u>	<u>(1,569,639)</u>
665,858	-	665,858
57,118	-	57,118
47,980	-	47,980
125,172	-	125,172
753,782	-	753,782
8,700	4	8,704
335	-	335
<u>1,658,945</u>	<u>4</u>	<u>1,658,949</u>
(4,070)	4,070	-
<u>1,654,875</u>	<u>4,074</u>	<u>1,658,949</u>
88,519	791	89,310
<u>741,658</u>	<u>663</u>	<u>742,321</u>
<u>830,177</u>	<u>1,454</u>	<u>831,631</u>

TITONKA CONSOLIDATED SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2005

	General Fund	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments:	205,570	186,313	146,038	537,921
Receivables:				
Property tax:				
Delinquent	10,628	975	730	12,333
Succeeding year	654,993	57,121	47,711	759,825
Accounts	100	-	-	100
Interfund receivable	6,746	-	-	6,746
Due from other governments	94,927	-	22,664	117,591
	<u>972,964</u>	<u>244,409</u>	<u>217,143</u>	<u>1,434,516</u>
Total assets				
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	15,677	2,853	21,820	40,350
Interfund payable	-	-	6,746	6,746
Deferred revenue:				
Succeeding year property tax	654,993	57,121	47,711	759,825
Other	43,986	-	-	43,986
Total liabilities	<u>714,656</u>	<u>59,974</u>	<u>76,277</u>	<u>850,907</u>
Fund balances:				
Reserved for:				
Phase III	17	-	-	17
Gifted and talented program	22,935	-	-	22,935
Iowa early intervention block grant	16,218	-	-	16,218
Unreserved reported in:				
General Fund	219,138	-	-	219,138
Special Revenue Funds	-	184,435	13,415	197,850
Capital Projects Fund	-	-	127,451	127,451
Total fund balances	<u>258,308</u>	<u>184,435</u>	<u>140,866</u>	<u>583,609</u>
Total liabilities and fund balances	<u>972,964</u>	<u>244,409</u>	<u>217,143</u>	<u>1,434,516</u>

TITONKA CONSOLIDATED SCHOOL DISTRICT

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

June 30, 2005

	\$
Total fund balances of governmental funds (Exhibit C)	583,609
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	202,649
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	43,986
An internal service fund is used by the District's management to charge the costs of the employee flexible benefit program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	<u>(67)</u>
Net assets of governmental activities (Exhibit A)	<u><u>830,177</u></u>

TITONKA CONSOLIDATED SCHOOL DISTRICT

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

Year ended June 30, 2005

	General Fund	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	673,305	57,118	167,932	898,355
Tuition	86,438	-	-	86,438
Other	22,736	319	63,446	86,501
State sources	924,158	-	-	924,158
Federal sources	108,863	-	-	108,863
Total revenues	<u>1,815,500</u>	<u>57,437</u>	<u>231,378</u>	<u>2,104,315</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	827,710	-	-	827,710
Special instruction	280,902	-	-	280,902
Other instruction	127,074	-	46,230	173,304
	<u>1,235,686</u>	<u>-</u>	<u>46,230</u>	<u>1,281,916</u>
Support services:				
Student services	16,655	-	-	16,655
Instructional staff services	66,735	-	-	66,735
Administration services	217,378	-	9,956	227,334
Operation and maintenance of plant services	158,066	18,606	33,931	210,603
Transportation services	66,937	-	-	66,937
	<u>525,771</u>	<u>18,606</u>	<u>43,887</u>	<u>588,264</u>
Non-instructional programs	-	-	7,731	7,731
Other expenditures:				
Facilities acquisition	-	-	42,954	42,954
AEA flowthrough	66,884	-	-	66,884
	<u>66,884</u>	<u>-</u>	<u>42,954</u>	<u>109,838</u>
Total expenditures	<u>1,828,341</u>	<u>18,606</u>	<u>140,802</u>	<u>1,987,749</u>
Excess (deficiency) of revenues over (under) expenditures	(12,841)	38,831	90,576	116,566
Other financing sources (uses):				
Sales of materials and equipment	138	-	-	138
Operating transfers out	(3,500)	-	-	(3,500)
Total other financing sources (uses)	<u>(3,362)</u>	<u>-</u>	<u>-</u>	<u>(3,362)</u>
Net change in fund balances	(16,203)	38,831	90,576	113,204
Fund balances beginning of year	274,511	145,604	50,290	470,405
Fund balances end of year	<u>258,308</u>	<u>184,435</u>	<u>140,866</u>	<u>583,609</u>

See notes to financial statements.

TITONKA CONSOLIDATED SCHOOL DISTRICT

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

Year ended June 30, 2005

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		113,204
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the year as follows:		
Expenditures for capital assets	24,896	
Depreciation expense	<u>(46,647)</u>	(21,751)
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.		
		(2,227)
An internal service fund is used by the District's management to charge the costs of the employee flexible benefit program to the individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.		
		<u>(707)</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>88,519</u></u>

TITONKA CONSOLIDATED SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2005

	<u>Enterprise Fund</u> Nonmajor School Nutrition \$	<u>Governmental Activities - Internal Service Fund</u> \$
Assets		
Inventories	3,237	-
Capital assets, net of accumulated depreciation	<u>683</u>	<u>-</u>
Total assets	<u>3,920</u>	<u>-</u>
Liabilities		
Excess of warrants over bank balance	2,379	67
Accounts payable	<u>87</u>	<u>-</u>
Total liabilities	<u>2,466</u>	<u>67</u>
Net assets		
Invested in capital assets, net of related debt	683	-
Unrestricted	<u>771</u>	<u>(67)</u>
Total net assets	<u><u>1,454</u></u>	<u><u>(67)</u></u>

TITONKA CONSOLIDATED SCHOOL DISTRICT

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

Year ended June 30, 2005

	Enterprise Fund <u>Nonmajor School Nutrition</u> \$	Governmental Activities - Internal <u>Service Fund</u> \$
Operating revenue:		
Local sources:		
Charges for service	34,030	5,093
Operating expenses:		
Non-instructional programs:		
Salaries	26,347	-
Benefits	9,817	5,800
Purchased services	437	-
Supplies	35,702	-
Depreciation	551	-
	<u>72,854</u>	<u>5,800</u>
Operating gain (loss)	<u>(38,824)</u>	<u>(707)</u>
Non-operating revenue:		
State sources	921	-
Federal sources	34,620	-
Interest income	4	-
Total non-operating revenue	<u>35,545</u>	<u>-</u>
Gain (loss) before contributions and transfers	(3,279)	(707)
Capital contributions	570	-
Transfers in	<u>3,500</u>	<u>-</u>
Change in net assets	791	(707)
Net assets beginning of year	<u>663</u>	<u>640</u>
Net assets end of year	<u><u>1,454</u></u>	<u><u>(67)</u></u>

TITONKA CONSOLIDATED SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2005

	Enterprise Fund	Governmental Activities - Internal Service Fund
	Nonmajor School Nutrition	Fund
	\$	\$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	34,117	-
Cash received from services provided to other funds	-	5,093
Cash payments to employees for services	(36,164)	(5,800)
Cash payments to suppliers for goods or services	(30,779)	-
Net cash provided by (used by) operating activities	<u>(32,826)</u>	<u>(707)</u>
Cash flows from non-capital financing activities:		
Net interfund loan repayments	(3,685)	-
Transfers from other funds	3,500	-
State grants received	921	-
Federal grants received	28,922	-
Net cash provided by non-capital financing activities	<u>29,658</u>	<u>-</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>4</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(3,164)	(707)
Cash and cash equivalents at beginning of year	<u>785</u>	<u>640</u>
Cash and cash equivalents at end of year	<u>(2,379)</u>	<u>(67)</u>
Reconciliation of operating gain (loss) to net cash used by operating activities:		
Operating gain (loss)	(38,824)	(707)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	5,698	-
Depreciation	551	-
Decrease (increase) in inventories	(338)	-
(Decrease) increase in accounts payable	87	-
Net cash used in operating activities	<u>(32,826)</u>	<u>(707)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received \$5,698 of federal commodities.

During the year ended June 30, 2005 the Nutrition Fund received \$570 of equipment that was purchased

TITONKA CONSOLIDATED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2005

1. Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

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

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

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

The District's collection of library books and other similar materials are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to District policy that requires proceeds from the sale of these items, if any, to be used to acquire other collection items.

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

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds, amounts received in advance for meal sales and succeeding year property tax receivable that

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

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets. The District had no long-term liabilities at June 30, 2005.

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements in the instruction and other expenditures functions exceeded the amounts budgeted.

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.

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 40.

3. Interfund Receivables and Payables

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 Fund	Nonmajor Governmental Funds Management	\$ 6,746

The interfund loan receivable/payable was the result of a deficit Management Fund cash balance in a pooled bank account.

4. Interfund Transfers

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

Transfer to	Transfer from	Amount
		\$
Enterprise:		
School Nutrition Fund	General Fund	3,500

The transfer from the General Fund to the School Nutrition Fund subsidized food service operations.

5. Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	2,210	-	-	2,210
Capital assets being depreciated:				
Buildings	456,877	-	-	456,877
Improvements other than buildings	158,235	6,509	-	164,744
Furniture and equipment	779,105	18,387	-	797,492
Total capital assets being deprec.	1,394,217	24,896	-	1,419,113
Less accumulated depreciation for:				
Buildings	420,764	2,283	-	423,047
Improvements other than buildings	144,777	4,667	-	149,444
Furniture and equipment	606,486	39,697	-	646,183
Total accumulated depreciation	1,172,027	46,647	-	1,218,674
Total capital assets being depreciated, net	222,190	(21,751)	-	200,439
Governmental activities capital assets, net	224,400	(21,751)	-	202,649
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	67,432	570	-	68,002
Less accumulated depreciation	66,768	551	-	67,319
Business type activities capital assets, net	664	19	-	683

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	18,404
Other	4,653
Support Services:	
Administration services	3,239
Operation and maintenance of plant services	1,360
Transportation	12,041
	<u>39,697</u>
Unallocated depreciation	6,950
	<u>46,647</u>
Total depreciation expense – governmental activities	<u>46,647</u>
Business type activities:	
Food services	<u>551</u>

6. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$57,949, \$55,939, and \$54,010 respectively, equal to the required contributions for each year.

7. Risk Management

The District is a member in the Iowa School Employee 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 in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members 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 \$6,192 of which \$3,096 was paid with the 2004-2005 premiums and \$3,096 is a liability as of June 30, 2005 and will be paid with the 2005-2006 premiums. 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. District contributions to ISEBA for the year ended June 30, 2005 were \$154,782.

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.

8. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$66,884 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.

REQUIRED SUPPLEMENTARY INFORMATION

TITONKA CONSOLIDATED SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Receipts:						
Local sources	1,094,012	34,121	1,128,133	1,031,976	1,031,976	96,157
Intermediate sources	-	-	-	6,250	6,250	(6,250)
State sources	925,160	921	926,081	943,401	943,401	(17,320)
Federal sources	85,005	35,730	120,735	145,000	145,000	(24,265)
Total receipts	<u>2,104,177</u>	<u>70,772</u>	<u>2,174,949</u>	<u>2,126,627</u>	<u>2,126,627</u>	<u>48,322</u>
Disbursements:						
Instruction	1,293,911	-	1,293,911	1,248,746	1,248,746	(45,165)
Support services	584,565	-	584,565	869,741	869,741	285,176
Non-instructional programs	7,731	73,751	81,482	84,199	84,199	2,717
Other expenditures	94,677	-	94,677	72,377	72,377	(22,300)
Total disbursements	<u>1,980,884</u>	<u>73,751</u>	<u>2,054,635</u>	<u>2,275,063</u>	<u>2,275,063</u>	<u>220,428</u>
Excess (deficiency) of receipts over (under) disbursements	123,293	(2,979)	120,314	(148,436)	(148,436)	268,750
Other financing sources (uses) net	<u>323</u>	<u>(185)</u>	<u>138</u>	<u>-</u>	<u>-</u>	<u>138</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements	123,616	(3,164)	120,452	(148,436)	(148,436)	268,888
Balance beginning of year	<u>414,305</u>	<u>785</u>	<u>415,090</u>	<u>582,919</u>	<u>582,919</u>	<u>(167,829)</u>
Balance end of year	<u><u>537,921</u></u>	<u><u>(2,379)</u></u>	<u><u>535,542</u></u>	<u><u>434,483</u></u>	<u><u>434,483</u></u>	<u><u>101,059</u></u>

See accompanying independent auditor's report

TITONKA CONSOLIDATED SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
	\$	\$	\$
Revenues	2,104,177	138	2,104,315
Expenditures	1,980,884	6,865	1,987,749
Net	123,293	(6,727)	116,566
Other financing sources (uses) net	323	(3,685)	(3,362)
Beginning fund balances	414,305	56,100	470,405
Ending fund balances	<u>537,921</u>	<u>45,688</u>	<u>583,609</u>
	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
	\$	\$	\$
Revenues	70,772	(1,197)	69,575
Expenditures	73,751	(897)	72,854
Net	(2,979)	(300)	(3,279)
Other financing sources (uses) net	(185)	4,255	4,070
Beginning fund balances	785	(122)	663
Ending fund balances	<u>(2,379)</u>	<u>3,833</u>	<u>1,454</u>

TITONKA CONSOLIDATED SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2005

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

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

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

During the year ended June 30, 2005, disbursements in the instruction and other expenditures functions exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

TITONKA CONSOLIDATED SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2005

Assets	Special Revenue Funds			Capital Projects Fund	Total
	Management Levy	Student Activity Fund	Public Education and Recreation Levy	Local Option Sales Tax	
	\$	\$	\$	\$	
Cash and pooled investments	-	26,090	-	119,948	146,038
Receivables:					
Property tax:					
Delinquent	599	-	131	-	730
Succeeding year	40,000	-	7,711	-	47,711
Due from other governments	-	-	-	22,664	22,664
Total assets	40,599	26,090	7,842	142,612	217,143
Liabilities & Fund Balances					
Liabilities:					
Accounts payable	4,630	2,029	-	15,161	21,820
Interfund payables	6,746	-	-	-	6,746
Deferred revenue:					
Succeeding year property tax	40,000	-	7,711	-	47,711
Total liabilities	51,376	2,029	7,711	15,161	76,277
Fund balances:					
Unreserved fund balance reported in:					
Special Revenue Funds	(10,777)	24,061	131	-	13,415
Capital Projects Fund	-	-	-	127,451	127,451
Total fund balances	(10,777)	24,061	131	127,451	140,866
Total liabilities and fund balances	40,599	26,090	7,842	142,612	217,143

TITONKA CONSOLIDATED SCHOOL DISTRICT

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

Year ended June 30, 2005

	Special Revenue Funds			Projects Fund	Total
	Management Levy	Student Activity Fund	Public Education and Recreation Levy	Local Option Sales Tax	
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	35,050	-	7,710	125,172	167,932
Other	160	62,727	-	559	63,446
Total revenues	<u>35,210</u>	<u>62,727</u>	<u>7,710</u>	<u>125,731</u>	<u>231,378</u>
Expenditures:					
Current:					
Instruction:					
Other instruction	-	46,230	-	-	46,230
Support services:					
Administration services	9,956	-	-	-	9,956
Operation and maintenance of plant services	33,931	-	-	-	33,931
Non-instructional programs	-	-	7,731	-	7,731
Other expenditures:					
Facilities acquisition	-	-	-	42,954	42,954
Total expenditures	<u>43,887</u>	<u>46,230</u>	<u>7,731</u>	<u>42,954</u>	<u>140,802</u>
Excess (deficiency) of revenues over (under) expenditures	(8,677)	16,497	(21)	82,777	90,576
Fund balances beginning of year	<u>(2,100)</u>	<u>7,564</u>	<u>152</u>	<u>44,674</u>	<u>50,290</u>
Fund balances end of year	<u><u>(10,777)</u></u>	<u><u>24,061</u></u>	<u><u>131</u></u>	<u><u>127,451</u></u>	<u><u>140,866</u></u>

TITONKA CONSOLIDATED SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

<u>Account</u>	Balance Beginning of Year \$	Revenues \$	Expenditures \$	Balance End of Year \$
Elem./MS activities	80	-	-	80
Musical and play	112	-	-	112
Pride club	202	52	21	233
Jazz band	240	2,242	2,140	342
Co-ed athletics	4,904	15,955	18,315	2,544
Annual	9	2,020	1,720	309
Washington D. C. trip	(77)	40,004	19,369	20,558
Class of 2008	1,143	-	1,143	-
Class of 2009	197	946	143	1,000
Class of 2010	192	415	320	287
Class of 2011	-	346	193	153
National Honor Society	120	160	131	149
Interest	128	301	349	80
Student council	8	359	333	34
Cheerleading	231	2	24	209
Beginning accruals	75	(75)	-	-
Ending accruals	-	-	2,029	(2,029)
	<u>7,564</u>	<u>62,727</u>	<u>46,230</u>	<u>24,061</u>
Total	<u>7,564</u>	<u>62,727</u>	<u>46,230</u>	<u>24,061</u>

TITONKA CONSOLIDATED SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2005	2004	2003	2002
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	898,355	838,394	825,335	774,602
Tuition	86,438	86,531	121,660	130,210
Other	86,501	90,341	102,759	88,102
Intermediate sources	-	2,500	-	-
State sources	924,158	784,946	778,827	759,476
Federal sources	108,863	75,465	116,839	79,381
Total revenues	<u>2,104,315</u>	<u>1,878,177</u>	<u>1,945,420</u>	<u>1,831,771</u>
Expenditures:				
Instruction:				
Regular instruction	827,710	844,663	811,245	805,580
Special instruction	280,902	229,658	208,154	195,435
Other instruction	173,304	180,686	154,425	143,706
Support services:				
Student services	16,655	15,145	14,962	17,620
Instructional staff services	66,735	61,316	68,521	73,897
Administration services	227,334	246,392	238,337	271,767
Operation and maintenance of plant services	210,603	184,663	173,599	153,587
Transportation services	66,937	75,820	73,739	98,337
Central support services	-	-	-	612
Non-instructional programs	7,731	9,233	9,183	9,261
Other expenditures:				
Facilities acquisition	42,954	-	-	7,453
AEA flowthrough	66,884	65,032	66,047	66,182
Total expenditures	<u>1,987,749</u>	<u>1,912,608</u>	<u>1,818,212</u>	<u>1,843,437</u>

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

To the Board of Education of
Titonka Consolidated School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Titonka Consolidated School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October, 12, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Titonka Consolidated School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part 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 our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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

October 12, 2005

TITONKA CONSOLIDATED SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported

Reportable Conditions:

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

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

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

Conclusion: Response accepted.

05-I-B School Expenditure Procedures and Supporting Documentation: During our testing of District expenditures we noted one credit card payment for \$120 that did not have detailed supporting documentation. We also noted that the board secretary was reimbursed for the same \$51 expenditure from the General Fund and the Student Activity Fund.

Recommendation: All District payments should be supported by detailed invoices, receipts, contracts or other documents prepared by or signed by entities outside of the District. These documents should specify exactly what the District is paying for and the amount to be paid.

The District should also develop procedures to prevent duplicate payment of bills and employee reimbursements.

District Response: The \$51 over reimbursement has been returned to the school. We will develop procedures to prevent future duplicate reimbursements. We will also require detailed receipts for all credit card expenditures.

Conclusion: Response accepted.

TITONKA CONSOLIDATED SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting:

05-II-A Official Depositories: Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

05-II-B Certified Budget: Disbursement for the year ended June 30, 2005, exceeded the amounts budgeted in the instruction and other expenditures functions.

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

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

Conclusion: Response accepted.

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

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

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Mike Heyer, board member	Assistant coach	\$ 2,400

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

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

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

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

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

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

TITONKA CONSOLIDATED SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

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

05-II-K Deficit Balances: The District has a deficit fund balance in the [Management Fund](#) of \$10,777 at June 30, 2005.

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

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

Conclusion: Response accepted.

05-II-L Interest Rate on Certificates of Deposit: We noted one certificate of deposit that had an interest rate below the minimum rate set by the State of Iowa.

Recommendation: The District should contact the bank to get the rate adjusted.

District Response: We have already done this.

Conclusion: Response accepted.