VILLISCA COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

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Villisca Community School District

Officials

Name	Title	Term Expires
	Board of Education (Before September 2004 Election)	
John A. Baker	President	2004
Janice Herzberg	Vice President	2006
Harold Hutchinson	Board Member	2005
Stan Schaaf	Board Member	2005
Kerin Wright	Board Member	2006
	Board of Education (After September 2004 Election)	
Janice Herzberg	President	2006
Stan Schaaf	Vice President	2005
Harold Hutchinson	Board Member	2005
Kerin Wright	Board Member	2006
John A. Baker	Board Member	2007
	School Officials	
Teresa Nook	Superintendent	2005
Shirley Maxwell	District Secretary and Treasurer	2005
Jeff Millholin and Drew Bracken	Attorney	2005

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

In accordance with Government Auditing Standards, we have also issued our report dated August 26, 2005 on our consideration of the Villisca Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of 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 12 and 32 through 34 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 required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Villisca Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Another firm previously audited, in accordance with the standards referred to in the second paragraph of this report, the general purpose financial statements for the year ended June 30, 2002 (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.

Nolte, Cornman & Johnson PC

NOLTE, CORNMAN & JOHNSON, P.C.

August 26, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Villisca 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 $3,102,493 in fiscal 2004 to $3,146,238 in fiscal 2005, while General Fund expenditures increased from $3,109,774 in fiscal 2004 to $3,223,761 in fiscal 2005. Although revenues increased in fiscal 2005, the increase wasn't enough to offset the increased fiscal 2005 expenditures. The result is a decrease in the District's General Fund balance from of $525,169 in fiscal 2004 to a balance of $447,937 in fiscal 2005, a decrease of 14.7% from the prior year.

- Board approval of $110,000 of Local Option Sales and Service Tax income toward payment of outstanding General Obligation Bond indebtedness helps reduce the property tax rate for patrons.

- The District reduced its outstanding long-term debt by $120,000 this fiscal year, leaving a balance of $2,900,000 to be paid through 2020.

- The District received $28,354 in grants and $1,257 in donations to fund the Before/After School Program.

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

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

Figure A-1
Villisca Community School District Annual Financial Report

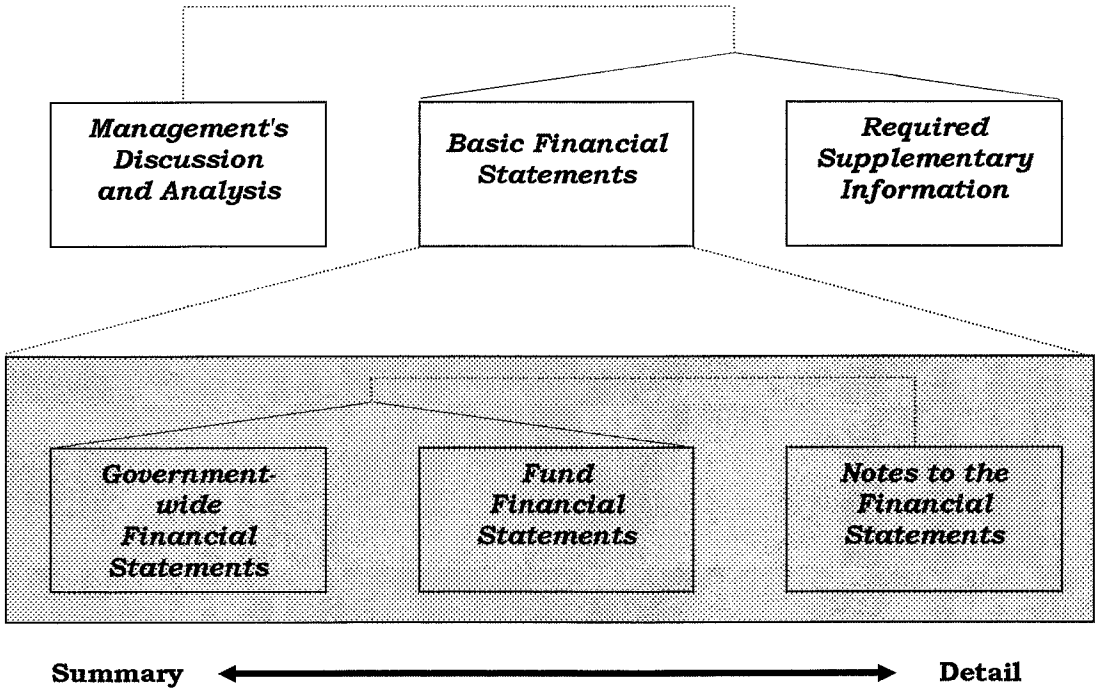

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	• Statement of net assets • Statement of activities	• Balance sheet • Statement of revenues, expenditures, and changes in fund balances	• Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.

- *Business-type activities*: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

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

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

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

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 for the year ended June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Current and other assets	$ 3,504,906	3,533,855	17,660	35,096	3,522,566	3,568,951	-1.30%
Capital assets	3,760,707	3,781,127	31,215	10,735	3,791,922	3,791,862	0.00%
Total assets	7,265,613	7,314,982	48,875	45,831	7,314,488	7,360,813	-0.63%
Long-term obligations	2,900,000	3,020,000	0	0	2,900,000	3,020,000	-3.97%
Other liabilities	1,704,499	1,739,217	1,774	1,209	1,706,273	1,740,426	-1.96%
Total liabilities	4,604,499	4,759,217	1,774	1,209	4,606,273	4,760,426	-3.24%
Net assets:							
Invested in capital assets, net of related debt	869,471	1,310,816	31,215	10,735	900,686	1,321,551	-31.85%
Restricted	1,323,131	709,027	0	0	1,323,131	709,027	86.61%
Unrestricted	468,512	535,922	15,886	33,887	484,398	569,809	-14.99%
Total net assets	$ 2,661,114	2,555,765	47,101	44,622	2,708,215	2,600,387	4.15%

The District's combined net assets increased by 4.15%, or approximately $107,828, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately $614,104, or 86.61% over the prior year. The increase was primarily a result of increased expenditures in the Physical Plant and Equipment Levy Fund and Capital Projects Fund.

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 $85,411, or 14.99%.

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

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Revenues:							
Program revenues:							
Charges for services	$ 228,412	300,714	95,341	89,099	323,753	389,813	-16.9%
Operating grants and contributions and restricted interest	487,014	437,233	75,671	71,450	562,685	508,683	10.6%
Capital grants and contributions and restricted interest	25,000	0	0	0	25,000	0	100.0%
General revenues:							
Property tax	1,432,384	1,310,101	0	0	1,432,384	1,310,101	9.3%
Local option sales and service tax	177,306	178,995	0	0	177,306	178,995	-0.9%
Unrestricted state grants	1,454,309	1,457,804	0	0	1,454,309	1,457,804	-0.2%
Other	49,340	23,853	41	55	49,381	23,908	106.5%
Total revenues	3,853,765	3,708,700	171,053	160,604	4,024,818	3,869,304	4.0%
Program expenses:							
Governmental activities:							
Instructional	2,282,787	2,185,340	0	0	2,282,787	2,185,340	4.5%
Support services	1,024,199	985,792	0	0	1,024,199	985,792	3.9%
Non-instructional programs	32,197	29,552	168,574	151,368	200,771	180,920	11.0%
Other expenses	409,233	439,789	0	0	409,233	439,789	-6.9%
Total expenses	3,748,416	3,640,473	168,574	151,368	3,916,990	3,791,841	3.3%
Changes in net assets	105,349	68,227	2,479	9,236	107,828	77,463	39.2%
Net assets beginning of year	2,555,765	2,487,538	44,622	35,386	2,600,387	2,522,924	3.1%
Net assets end of year	$ 2,661,114	2,555,765	47,101	44,622	2,708,215	2,600,387	4.1%

Property tax and unrestricted state grants account for 71.7% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 84.4% of the total expenses.

Governmental Activities

Revenues for governmental activities were $3,853,765 and expenses were $3,748,416. 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	Net Cost of Services
Instruction	$ 2,282,787	1,688,580
Support services	1,024,199	1,023,870
Non-instructional	32,197	32,197
Other expenses	409,233	263,343
Totals	$ 3,748,416	3,007,990

- The cost financed by users of the District's programs was $228,412.
- Federal and state governments subsidized certain programs with grants and contributions totaling $487,014.
- The net cost of governmental activities was financed with $1,432,384 in property tax, $177,306 in local option sales and service tax, $1,454,309 in unrestricted state grants, and $28,808 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were $171,053 and expenses were $168,574. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of $1,786,107, above last year's ending fund balances of a $1,781,705.

Governmental Fund Highlights

- The District's decreasing General Fund financial position is the product of many factors. Although the District saw an increase in local tax and grant revenues, the increase was not enough to offset the increase in expenditures ensuring the financial position of the District's General Fund decrease. Staff was reduced through attrition and resignations.
- The Activity Fund and the Expendable Trust Fund combined balance decreased from $242,933 in 2004, to $240,890 in 2005, due to decreased revenue in both funds.
- The Management Fund balance increased from $153,214 in 2004 to $188,152 in 2005, due to an increase in revenues. Taxes have been increased in this fund to allow funds for unemployment if more attrition were needed. Since there were resignations late in the year these funds were not needed. Also, the district had several workers' compensation claims throughout the year so additional money was levied to offset increase in premiums.
- The Physical Plant and Equipment Levy Fund (PPEL) balance increased from $282,208 to $330,862. The District received a $25,000 Fire Life Safety Grant that was used to extend the corridor through the south girl's locker room to the exterior of the facility. Also, the entry to the industrial arts area was relocated to an area south to comply with the maximum twenty foot dead-end corridor. Costs for retubing the boiler in the high school building were $3,960. The remaining balance in this fund will be needed for repairs in the Enarson Building, acquiring new vehicles for the transportation department, and major technology purchases.
- The District's Capital Projects Fund increased from $541,709 in 2004, to $542,709 in 2005, due to an increase in local option sales and services tax during the current year. To help pay the costs for the twenty foot dead-end corridor requirement, $34,811 was used from this fund. Adams, Montgomery, Page and Taylor counties are all now participating in the local option sales tax. The balance remaining in this fund as well as incoming monies for the next fiscal year will be used for upcoming major roofing repairs.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from $44,622 at June 30, 2004 to $47,101 at June 30, 2005, representing an increase of approximately 5.6%. For fiscal 2005, the District did not increase meal prices but additional funds were received from the ala carte program.

BUDGETARY HIGHLIGHTS

The District's revenues were $127,491 more than budgeted revenues, a variance of 3.3%. The most significant variances resulted from the District receiving more in federal sources and local sources than originally anticipated.

Total expenditures were less than budgeted, primarily due 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 ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested $3.8 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 0.002% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was $138,211.

The original cost of the District's capital assets was $5,539,753. Governmental funds account for $5,458,434 with the remainder of $81,319 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the improvements other than building category. This category totaled $15,780 at June 30, 2005, compared to $18,888 reported at June 30, 2004. This decrease resulted from the current year depreciation expense.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Land	$ 18,650	18,650	0	0	18,650	18,650	0.00%
Buildings	3,557,274	3,568,034	0	0	3,557,274	3,568,034	-0.30%
Improvements other than buildings	15,780	18,888	0	0	15,780	18,888	-16.45%
Machinery and equipment	169,003	175,555	31,215	10,735	200,218	186,290	7.48%
Total	$ 3,760,707	3,781,127	31,215	10,735	3,791,922	3,791,862	0.002%

Long-Term Debt

At June 30, 2005, the District had long-term debt outstanding of $2,900,000 in general obligation bonds. This represents a decrease of approximately 4% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The Board approval of $110,000 of local option sales and service tax toward payment of outstanding general obligation bonds helped in part to reduce the outstanding general obligation bonds payable to a balance of $2,900,000 to be paid through 2020.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total
	2005	2004	Change
General obligation bonds	$ 2,900,000	3,020,000	-4.0%

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:

- Although the District has experienced declining enrollment for a few years, the District expects the enrollment to remain stable.
- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) was in the first year of a ten-year phase out.

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 Shirley Maxwell, District Board Secretary/Business Manager, Villisca Community School District, 406 E 3rd St., Villisca, Iowa, 50864.

BASIC FINANCIAL STATEMENTS

Exhibit A

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	$ 2,004,393	14,922	2,019,315
Receivables:			
Property tax:			
Delinquent	55,387	0	55,387
Succeeding year	1,364,292	0	1,364,292
Income surtax	41,093	0	41,093
Accounts	3,191	0	3,191
Due from other governments	36,550	0	36,550
Inventories	0	2,738	2,738
Capital assets, net of accumulated depreciation (Note 4)	3,760,707	31,215	3,791,922
TOTAL ASSETS	7,265,613	48,875	7,314,488
LIABILITIES			
Interest payable	26,793	0	26,793
Salaries and benefits payable	313,414	0	313,414
Deferred revenue:			
Succeeding year property tax	1,364,292	0	1,364,292
Other	0	1,774	1,774
Long-term liabilities (Note 5):			
Portion due within one year:			
General obligation bonds	130,000	0	130,000
Portion due after one year:			
General obligation bonds	2,770,000	0	2,770,000
TOTAL LIABILITIES	4,604,499	1,774	4,606,273
NET ASSETS			
Investment in capital assets, net of related debt	869,471	31,215	900,686
Restricted for:			
Talented and gifted	18,297	0	18,297
Salary improvement program	111	0	111
Wellness	2,110	0	2,110
Capital projects	542,709	0	542,709
Management levy	188,152	0	188,152
Other special revenue purposes	240,890	0	240,890
Physical plant & equipment levy	330,862	0	330,862
Unrestricted	468,512	15,886	484,398
TOTAL NET ASSETS	$ 2,661,114	47,101	2,708,215

SEE NOTES TO FINANCIAL STATEMENTS.

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

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants, Contributions and Restricted Interest	Program Revenues: Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	$ 1,383,023	208,987	365,795	0
Special instruction	459,736	19,425	0	0
Other instruction	440,028	0	0	0
	2,282,787	228,412	365,795	0
Support services:				
Student services	76,683	0	0	0
Instructional staff services	47,227	0	0	0
Adminstration services	444,100	0	0	0
Operation and maintenance of plant services	269,689	0	0	0
Transportation services	186,500	0	329	0
	1,024,199	0	329	0
Non-instructional programs:				
Food services	254	0	0	0
Community service and education operations	31,943	0	0	0
	32,197	0	0	0
Other expenditures:				
Facilities acquisitions	24,564	0	0	25,000
Long-term debt interest	169,651	0	0	0
AEA flowthrough	120,890	0	120,890	0
Depreciation(unallocated)*	94,128	0	0	0
	409,233	0	120,890	25,000
Total governmental activities	3,748,416	228,412	487,014	25,000
Business-Type activities:				
Non-instructional programs:				
Nutrition services	168,574	95,341	75,671	0
Total business-type activities	168,574	95,341	75,671	0
Total	$ 3,916,990	323,753	562,685	25,000
General Revenues:				
Local tax for:				
General purposes				
Debt Service				
Capital outlay				
Local option sales and service tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
Changes in net assets				
Net assets beginning of year				
Net assets end of year				

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(808,241)	0	(808,241)
(440,311)	0	(440,311)
(440,028)	0	(440,028)
(1,688,580)	0	(1,688,580)
(76,683)	0	(76,683)
(47,227)	0	(47,227)
(444,100)	0	(444,100)
(269,689)	0	(269,689)
(186,171)	0	(186,171)
(1,023,870)	0	(1,023,870)
(254)	0	(254)
(31,943)	0	(31,943)
(32,197)	0	(32,197)
436	0	436
(169,651)	0	(169,651)
0	0	0
(94,128)	0	(94,128)
(263,343)	0	(263,343)
(3,007,990)	0	(3,007,990)
0	2,438	2,438
0	2,438	2,438
(3,007,990)	2,438	(3,005,552)
$ 1,226,138	0	1,226,138
120,970	0	120,970
85,276	0	85,276
177,306	0	177,306
1,454,309	0	1,454,309
28,808	41	28,849
20,532	0	20,532
3,113,339	41	3,113,380
105,349	2,479	107,828
2,555,765	44,622	2,600,387
$ 2,661,114	47,101	2,708,215

Exhibit C

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

	General	Physical Plant and Equipment Levy	Capital Projects	Other Governmental Funds	Total
ASSETS					
Cash and pooled investments	$ 703,103	330,131	512,206	458,953	2,004,393
Receivables:					
Property tax					
Delinquent	20,213	731	30,503	3,940	55,387
Succeeding year	1,113,100	40,220	0	210,972	1,364,292
Income surtax	0	41,093	0	0	41,093
Accounts	1,485	0	0	1,706	3,191
Due from other governments	36,550	0	0	0	36,550
TOTAL ASSETS	$ 1,874,451	412,175	542,709	675,571	3,504,906
LIABILITIES AND FUND BALANCES					
Liabilities:					
Salaries and benefits payable	313,414	0	0	0	313,414
Deferred revenue:					
Succeeding year property tax	1,113,100	40,220	0	210,972	1,364,292
Income surtax	0	41,093	0	0	41,093
Total liabilities	1,426,514	81,313	0	210,972	1,718,799
Fund balances:					
Reserved for:					
Talanted and gifted	18,297	0	0	0	18,297
Teacher quality	111	0	0	0	111
Wellness	2,110	0	0	0	2,110
Unreserved:					
Designated for cash flow	220,000	0	0	0	220,000
Undesignated	207,419	330,862	542,709	464,599	1,545,589
Total fund balances	447,937	330,862	542,709	464,599	1,786,107
TOTAL LIABILITIES AND FUND BALANCES	$ 1,874,451	412,175	542,709	675,571	3,504,906

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit D

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

Total fund balances of governmental funds (page 16)	$	1,786,107
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 report as assets in in the governmental funds.		3,760,707
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(26,793)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		41,093
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(2,900,000)
Net assets of governmental activites (page 13)	$	2,661,114

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Physical Plant and Equipment Levy	Capital Projects	Other Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	$ 1,127,608	85,276	0	219,832	1,432,716
LOSST	0	0	177,306	0	177,306
Tuition	45,031	0	0	0	45,031
Other	32,472	5,278	9,558	164,881	212,189
State sources	1,734,122	31	0	165	1,734,318
Federal sources	207,005	25,000	0	0	232,005
Total revenues	3,146,238	115,585	186,864	384,878	3,833,565
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	1,367,078	0	0	13,310	1,380,388
Special instruction	459,736	0	0	0	459,736
Other instruction	284,106	0	0	153,387	437,493
	2,110,920	0	0	166,697	2,277,617
Support services:					
Student services	76,429	0	0	254	76,683
Instructional staff services	43,163	0	0	64	43,227
Administration services	435,000	0	0	9,100	444,100
Operation and maintenance of plant services	235,953	0	0	25,130	261,083
Transportation services	169,463	0	0	28,261	197,724
	960,008	0	0	62,809	1,022,817
Non-instructional:					
Food service	0	0	0	254	254
Community service & education operations	31,943	0	0	0	31,943
	31,943	0	0	254	32,197
Other expenditures:					
Facilities acquisitions	0	28,960	75,864	0	104,824
Long-term debt:					
Principal	0	0	0	120,000	120,000
Interest and fiscal charges	0	0	0	171,350	171,350
AEA flowthrough	120,890	0	0	0	120,890
	120,890	28,960	75,864	291,350	517,064
Total expenditures	3,223,761	28,960	75,864	521,110	3,849,695
Excess(deficiency) of revenues over(under) expenditures	(77,523)	86,625	111,000	(136,232)	(16,130)
Other financing sources(uses):					
Transfers in	0	0	0	168,212	168,212
Transfers out	0	(58,212)	(110,000)	0	(168,212)
Sale of equipment	291	0	0	0	291
Compensation for loss of fixed assets	0	20,241	0	0	20,241
Total other financing sources(uses)	291	(37,971)	(110,000)	168,212	20,532
Net change in fund balances	(77,232)	48,654	1,000	31,980	4,402
Fund balance beginning of year	525,169	282,208	541,709	432,619	1,781,705
Fund balance end of year	$ 447,937	330,862	542,709	464,599	1,786,107

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit F

VILLISCA COMMUNITY 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 (page 18)		$ 4,402
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	$ 113,160	
Depreciation expense	(133,580)	(20,420)
Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.		120,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		1,699
Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		(332)
Changes in net assets of governmental activities (page 15)		$ 105,349

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit G

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

	School Nutrition
ASSETS	
Cash and cash equivalents	$ 14,922
Inventories	2,738
Capital assets, net of accumulated depreciation	31,215
TOTAL ASSETS	48,875
LIABILITIES	
Deferred revenues	1,774
TOTAL LIABILITES	1,774
NET ASSETS	
Invested in capital assets, net of related debt	31,215
Unrestricted	15,886
TOTAL NET ASSETS	$ 47,101

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit H

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Other local sources:	
Sale of lunches and breakfasts:	
Students	$ 79,187
Adults	6,479
Miscellaneous	9,675
TOTAL OPERATING REVENUES	95,341
OPERATING EXPENSES:	
Food service operations:	
Salaries	54,752
Benefits	7,065
Services	2,822
Supplies	99,304
Depreciation	4,631
TOTAL OPERATING EXPENSES	168,574
OPERATING LOSS	(73,233)
NON-OPERATING REVENUES:	
Interest	41
State sources	2,189
Federal sources	73,482
TOTAL NON-OPERATING REVENUES	75,712
Change in net assets	2,479
Net assets beginning of year	44,622
Net assets end of year	$ 47,101

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit I

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

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	$ 86,343
Cash received from miscellaneous operating activities	9,675
Cash payments to employees for services	(61,817)
Cash payments to suppliers for goods or services	(94,798)
Net cash used in operating activities	(60,597)
Cash flows from non-capital financing activities:	
State grants received	2,189
Federal grants received	65,043
Net cash provided by non-capital financing activities	67,232
Cash flows from investing activities:	
Interest on investments	41
Net cash provided by investing activities	41
Cash flows from capital financing activities:	
Purchase of assets	(25,111)
Net cash used in financing activities	(25,111)
Net decrease in cash and cash equivalents	(18,435)
Cash and cash equivalents at beginning of year	33,357
Cash and cash equivalents at end of year	$ 14,922
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (73,233)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	8,439
Depreciation	4,631
Increase in inventories	(1,111)
Decrease in accounts receivable	112
Increase in deferred revenue	565
Net cash used in operating activities	$ (60,597)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	$ 14,922

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2005, the District received Federal commodities valued at $8,439.

SEE NOTES TO FINANCIAL STATEMENTS.

(1) Summary of Significant Accounting Policies

The Villisca Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Villisca, Iowa, and the predominate agricultural territory in Adams, Montgomery, Page and Taylor 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, Villisca Community School District has included all funds, organizations, account groups, 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 Villisca Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The Special Revenue - Physical Plant and Equipment Levy(PPEL) Fund is used to account for resources used in building improvements and equipment purchases.

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

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

C. Measurement Focus and Basis of Accounting

The Government-wide financial statements and the 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, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to

customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

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

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

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

Asset Class	Amount
Land	$ 2,500
Buildings	2,500
Improvements other than buildings	2,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,500

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-12 years

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

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

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

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

Designated Cashflow - In the governmental fund financial statements, the District's board designated $220,000 of the General Fund's unreserved balance for cashflow purposes.

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, no expenditures exceeded the amount 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.

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

	Amortized Cost
Diversified Portfolio	$ 608,722

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

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

(3) Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	$ 110,000
Debt Service	PPEL	58,212
Total		$ 168,212

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

(4) 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	$ 18,650	0	0	18,650
Total capital assets not being depreciated	18,650	0	0	18,650
Capital assets being depreciated:				
Buildings	4,472,723	80,260	0	4,552,983
Land improvements	109,264	0	0	109,264
Machinery and equipment	747,685	32,900	3,048	777,537
Total capital assets being depreciated	5,329,672	113,160	3,048	5,439,784
Less accumulated depreciation for:				
Buildings	904,689	91,020	0	995,709
Land improvements	90,376	3,108	0	93,484
Machinery and equipment	572,130	39,452	3,048	608,534
Total accumulated depreciation	1,567,195	133,580	3,048	1,697,727
Total capital assets being depreciated, net	3,762,477	(20,420)	0	3,742,057
Governmental activities capital assets, net	$ 3,781,127	(20,420)	0	3,760,707

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	$ 56,208	25,111	0	81,319
Less accumulated depreciation	45,473	4,631	0	50,104
Business-type activities capital assets, net	$ 10,735	20,480	0	31,215

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	$ 2,635
Other	2535
Support services:	
Instructional staff services	4,000
Operation and maintenance of plant services	8,606
Transportation	21,676
	39,452
Unallocated depreciation	94,128
Total governmental activities depreciation expense	$ 133,580
Business-type activities:	
Food services	$ 4,631

(5) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation	$ 3,020,000	0	120,000	2,900,000	130,000
Total	$ 3,020,000	0	120,000	2,900,000	130,000

General Obligation

Details of the District's June 30, 2005 General Obligation bonds indebtedness is as follows:

Year Ending June 30,	Interest Rate	Bond issue dated May 1, 2000 Principal	Interest	Total
2006	6.00 %	$ 130,000	163,750	293,750
2007	6.00	135,000	155,950	290,950
2008	6.00	140,000	147,850	287,850
2009	6.00	155,000	139,450	294,450
2010	5.85	160,000	130,150	290,150
2011	5.25	170,000	120,790	290,790
2012	5.30	180,000	111,865	291,865
2013	5.35	185,000	102,325	287,325
2014	5.40	200,000	92,428	292,428
2015	5.50	210,000	81,627	291,627
2016	5.60	220,000	70,078	290,078
2017	5.65	230,000	57,757	287,757
2018	5.65	245,000	44,763	289,763
2019	5.70	260,000	30,920	290,920
2020	5.75	280,000	16,100	296,100
Subtotal		$ 2,900,000	1,465,803	4,365,803

(6) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were $112,207, $109,635, and $109,626, respectively, equal to the required contributions for each year.

(7) Risk Management

The 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 in July 1999 for the purpose of managing and funding employee benefits. The Association provides dental coverage for the District.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2005 were $10,715.

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 notice may withdraw.

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

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled $120,890 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 SUPPLEMENTAL INFORMATION

VILLISCA COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL (GAAP BASIS) - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Revenues:		
Local sources	$ 1,867,242	95,382
Intermediate sources	0	0
State sources	1,734,318	2,189
Federal sources	232,005	73,482
Total revenues	3,833,565	171,053
Expenditures:		
Instruction	2,277,617	0
Support services	1,022,817	0
Non-instructional programs	32,197	168,574
Other expenditures	517,064	0
Total expenditures	3,849,695	168,574
Excess(deficiency) of revenues over(under) expenditures	(16,130)	2,479
Other financing sources, net	20,532	0
Excess(deficiency) of revenues and other financing sources over(under) expenditures	4,402	2,479
Balance beginning of year	1,781,705	44,622
Balance end of year	$ 1,786,107	47,101

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts Original	Budgeted Amounts Final	Final to Actual Variance - Positive (Negative)
1,962,624	1,812,114	1,812,114	150,510
0	5,000	5,000	(5,000)
1,736,507	1,855,913	1,855,913	(119,406)
305,487	204,100	204,100	101,387
4,004,618	3,877,127	3,877,127	127,491
2,277,617	3,084,929	3,084,929	807,312
1,022,817	1,103,581	1,103,581	80,764
200,771	243,175	243,175	42,404
517,064	1,164,572	1,164,572	647,508
4,018,269	5,596,257	5,596,257	1,577,988
(13,651)	(1,719,130)	(1,719,130)	1,705,479
20,532	0	0	20,532
6,881	(1,719,130)	(1,719,130)	1,726,011
1,826,327	1,770,359	1,770,359	55,968
1,833,208	51,229	51,229	1,781,979

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

This budgetary comparison 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 GAAP basis. Encumbrances are not recognized on the GAAP 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.

OTHER SUPPLEMENTAL INFORMATION

Schedule 1

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

	Special Revenue Funds					
	Manage-ment	Student Activity	Expendable Trust	Total Special Revenue	Debt Service	Total Nonmajor Governmental Funds
ASSETS						
Cash and pooled investments	$ 186,380	67,792	171,392	425,564	33,389	458,953
Receivables:						
Property tax:						
Current year delinquent	1,772	0	0	1,772	2,168	3,940
Succeeding year	85,000	0	0	85,000	125,972	210,972
Accounts	0	1,706	0	1,706	0	1,706
TOTAL ASSETS	$ 273,152	69,498	171,392	514,042	161,529	675,571
LIABILITIES AND FUND EQUITY						
Liabilities:						
Deferred revenue:						
Succeeding year property tax	85,000	0	0	85,000	125,972	210,972
	85,000	0	0	85,000	125,972	210,972
Fund equity:						
Fund balances:						
Unreserved:						
Undesignated	188,152	69,498	171,392	429,042	35,557	464,599
Total fund balances	188,152	69,498	171,392	429,042	35,557	464,599
TOTAL LIABILITIES AND FUND EQUITY	$ 273,152	69,498	171,392	514,042	161,529	675,571

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue					
	Manage-ment	Student Activity	Expendable Trust	Total Special Revenue	Debt Service	Total Nonmajor Governmental Funds
REVENUES:						
Local sources:						
Local tax	$ 98,862	0	0	98,862	120,970	219,832
Other	6,575	152,184	4,960	163,719	1,162	164,881
State sources	74	0	0	74	91	165
TOTAL REVENUES	105,511	152,184	4,960	262,655	122,223	384,878
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	7,510	0	5,800	13,310	0	13,310
Other instruction	0	153,387	0	153,387	0	153,387
	7,510	153,387	5,800	166,697	0	166,697
Support services:						
Student support services	254	0	0	254	0	254
Instructional staff services	64	0	0	64	0	64
Administration services	9,100	0	0	9,100	0	9,100
Operation and maintenance of plant services	25,130	0	0	25,130	0	25,130
Transportation services	28,261	0	0	28,261	0	28,261
	62,809	0	0	62,809	0	62,809
Non-instructional:						
Food service	254	0	0	254	0	254
Other expenditures:						
Long-term debt:						
Principle	0	0	0	0	120,000	120,000
Interest and fiscal charges	0	0	0	0	171,350	171,350
	0	0	0	0	291,350	291,350
TOTAL EXPENDITURES	70,573	153,387	5,800	229,760	291,350	521,110
Excess(deficiency) of revenues over(under) expenditures	34,938	(1,203)	(840)	32,895	(169,127)	(136,232)
Other financing sources:						
Operating transfers in	0	0	0	0	168,212	168,212
Total other financing sources	0	0	0	0	168,212	168,212
Excess(deficiency) of revenues and other financing sources over(under) expenditures	34,938	(1,203)	(840)	32,895	(915)	31,980
Fund balance beginning of year	153,214	70,701	172,232	396,147	36,472	432,619
Fund balance end of year	$ 188,152	69,498	171,392	429,042	35,557	464,599

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Interest	8,707	1,256	1,162	8,801
Student activity pop	6,254	13,856	14,076	6,034
Activity tickets	1,796	2,163	3,763	196
Secondary student club	11,749	1,508	2,155	11,102
Elementary club K-6	13,544	14,520	14,703	13,361
Sports towels	1,961	492	2,453	0
National honor society	107	423	523	7
Annual staff	1,569	4,813	6,113	269
Drama club	1,086	3,180	3,416	850
Music boosters	3,954	16,022	13,796	6,180
Dance team	4,147	3,213	3,187	4,173
Athletics	0	636	636	0
Track	0	1,785	1,785	0
Basketball	4,162	8,018	5,152	7,028
Football	236	5,843	6,079	0
Softball/baseball	(59)	3,918	8,766	(4,907)
Volleyball	1,443	3,077	2,552	1,968
Y-teens	3,105	9,761	8,614	4,252
FFA	510	28,719	27,876	1,353
Science club	1,657	5,964	5,829	1,792
Cheerleaders	498	1,868	915	1,451
Librarians	570	2,198	2,218	550
Student council	679	3,789	3,304	1,164
JH boosters	101	145	149	97
Destination Image	209	280	489	0
T.O.U.C.H	383	0	0	383
Class of 2004	0	543	98	445
Class of 2006	296	11,182	9,511	1,967
Class of 2007	55	1,264	878	441
Class of 2008	21	410	381	50
Class of 2009	0	0	58	(58)
Class of 2010	0	144	114	30
Total	$ 70,701	152,184	153,387	69,498

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	$ 1,610,022	1,492,769	1,572,590	1,455,560
Tuition	45,031	97,588	61,976	48,216
Other	212,189	226,065	243,744	304,292
State sources	1,734,318	1,719,088	1,694,874	1,877,059
Federal sources	232,005	175,949	214,613	98,671
Total	$ 3,833,565	3,711,459	3,787,797	3,783,798
Expenditures:				
Instruction:				
Regular instruction	$ 1,380,388	1,235,610	1,403,393	1,338,485
Special instruction	459,736	569,350	484,946	418,624
Other instruction	437,493	371,371	365,708	371,297
Support services:				
Student services	76,683	78,347	84,707	74,695
Instructional staff services	43,227	50,223	57,353	61,183
Administration services	444,100	434,571	408,580	388,248
Operation and maintenance of plant services	261,083	265,591	221,152	208,242
Transportation services	197,724	198,894	142,585	223,140
Central services	0	4,286	2,274	6,383
Non-instructional:				
Food service	254	233	200	166
Community service & education operations	31,943	29,319	26,965	59,185
Other expenditures:				
Facilities acquisitions	104,824	51,122	70,412	179,536
Long Term Debt:				
Principal	120,000	115,000	105,000	100,000
Interest	171,350	178,150	184,450	190,375
AEA flow-through	120,890	124,144	132,057	133,804
Total	$ 3,849,695	3,706,211	3,689,782	3,753,363

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Villisca Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 26, 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 Villisca Community 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 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 item I-A-05 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Villisca Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not

express 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 Villisca Community School District and other parties to whom Villisca Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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

NOLTE, CORNMAN & JOHNSON, P.C.

August 26, 2005

VILLISCA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

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

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-05 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

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

Conclusion - Response accepted.

I-B-05 Student Activity Fund - We noted during our audit that the Student Activity fund included an interest account, a sports towel account, and a Class of 2004 account.

Recommendation - The interest earned each year should be allocated at least on an annual basis to the individual activity accounts. The sports towel account appears to be more appropriately handled out of the General Fund. The Class of 2004 account balance should be closed and reallocated to other funds inside the Activity fund.

Response – We will distribute the interest earned each year on an annual basis to appropriate activity accounts. We will discontinue the sports towel account. We will close the Class of 2004 account.

Conclusion – Response accepted.

I-C-05 Student Activity Fund - We noted during our audit that Activity fund checks were written out to pay game officials before the game.

Recommendation - The District should not write out Activity Fund checks to pay officials until after the game. This practice is necessary to cut down on the number of voided checks in the event the originally scheduled official is not able to officiate the game.

Response – This practice will be discontinued.

Conclusion – Response accepted.

VILLISCA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part II: Other Findings Related to Statutory Reporting

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

II-B-05 Certified Budget - District disbursements for the year ended June 30, 2005, did not exceed the amount budgeted.

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

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

II-E-05 Business Transactions - No business transactions between the District and District officials were noted.

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

II-G-05 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response – Minutes are sent to the local paper with e-mail documentation within two weeks but we have no control over the printing dates. Our newspaper has a new owner and we believe this will improve.

Conclusion – Response accepted.

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

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

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