

TITONKA CONSOLIDATED SCHOOL DISTRICT

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

JUNE 30, 2013

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Titonka Consolidated School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Allison Anderson	President	2013
Gloria Bartlet	Vice President	2013
Daryl Chapin	Board Member	2015
Gabrielle Trunkhill	Board Member	2015
Debra Harms	Board Member	2015

School Officials

Marty Fonley	Superintendent	2013
Julia Mogensen	Business Manager/ District Secretary/Treasurer (Resigned November 2012)	2013
Mary Beth Wubben	Business Manager/ District Secretary/Treasurer (Appointed December 2012)	2013
Rick Engel	Attorney	2013

Titonka Community School District

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 Titonka Consolidated School District:

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013, and the respective changes in financial position and, when applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Members American Institute & Iowa Society of Certified Public Accountants

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of Funding Progress for Retiree Health Plan on pages 7 through 16 and 42 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Titonka Consolidated School District's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the year ended June 30, 2012 (which is not presented herein) and expressed an unqualified opinion on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the eight years ended June 30, 2011 (which are not presented herein) and expressed an unqualified opinion on those financial statements. The supplementary information included in Schedules 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report March 19, 2014, on our consideration so Titonka Consolidated School District's internal control over financial reporting and on 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, 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 in considering Titonka Consolidated School District's internal control over financial reporting and compliance.



NOLTE, CORNMAN & JOHNSON, P.C.

March 19, 2014
Newton, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Titonka Consolidated School District provides the 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, 2013. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$1,692,156 in fiscal 2012 to \$1,410,805 in fiscal 2013, and General Fund expenditures increased from \$1,512,712 in fiscal 2012 to \$1,535,618 in fiscal 2013. General Fund expenditures outpaced General Fund revenues, resulting in a decrease in the District's General Fund balance from \$724,163 in fiscal 2012 to a balance of \$599,350 in fiscal 2013, a 17.24% decrease from the prior year.
- The decrease in General Fund revenues was attributable to decreases in local tax and state sources in fiscal 2013. The increase in expenditures was due primarily to increases in the instruction and support services functional areas.

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 Position 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 custodial for the benefit of those outside of 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.

Supplementary Information provides detailed information about the nonmajor funds.

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

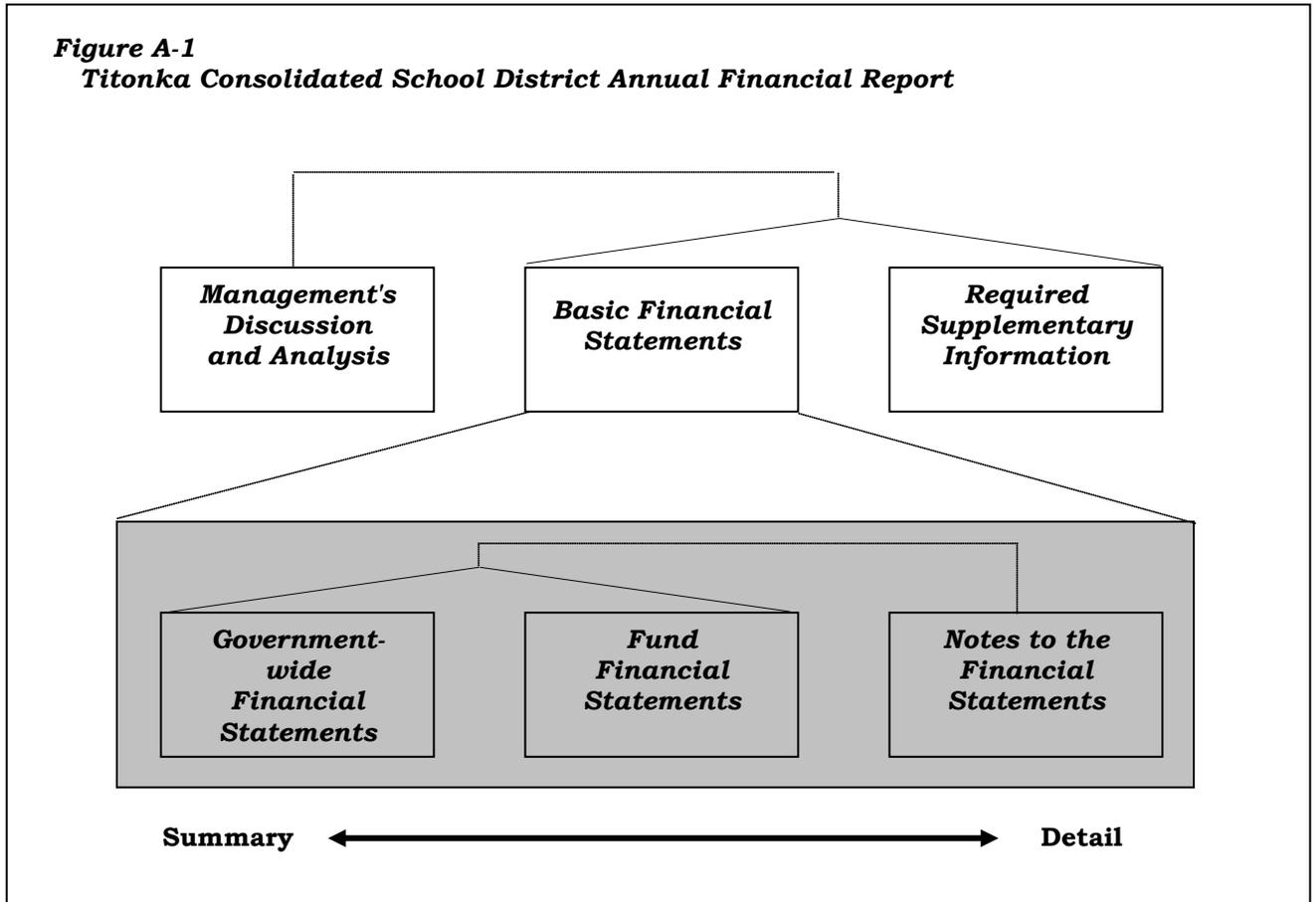


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	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, e.g., food service	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 Position • 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 Position • Statement of Revenues, Expenses and Changes in Fund Net Position • Statement of Cash Flows 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects 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 Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position and a Statement of Cash Flows.

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

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

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

The required financial statements for fiduciary funds include a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2013 compared to June 30, 2012.

Figure A-3
Condensed Statement of Net Position

	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Current and other assets	\$ 1,720,368	2,261,675	12,486	12,380	1,732,854	2,274,055	-23.80%
Capital assets	3,354,632	3,540,227	831	949	3,355,463	3,541,176	-5.24%
Total assets	5,075,000	5,801,902	13,317	13,329	5,088,317	5,815,231	-12.50%
Long-term obligations	1,778,595	2,564,600	3,156	2,602	1,781,751	2,567,202	-30.60%
Other liabilities	1,175,634	1,062,765	28,534	204	1,204,168	1,062,969	13.28%
Total liabilities	2,954,229	3,627,365	31,690	2,806	2,985,919	3,630,171	-17.75%
Net position:							
Invested in capital assets, net of related debt	1,636,234	1,010,269	831	949	1,637,065	1,011,218	61.89%
Restricted	228,153	529,790	-	-	228,153	529,790	-56.94%
Unrestricted	256,384	634,478	(19,204)	9,574	237,180	644,052	-63.17%
Total net position	\$ 2,120,771	2,174,537	(18,373)	10,523	2,102,398	2,185,060	-3.78%

The District's combined net assets decreased by 3.78%, or \$82,662, over the prior year. The largest portion of the District's net position is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position decreased \$301,637 or 56.94%, over the prior year. This is due primarily to the decrease in the Capital Projects: Statewide Sales, Services and Use Tax Fund balance due to the defeasance of the revenue bonds dated May 30, 2008.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased \$406,872, or 63.17%. The decrease in unrestricted fund balance can be attributed to the decrease in fund balance of the General Fund.

Figure A-4 shows the changes in net position for the year ended June 30, 2013 compared to the year ended June 30, 2012.

Figure A-4
Changes of Net Position

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Revenues and Transfers:							
Program revenues:							
Charges for services	\$ 21,081	10,109	10,421	10,969	31,502	21,078	49.45%
Operating grants and contributions and restricted interest	121,316	144,768	15,366	39,869	136,682	184,637	-25.97%
General revenues:							
Property tax	935,016	1,180,544	-	-	935,016	1,180,544	-20.80%
Income surtax	83,579	67,951	-	-	83,579	67,951	23.00%
Statewide sales, services and use tax	131,045	128,850	-	-	131,045	128,850	1.70%
Unrestricted state grants	560,301	590,248	-	-	560,301	590,248	-5.07%
Nonspecific program federal grants	-	8,329	-	-	-	8,329	-100.00%
Unrestricted investment earnings	2,090	2,253	1	1	2,091	2,254	-7.23%
Other	669	3,960	436	184	1,105	4,144	-73.33%
Transfers	-	(9,639)	-	9,639	-	-	0.00%
Total revenues and transfers	1,855,097	2,127,373	26,224	60,662	1,881,321	2,188,035	-14.02%
Program expenses:							
Instruction	1,075,329	1,050,502	-	-	1,075,329	1,050,502	2.36%
Support services	586,640	531,443	419	495	587,059	531,938	10.36%
Non-instructional programs	10,717	9,312	54,701	43,625	65,418	52,937	23.58%
Other expenses	236,177	252,893	-	-	236,177	252,893	-6.61%
Total expenses	1,908,863	1,844,150	55,120	44,120	1,963,983	1,888,270	4.01%
Change in net position	(53,766)	283,223	(28,896)	16,542	(82,662)	299,765	-127.58%
Beginning net position	2,174,537	1,891,314	10,523	(6,019)	2,185,060	1,885,295	15.90%
Ending net position	\$ 2,120,771	2,174,537	(18,373)	10,523	2,102,398	2,185,060	-3.78%

In fiscal 2013, property tax, income surtax, statewide sales, services and use tax and unrestricted state grants accounted for 92.18% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 98.33% of the revenue from business type activities.

The District's total revenues were approximately \$1.88 million of which approximately \$1.85 million was for governmental activities and approximately \$0.03 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 14.02% decrease in revenues and a 4.01% increase in expenses. The decrease in revenues can be attributed to the decrease in property tax revenues of \$245,528 and unrestricted state grants revenue of \$29,947 as compared to the prior year. The increase in expenditures can be attributed to the increase in instructional costs as compared to the prior year.

Governmental Activities

Revenues for governmental activities were \$1,855,097 and expenses were \$1,908,863.

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 for the year ended June 30, 2013 as compared to June 30, 2012.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2013	2012	Change 2012-13	2013	2012	Change 2012-13
Instruction	\$ 1,075,329	1,050,502	2.36%	999,390	979,275	2.05%
Support services	586,640	531,443	10.39%	586,640	513,574	14.23%
Non-instructional	10,717	9,312	15.09%	10,717	9,312	15.09%
Other expenses	236,177	252,893	-6.61%	169,719	187,112	-9.30%
Totals	\$ 1,908,863	1,844,150	3.51%	1,766,466	1,689,273	4.57%

- The cost financed by users of the District's programs was \$21,081.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$121,316.
- The net cost of governmental activities was financed with \$935,016 in property tax, \$83,579 in income surtax, \$131,045 in statewide sales, services and use tax, \$560,301 in unrestricted state grants, \$2,090 in unrestricted investment earnings and \$669 in other general revenues.

Business Type Activities

Revenues of the District's business type activity were \$26,224 and expenses were \$55,120. The District's business type activities are the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, unrestricted investment earnings and other general revenues.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$488,348, above last year's ending fund balances of \$1,131,519. The primary reason for the decrease in combined fund balances is attributable to the decrease in the ending fund balances of the General Fund and the Capital Projects: Statewide Sales, Services and Use Tax Fund.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. Decreases in local and state source revenues combined with increases in educational expenditures as compared to the prior year resulted in the decrease in fund balance from \$724,163 in fiscal 2012 to \$599,350 in fiscal 2013.
- The Capital Projects Accounts balance decreased from a positive balance of \$235,981 in fiscal 2012 to a deficit balance of \$215,925 in fiscal 2013. The main reason for the decrease in ending balance of the capital projects accounts was due the advanced refunding of the revenue bonds dated May 30, 2008.
- The Debt Service Fund balance decreased from a positive balance of \$95,138 in fiscal 2012 to a deficit balance of \$1,002 in fiscal 2013. This decrease in ending fund balance for the Debt Service Fund is due to the redemption of the May 30, 2008 revenue bond reserve certificate of deposit to advance refund those same bonds on January 2013.

Proprietary Fund Highlights

The School Nutrition Fund balance decreased from a positive balance of \$10,523 in fiscal 2012 to a deficit balance of \$18,373 in fiscal 2013.

BUDGETARY HIGHLIGHTS

The District's revenues were \$7,740 more than budgeted revenues, a variance of less than 1%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures should be 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, non-instructional programs, other expenditures functional areas and in total.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the District had invested \$3,355,463 net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities and transportation equipment. (See Figure A-6) This amount represents a net decrease of 5.24% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$150,064.

The original cost of the District's capital assets was \$5,363,179. Governmental funds account for \$5,292,843 with the remainder of \$70,336 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$230,198 at June 30, 2012 as compared to \$121,797 at June 30, 2013. The decrease in machinery and equipment can be attributed to the disposal of obsolete equipment and depreciation expense during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business Type		Total		Total Change June 30, 2012-13
	Activities		Activities		District		
	June 30,		June 30,		June 30,		
	2013	2012	2013	2012	2013	2012	
Land	\$ 2,210	2,210	-	-	2,210	2,210	0.00%
Buildings	3,153,732	3,225,911	-	-	3,153,732	3,225,911	-2.24%
Land improvements	77,724	82,857	-	-	77,724	82,857	-6.20%
Machinery and equipment	120,966	229,249	831	949	121,797	230,198	-47.09%
Total	\$ 3,354,632	3,540,227	831	949	3,355,463	3,541,176	-5.24%

Long-Term Debt

At June 30, 2013, the District had \$1,781,751 in general obligation bonds payable and other long-term debt outstanding. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding general obligation bonds payable of \$1,655,000 at June 30, 2013.

As of June 30, 2013, the District had a bus lease payable of \$63,398 payable from the Capital Projects: Physical Plant and Equipment Levy.

As of June 30, 2013, the District had termination benefits payable of \$20,000 from the Special Revenue: Management Levy Fund.

The District had a net OPEB liability of \$43,353 at June 30, 2013. Of this amount \$40,197 is attributed to governmental activities and \$3,156 is for business type activities

Figure A-7
Outstanding Long-Term Obligations

	Governmental		Business Type		Total		Total Change June 30, 2012-13
	Activities		Activities		District		
	June 30,		June 30,		June 30,		
	2013	2012	2013	2012	2013	2012	
General obligation bonds	\$ 1,655,000	1,740,000	-	-	1,655,000	1,740,000	-4.89%
Revenue bonds	-	715,000	-	-	-	715,000	-100.00%
Bus lease	63,398	74,958	-	-	63,398	74,958	-15.42%
Termination benefits	20,000	-	-	-	20,000	-	100.00%
Net OPEB liability	40,197	34,642	3,156	2,602	43,353	37,244	16.40%
Total	\$ 1,778,595	2,564,600	3,156	2,602	1,781,751	2,567,202	-30.60%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- On February 5, 2013, the Titonka Consolidated School District and the Algona Community School District held a public vote for consolidation of the two districts. Residents of the Titonka Consolidated School District passed the resolution to merge with Algona Community School District on a 79.9% vote. Residents of the Algona Community School District passed a resolution to merge with Titonka Consolidated School District on a 95% vote. As of July 1, 2014, the two districts will be consolidated as one.

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, Business Manager/District Secretary/Treasurer, Titonka Consolidated School District, 543 Dieckman St, PO Box 287, Titonka, IA 50480-0287.

BASIC FINANCIAL STATEMENTS

TITONKA CONSOLIDATED SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and pooled investments:	\$ 609,943	10,858	620,801
Receivables:			
Property tax:			
Delinquent	19,338	-	19,338
Succeeding year	965,458	-	965,458
Income surtax	64,835	-	64,835
Accounts	90	-	90
Due from other funds	28,534	-	28,534
Due from other governments	32,170	-	32,170
Inventories	-	1,628	1,628
Capital assets, net of accumulated depreciation	3,354,632	831	3,355,463
TOTAL ASSETS	5,075,000	13,317	5,088,317
LIABILITIES			
Due to other funds	-	28,534	28,534
Accounts payable	190,650	-	190,650
Salaries and benefits payable	1,642	-	1,642
Accrued interest payable	12,419	-	12,419
Deferred revenue:			
Succeeding year property tax	965,458	-	965,458
Other	5,465	-	5,465
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	90,000	-	90,000
Bus lease payable	11,897	-	11,897
Termination benefits payable	5,433	-	5,433
Portion due after one year:			
General obligation bonds payable	1,565,000	-	1,565,000
Bus lease payable	51,501	-	51,501
Termination benefits payable	14,567	-	14,567
Net OPEB liability	40,197	3,156	43,353
TOTAL LIABILITIES	2,954,229	31,690	2,985,919
NET POSITION			
Invested in capital assets, net of related debt	1,636,234	831	1,637,065
Restricted for:			
Categorical funding	108,852	-	108,852
Management levy purposes	85,534	-	85,534
Student activities	75	-	75
Public education and recreation levy	316	-	316
Physical plant and equipment	33,376	-	33,376
Unrestricted	256,384	(19,204)	237,180
TOTAL NET POSITION	\$ 2,120,771	(18,373)	2,102,398

SEE NOTES TO FINANCIAL STATEMENTS.

EXHIBIT B

**TITONKA CONSOLIDATED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Govern- mental Activities	Business Type Activities	Total
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular	\$ 740,147	18,461	9,694	(711,992)	-	(711,992)
Special	258,771	-	7,417	(251,354)	-	(251,354)
Other	76,411	2,620	37,747	(36,044)	-	(36,044)
	<u>1,075,329</u>	<u>21,081</u>	<u>54,858</u>	<u>(999,390)</u>	<u>-</u>	<u>(999,390)</u>
Support services:						
Student	8,388	-	-	(8,388)	-	(8,388)
Instructional staff	21,131	-	-	(21,131)	-	(21,131)
Administration	197,601	-	-	(197,601)	-	(197,601)
Operation and maintenance of plant	242,156	-	-	(242,156)	-	(242,156)
Transportation	117,364	-	-	(117,364)	-	(117,364)
	<u>586,640</u>	<u>-</u>	<u>-</u>	<u>(586,640)</u>	<u>-</u>	<u>(586,640)</u>
Non-instructional programs:						
Other enterprise operations	10,717	-	-	(10,717)	-	(10,717)
	<u>92,407</u>	<u>-</u>	<u>-</u>	<u>(92,407)</u>	<u>-</u>	<u>(92,407)</u>
Other expenditures:						
AEA flowthrough	66,458	-	66,458	-	-	-
Depreciation (unallocated)*	77,312	-	-	(77,312)	-	(77,312)
	<u>143,770</u>	<u>-</u>	<u>66,458</u>	<u>(77,312)</u>	<u>-</u>	<u>(77,312)</u>
Total governmental activities	1,908,863	21,081	121,316	(1,766,466)	-	(1,766,466)
Business type activities:						
Support services:						
Operation and maintenance of plant	419	-	-	-	(419)	(419)
Non-instructional programs:						
Nutrition services	54,701	10,421	15,366	-	(28,914)	(28,914)
Total business type activities	55,120	10,421	15,366	-	(29,333)	(29,333)
Total	<u>\$ 1,963,983</u>	<u>31,502</u>	<u>136,682</u>	<u>(1,766,466)</u>	<u>(29,333)</u>	<u>(1,795,799)</u>
General Revenues:						
Property tax levied for:						
General purposes				\$ 688,920	-	688,920
Debt service				157,159	-	157,159
Capital outlay				88,937	-	88,937
Income surtax				83,579	-	83,579
Statewide sales, services and use tax				131,045	-	131,045
Unrestricted state grants				560,301	-	560,301
Unrestricted investment earnings				2,090	1	2,091
Other				669	436	1,105
Total general revenues				<u>1,712,700</u>	<u>437</u>	<u>1,713,137</u>
Change in net position				(53,766)	(28,896)	(82,662)
Net position beginning of year				2,174,537	10,523	2,185,060
Net position end of year				<u>\$ 2,120,771</u>	<u>(18,373)</u>	<u>2,102,398</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

TITONKA CONSOLIDATED SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General	Capital Projects	Debt Service	Nonmajor	Total
ASSETS					
Cash and pooled investments	\$ 460,205	41,315	109	104,150	605,779
Receivables:					
Property tax					
Delinquent	12,724	1,612	3,227	1,775	19,338
Succeeding year	629,893	81,436	158,326	95,803	965,458
Income surtax	64,835	-	-	-	64,835
Accounts	90	-	-	-	90
Due from other funds	313,028	4,338	-	-	317,366
Due from other governments	10,866	21,304	-	-	32,170
TOTAL ASSETS	\$ 1,491,641	150,005	161,662	201,728	2,005,036
LIABILITIES AND FUND BALANCES					
Liabilities:					
Due to other funds	\$ -	284,494	4,338	-	288,832
Accounts payable	190,456	-	-	-	190,456
Salaries and benefits payable	1,642	-	-	-	1,642
Deferred revenue:					
Succeeding year property tax	629,893	81,436	158,326	95,803	965,458
Income surtax	64,835	-	-	-	64,835
Other	5,465	-	-	-	5,465
Total liabilities	892,291	365,930	162,664	95,803	1,516,688
Fund balances:					
Restricted for:					
Categorical funding	108,852	-	-	-	108,852
Management levy purposes	-	-	-	105,534	105,534
Student activities	-	-	-	75	75
Public education and recreation levy	-	-	-	316	316
Physical plant and equipment	-	36,376	-	-	36,376
Unassigned	490,498	(252,301)	(1,002)	-	237,195
Total fund balances	599,350	(215,925)	(1,002)	105,925	488,348
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,491,641	150,005	161,662	201,728	2,005,036

SEE NOTES TO FINANCIAL STATEMENTS.

TITONKA CONSOLIDATED SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET POSITION
 JUNE 30, 2013

Total fund balances of governmental funds(page 20)	\$	488,348
 <i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		3,354,632
Blending of the Internal Service Fund to be reflected on an entity-wide basis.		3,970
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		64,835
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(12,419)
Long-term liabilities, including general obligation bonds payable, bus lease payable, termination benefits payable and other postemployment benefits payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(1,778,595)
		(1,778,595)
Net position of governmental activities(page 18)	\$	2,120,771

SEE NOTES TO FINANCIAL STATEMENTS.

TITONKA CONSOLIDATED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	General	Capital Projects	Debt Service	Nonmajor	Total
REVENUES:					
Local sources:					
Local tax	\$ 713,292	209,559	157,159	85,632	1,165,642
Tuition	11,005	-	-	-	11,005
Other	7,383	7,034	701	209	15,327
State sources	651,698	-	-	-	651,698
Federal sources	27,427	-	-	-	27,427
TOTAL REVENUES	1,410,805	216,593	157,860	85,841	1,871,099
EXPENDITURES:					
Current:					
Instruction:					
Regular	707,706	-	-	-	707,706
Special	258,232	-	-	-	258,232
Other	75,163	-	-	412	75,575
	1,041,101	-	-	412	1,041,513
Support services:					
Student	8,388	-	-	-	8,388
Instructional staff	21,131	-	-	-	21,131
Administration	186,039	7,131	-	2,947	196,117
Operation and maintenance of plant	121,052	10,286	-	42,077	173,415
Transportation	91,449	360	-	-	91,809
	428,059	17,777	-	45,024	490,860
Non-instructional programs:					
Community service operations	-	-	-	10,717	10,717
Long-term debt:					
Principal	-	-	811,560	-	811,560
Interest and fiscal charges	-	-	93,162	-	93,162
	-	-	904,722	-	904,722
Other expenditures:					
AEA flowthrough	66,458	-	-	-	66,458
TOTAL EXPENDITURES	1,535,618	17,777	904,722	56,153	2,514,270
Excess(Deficiency) of revenues over(under) expenditures	(124,813)	198,816	(746,862)	29,688	(643,171)
Other financing sources(uses):					
Transfer in	-	-	650,722	-	650,722
Transfer out	-	(650,722)	-	-	(650,722)
Total other financing sources(uses)	-	(650,722)	650,722	-	-
Change in fund balances	(124,813)	(451,906)	(96,140)	29,688	(643,171)
Fund balances beginning of year	724,163	235,981	95,138	76,237	1,131,519
Fund balances end of year	\$ 599,350	(215,925)	(1,002)	105,925	488,348

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, 2013

Change in fund balances - total governmental funds(page 22) \$ (643,171)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense and loss on asset disposal in the current year are as follows:

Depreciation expense	\$ (149,946)	
Loss on asset disposal	(35,649)	(185,595)

Net change in the Internal Service Fund charged back against expenditures made for self-funded insurance at an entity-wide basis.		4,242
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Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		811,560
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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.		755
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Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		(16,002)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Other postemployment benefits	\$ (5,555)	
Termination benefits	(20,000)	(25,555)

Change in net position of governmental activities(page 19) \$ (53,766)

SEE NOTES TO FINANCIAL STATEMENTS.

TITONKA CONSOLIDATED SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	Business Type	
	Activities: Enterprise Fund	Governmental Activities: Internal Service Fund
	School Nutrition	
ASSETS		
Current assets:		
Cash and pooled investments	\$ 10,858	4,164
Inventories	1,628	-
Capital assets, net of accumulated depreciation	831	-
TOTAL ASSETS	13,317	4,164
LIABILITIES		
Current liabilities:		
Due to other funds	28,534	-
Accounts payable	-	194
Net OPEB liability	3,156	-
TOTAL LIABILITIES	31,690	194
NET POSITION		
Invested in capital assets	831	-
Unrestricted	(19,204)	3,970
TOTAL NET POSITION	\$ (18,373)	3,970

SEE NOTES TO FINANCIAL STATEMENTS.

TITONKA CONSOLIDATED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013

	Business Type	
	Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 10,421	-
Miscellaneous	436	9,143
TOTAL OPERATING REVENUES	10,857	9,143
OPERATING EXPENSES:		
Current:		
Support services:		
Operation and maintenance of plant:		
Services	77	-
Supplies	342	-
	419	-
OPERATING EXPENSES:		
Non-instructional programs:		
Food service operations:		
Salaries	25,663	-
Benefits	12,615	-
Supplies	16,305	-
Depreciation	118	-
	54,701	-
Other enterprise operations:		
Benefits	-	4,901
TOTAL OPERATING EXPENSES	55,120	4,901
OPERATING INCOME(LOSS)	(44,263)	4,242
NON-OPERATING REVENUES:		
State sources	222	-
Federal sources	15,144	-
Interest income	1	-
TOTAL NON-OPERATING REVENUES	15,367	-
Change in net position	(28,896)	4,242
Net position beginning of year	10,523	(272)
Net position end of year	\$ (18,373)	3,970

SEE NOTES TO FINANCIAL STATEMENTS.

TITONKA CONSOLIDATED SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013

	Business Type	
	Activities: Enterprise Fund	Governmental Activities: Internal Service Fund
	School Nutrition	Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 10,569	-
Cash received from miscellaneous operating activities	436	9,783
Cash payments to employees for services	(37,724)	(9,307)
Cash payments to suppliers for goods or services	(12,821)	-
Net cash provided by(used in) operating activities	(39,540)	476
Cash flows from non-capital financing activities:		
Borrowings from General Fund	28,534	-
State grants received	222	-
Federal grants received	13,806	-
Net cash provided by non-capital financing activities	42,562	-
Cash flows from investing activities:		
Interest on investments	1	-
Net increase in cash and cash equivalents	3,023	476
Cash and cash equivalents at beginning of year	7,835	3,688
Cash and cash equivalents at end of year	\$ 10,858	4,164
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:		
Operating income(loss)	\$ (44,263)	4,242
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:		
Commodities consumed	1,338	-
Depreciation	118	-
Decrease in inventories	2,626	-
Decrease in accounts receivable	291	640
Decrease in accounts payable	(61)	(4,406)
Decrease in unearned revenue	(143)	-
Increase in net other postemployment benefits	554	-
Net cash provided by(used in) operating activities	\$ (39,540)	476

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2013, the District received Federal commodities valued at \$1,338.

SEE NOTES TO FINANCIAL STATEMENTS.

TITONKA CONSOLIDATED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013

	<u>Private Purpose Trust Scholarship</u>	<u>Agency</u>
ASSETS		
Cash and pooled investments	<u>\$ 3,500</u>	<u>1,278</u>
LIABILITIES		
Due to other groups	<u>-</u>	<u>1,278</u>
NET POSITION		
Restricted for scholarships	<u>\$ 3,500</u>	<u>-</u>

SEE NOTES TO FINANCIAL STATEMENTS.

TITONKA CONSOLIDATED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note 1. Summary of Significant Accounting Policies

The Titonka Consolidated School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. During the year ended June 30, 2013 the District was involved in a one-way sharing agreement with Algona for grades 7-12. The geographic area served includes the City of Titonka, Iowa, and agricultural area in Kossuth, Winnebago and Hancock Counties. The District is governed by a Board of Education whose members are elected at large, 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 which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Position (previously referred to as 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 Position presents the District's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is 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 position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources that are imposed by management, but can be removed or modified.

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

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

The District reports the following major governmental funds:

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

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

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

The District also reports one nonmajor proprietary fund:

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

The District also reports one other proprietary fund:

The Internal Service Fund is used to account for the District's flexible spending plan. The Internal Service Fund is charged back to the Governmental Funds and shown combined in the Statement of Net Position and the Statement of Activities.

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, 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 is both restricted and unrestricted net position 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.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

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 Balances

The following accounting policies are followed in preparing the financial statements:

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, 2011 assessed property valuations; is for the tax accrual period July 1, 2012 through June 30, 2013 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2012.

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, and intangibles are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position. 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	\$ 2,000
Buildings	10,000
Land improvements	10,000
Intangible assets	25,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20-50 years
Intangible assets	5-10 years
Machinery and equipment	5-15 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, have been accrued as liabilities when applicable.

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 Position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Position in the Proprietary Funds.

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 Position.

Fund Balances - In the governmental fund financial statements, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable classifications.

Restricted Net Position - In the government-wide Statement of Net Position, net position is reported as restricted when constraints placed on net position use is 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, 2013, expenditures in the instruction, non-instructional programs and other expenditures functional areas exceeded the amounts budgeted. District expenditures also exceeded the total certified budgeted expenditures.

Note 2. Cash and Pooled Investments

The District's deposits at June 30, 2013 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2013, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$4,567 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAA by Standard and Poor's Financial Services.

Note 3. Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2013 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Capital Projects: Statewide Sales, Services and Use Tax	\$ 284,494
Capital Projects: Statewide Sales, Services and Use Tax	Debt Service	4,338
General	Enterprise: School Nutrition	28,534
Total		<u>\$ 317,366</u>

The Capital Projects: Statewide Sales, Services and Use Tax Fund is repaying the General Fund for money borrowed to advance refund the District's May 30, 2008 revenue bond indebtedness (See Comment II-O-13).

The Debt Service Fund is repaying the Capital Projects: Statewide Sales, Services and Use Tax Fund for money borrowed at year end to cover the shortage in debt service tax levied by the District for repayment of general obligation bonds.

The Enterprise: School Nutrition Fund is repaying the General Fund for salaries and benefits not repaid before year end (See Comment II-N-13).

Note 4. Interfund Transfers

The detail of transfers for the year ended June 30, 2013 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	\$ 450,071
Debt Service	Capital Projects: Physical Plant and Equipment Levy	200,651
Total		<u>\$ 650,722</u>

A transfer of \$402,648 from Capital Projects: Statewide Sales, Services and Use Tax Fund to the Debt Service Fund was needed for principal and interest payments on the District's May 30, 2008 revenue bond indebtedness. The additional transfer of \$47,423 (See Comment II-O-13) was needed as a correction for advanced revenue bond payments made using debt service tax levy dollars from the Debt Service Fund.

A transfer of \$13,742 from the Physical Plant and Equipment Levy Fund to the Debt Service Fund was needed for principal and interest payments on the District's bus lease indebtedness. The additional transfer of \$186,909 (See Comment II-O-13) was needed as a principal payment to advance refund a portion of the revenue bonds dated May 30, 2008.

Note 5. Capital Assets

Capital assets activity for the year ended June 30, 2013 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
Total capital assets not being depreciated	2,210	-	-	2,210
Capital assets being depreciated:				
Buildings	3,909,671	-	-	3,909,671
Land improvements	260,893	-	-	260,893
Machinery and equipment	1,262,665	-	142,596	1,120,069
Total capital assets being depreciated	5,433,229	-	142,596	5,290,633
Less accumulated depreciation for:				
Buildings	683,760	72,179	-	755,939
Land improvements	178,036	5,133	-	183,169
Machinery and equipment	1,033,416	72,634	106,947	999,103
Total accumulated depreciation	1,895,212	149,946	106,947	1,938,211
Total capital assets being depreciated, net	3,538,017	(149,946)	35,649	3,352,422
Governmental activities capital assets, net	\$ 3,540,227	(149,946)	35,649	3,354,632
Business type activities:				
Machinery and equipment	\$ 70,336	-	-	70,336
Less accumulated depreciation	69,387	118	-	69,505
Business type activities capital assets, net	\$ 949	(118)	-	831

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 14,146
Support services:	
Operation and maintenance of plant	32,904
Transportation	25,584
	72,634
Unallocated depreciation	77,312
Total governmental activities depreciation expense	\$ 149,946
Business type activities:	
Food services	\$ 118

Note 6. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2013 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
<u>Governmental Activities:</u>					
General obligation bonds	\$ 1,740,000	-	85,000	1,655,000	90,000
Revenue bonds	715,000	-	715,000	-	-
Bus lease	74,958	-	11,560	63,398	11,897
Termination benefits	-	20,000	-	20,000	5,433
Net OPEB liability	34,642	5,555	-	40,197	-
Total	\$ 2,564,600	25,555	811,560	1,778,595	107,330
<u>Business Type Activities:</u>					
Net OPEB liability	\$ 2,602	554	-	3,156	-

General Obligation Bonds Payable

Details of the District's June 30, 2013 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of May 1, 2007			
	Interest Rates	Principal	Interest	Total
2014	4.00 %	\$ 90,000	68,326	158,326
2015	4.00	90,000	64,726	154,726
2016	4.00	95,000	61,126	156,126
2017	4.00	100,000	57,326	157,326
2018	4.00	105,000	53,326	158,326
2019-2023	4.00-4.15	600,000	199,063	799,063
2024-2027	4.20-4.35	575,000	63,246	638,246
Total		\$ 1,655,000	567,139	2,222,139

Bus Lease Payable

During the year ended June 30, 2013, the District entered into a lease for a new bus payable from the Capital Projects: Physical Plant and Equipment Levy Fund. The lease bears an interest rate of 2.90%. Details of the District's June 30, 2013 bus lease indebtedness are as follows:

Year Ending June 30,	Lease Dated December 8, 2011		
	Principal	Interest	Total
2014	\$ 11,897	1,845	13,742
2015	51,501	1,499	53,000
Total	\$ 63,398	3,344	66,742

Termination Benefits Payable (Early Retirement)

During the year ended June 30, 2013, the District offered an early retirement incentive to employees. The plan was only offered for one year. Eligible employees had to be at least fifty-five years of age by July 1, 2012 and have completed fifteen years of consecutive contracted service with the District. The application for early retirement was subject to approval by the District's Board of Education.

Early retirement benefits equal a maximum of \$20,000 for insurance premiums that will be paid monthly by the District until the maximum amount is exhausted. At June 30, 2013, the District has obligations to one participant with a total liability of \$20,000.

Note 7. Advanced Refunding

On January 21, 2013, the District called \$685,000 of outstanding revenue bonds dated May 30, 2008. In order to fully repay this bond issue, the District needed to pay principal and interest of \$687,598 to Titonka Savings Bank. The funding sources used by the District for the advanced refunding are illustrated in the following:

	Principal	Interest	Total
Release of May 30, 2008 revenue bond reserve	\$ 88,380	-	88,380
Funds available in the Physical Plant and Equipment Levy Fund	186,909	-	186,909
Borrowings from General Fund paid through			
Capital Projects: Statewide Sales, Services and Use Tax Fund	284,494	-	284,494
Available funds in Debt Service Fund *	47,423	-	47,423
Available sales tax funds from Capital Projects: Statewide Sales, Services and Use Tax Fund	77,794	2,598	80,392
Totals	\$ 685,000	2,598	687,598

* - Property tax from Debt Service Fund used in error. District subsequently corrected this error. (See Comment II-O-13)

At June 30, 2013, \$0 of such bonds are outstanding. Defeasement of principal and interest for the year was \$685,000 and \$165,915 respectively. The economic gain of this bond defeasement was \$141,666.

Note 8. Pension and Retirement Benefits

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

Plan members are required to contribute 5.78% of their annual salary and the District is required to contribute 8.67% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$46,217, \$43,432 and \$56,157 respectively, equal to the required contributions for each year.

Note 9. Other Postemployment Benefits

Plan Description - The District operates a single-employer health benefit plan which provides medical and prescription drug benefits for employees, retirees and their spouses. There are 10 active and 2 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2013, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 10,731
Interest on net OPEB obligation	931
Adjustment to annual required contribution	(3,048)
Annual OPEB cost	<u>8,614</u>
Contributions made	<u>(2,505)</u>
Increase in net OPEB obligation	6,109
Net OPEB obligation beginning of year	37,244
Net OPEB obligation end of year	<u><u>\$ 43,353</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2013.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2013 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 12,581	0.0%	\$ 23,334
2012	13,910	0.0%	37,244
2013	8,614	29.1%	43,353

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$81,315, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$81,315. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$314,529, and the ratio of the UAAL to covered payroll was 25.9%. As of June 30, 2013, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2012 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual health cost trend rate is 6%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities based upon the 2006 Society of Actuaries Study. The salary increase rate was assumed to 2.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 10. 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 July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical and prescription drugs. District contributions to ISEBA for the year ended June 30, 2013 were \$114,105.

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

Note 11. 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 \$66,458 for the year ended June 30, 2013 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 12. Budget Overexpenditure

During the year ended June 30, 2013, expenditures in the instruction, non-instructional programs and other expenditures functional areas exceeded the amounts budgeted. District expenditures also exceeded the total certified budgeted expenditures.

Note 13. Deficit Unassigned Balance/Unrestricted Net Position

At June 30, 2013, the Enterprise: School Nutrition Fund had deficit unassigned balance of \$19,204 and deficit net position of \$18,373. The Capital Projects: Statewide Sales, Services and Use Tax Fund had a deficit unassigned balance of \$252,301. The Debt Service Fund had a deficit unassigned balance of \$1,002.

Note 14. Categorical Funding

The District's ending restricted balance for categorical funding at June 30, 2013 is comprised of the following programs:

<u>Programs</u>		<u>Amount</u>
Weighted at-risk programs	\$	24,514
Gifted and talented		9,024
Dropout and dropout prevention		31,048
Early intervention block grant		180
Teacher salary supplement		4,079
Early childhood programs		643
School ready children		1,000
Professional development for model core curriculum		10,288
Professional development		26,543
Market factor incentives		1,533
Total categorical funding	\$	<u>108,852</u>

Titonka Community School District

REQUIRED SUPPLEMENTARY INFORMATION

TITONKA CONSOLIDATED SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2013

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Fund Types	Fund Type		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 1,191,974	10,858	1,202,832	1,143,427	1,143,427	59,405
State sources	651,698	222	651,920	680,656	680,656	(28,736)
Federal sources	27,427	15,144	42,571	65,500	65,500	(22,929)
Total revenues	<u>1,871,099</u>	<u>26,224</u>	<u>1,897,323</u>	<u>1,889,583</u>	<u>1,889,583</u>	<u>7,740</u>
Expenditures/Expenses:						
Instruction	1,041,513	-	1,041,513	974,000	974,000	(67,513)
Support services	490,860	419	491,279	791,850	791,850	300,571
Non-instructional programs	10,717	54,701	65,418	38,394	38,394	(27,024)
Other expenditures	971,180	-	971,180	315,845	315,845	(655,335)
Total expenditures/expenses	<u>2,514,270</u>	<u>55,120</u>	<u>2,569,390</u>	<u>2,120,089</u>	<u>2,120,089</u>	<u>(449,301)</u>
Excess(Deficiency) of revenues over(under) expenditures/expenses	(643,171)	(28,896)	(672,067)	(230,506)	(230,506)	(441,561)
Balance beginning of year	<u>1,131,519</u>	<u>10,523</u>	<u>1,142,042</u>	<u>934,851</u>	<u>934,851</u>	<u>(207,191)</u>
Balance end of year	<u>\$ 488,348</u>	<u>(18,373)</u>	<u>469,975</u>	<u>704,345</u>	<u>704,345</u>	<u>(648,752)</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

TITONKA CONSOLIDATED SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2013

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 GAAP basis.

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

During the year ended June 30, 2013, expenditures in the instruction, non-instructional programs and other expenditures functional areas exceeded the budgeted amounts. District expenditures also exceeded the total certified budgeted expenditures.

TITONKA CONSOLIDATED SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	\$ 92,620	92,620	0.00%	\$ 994,000	9.3%
2011	July 1, 2009	-	90,619	90,619	0.00%	840,000	10.8%
2012	July 1, 2009	-	87,649	87,649	0.00%	372,438	23.5%
2013	July 1, 2012	-	81,315	81,315	0.00%	314,529	25.9%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SUPPLEMENTARY INFORMATION

TITONKA CONSOLIDATED SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2013

	Special Revenue			
	Management Levy	Student Activity	Public Education and Recreation Levy	Total
ASSETS				
Cash and pooled investments	\$ 103,975	75	100	104,150
Receivables:				
Property tax:				
Delinquent	1,559	-	216	1,775
Succeeding year	85,000	-	10,803	95,803
TOTAL ASSETS	\$ 190,534	75	11,119	201,728
LIABILITIES AND FUND BALANCES				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	\$ 85,000	-	10,803	95,803
Total liabilities	85,000	-	10,803	95,803
Fund balances:				
Restricted for:				
Management levy purposes	105,534	-	-	105,534
Student activities	-	75	-	75
Public education and recreation levy	-	-	316	316
Total fund balances	105,534	75	316	105,925
TOTAL LIABILITIES AND FUND BALANCES	\$ 190,534	75	11,119	201,728

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SCHEDULE 2

TITONKA CONSOLIDATED SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2013

	Special Revenue			
	Management Levy	Student Activity	Public Education and Recreation Levy	Total
REVENUES:				
Local sources:				
Local tax	\$ 75,209	-	10,423	85,632
Other	72	137	-	209
TOTAL REVENUES	75,281	137	10,423	85,841
EXPENDITURES:				
Current:				
Instruction:				
Other	-	412	-	412
Support services:				
Administration	2,947	-	-	2,947
Operation and maintenance of plant	42,077	-	-	42,077
Non-instructional programs:				
Community service operations	-	-	10,717	10,717
TOTAL EXPENDITURES	45,024	412	10,717	56,153
Change in fund balances	30,257	(275)	(294)	29,688
Fund balances beginning of year	75,277	350	610	76,237
Fund balances end of year	\$ 105,534	75	316	105,925

Note: Student Activity Fund consists of the Elementary/Middle School General Activities account.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

TITONKA CONSOLIDATED SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECT ACCOUNTS

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
ASSETS			
Cash and pooled investments	\$ 6,551	34,764	41,315
Receivables:			
Property tax:			
Delinquent	-	1,612	1,612
Succeeding year	-	81,436	81,436
Due from other funds	4,338	-	4,338
Due from other governments	21,304	-	21,304
TOTAL ASSETS	\$ 32,193	117,812	150,005
LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to other funds	\$ 284,494	-	284,494
Deferred revenue:			
Succeeding year property tax	-	81,436	81,436
Total liabilities	284,494	81,436	365,930
Fund balances:			
Restricted for:			
Physical plant and equipment	-	36,376	36,376
Unassigned	(252,301)	-	(252,301)
Total fund balances	(252,301)	36,376	(215,925)
TOTAL LIABILITIES AND FUND BALANCES	\$ 32,193	117,812	150,005

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

TITONKA CONSOLIDATED SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 CAPITAL PROJECT ACCOUNTS
 YEAR ENDED JUNE 30, 2013

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
REVENUES:			
Local sources:			
Local tax	\$ 131,045	78,514	209,559
Other	60	6,974	7,034
TOTAL REVENUES	131,105	85,488	216,593
EXPENDITURES:			
Current:			
Support services:			
Administration	-	7,131	7,131
Operation and maintenance of plant	5,149	5,137	10,286
Transportation	-	360	360
TOTAL EXPENDITURES	5,149	12,628	17,777
Excess of revenues over expenditures	125,956	72,860	198,816
Other financing uses:			
Transfer out	(450,071)	(200,651)	(650,722)
Change in fund balance	(324,115)	(127,791)	(451,906)
Fund balances beginning of year	71,814	164,167	235,981
Fund balances end of year	\$ (252,301)	36,376	(215,925)

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

TITONKA CONSOLIDATED SCHOOL DISTRICT
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
AGENCY FUND
YEAR ENDED JUNE 30, 2013

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
ASSETS				
Cash and pooled investments	\$ 1,823	154	699	1,278
LIABILITIES				
Due to other groups	\$ 1,823	154	699	1,278

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

TITONKA CONSOLIDATED SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST TEN YEARS

	Modified Accrual Basis									
	Years Ended June 30,									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:										
Local sources:										
Local tax	\$ 1,165,642	1,374,229	1,361,564	1,258,402	1,223,051	1,147,752	961,999	934,105	898,355	838,394
Tuition	11,005	8,769	91,311	109,749	88,339	45,751	112,448	77,236	86,438	86,531
Other	15,327	8,553	16,849	45,419	76,199	99,830	109,814	116,408	86,501	90,341
Intermediate sources	-	-	-	-	-	-	-	-	-	2,500
State sources	651,698	679,561	752,429	730,374	902,258	902,605	887,745	838,503	924,158	784,946
Federal sources	27,427	62,784	129,615	129,651	202,373	413,065	67,239	99,234	108,863	75,465
Total	\$ 1,871,099	2,133,896	2,351,768	2,273,595	2,492,220	2,609,003	2,139,245	2,065,486	2,104,315	1,878,177
Expenditures:										
Instruction:										
Regular	\$ 707,706	766,600	744,839	799,754	877,412	884,615	872,994	880,152	827,710	844,663
Special	258,232	197,537	248,166	299,858	311,208	223,468	281,877	265,830	280,902	229,658
Other	75,575	63,584	141,560	112,786	157,655	144,448	154,199	163,219	173,304	180,686
Support services:										
Student	8,388	3,899	6,721	-	273	6,488	14,134	33,714	16,655	15,145
Instructional staff	21,131	20,564	34,415	14,746	22,350	36,169	33,380	70,122	66,735	61,316
Administration	196,117	198,218	227,606	239,893	317,033	233,244	315,629	227,945	227,334	246,392
Operation and maintenance of plant	173,415	167,657	200,152	185,617	237,035	220,947	220,969	264,006	210,603	184,663
Transportation	91,809	172,147	95,736	99,959	94,124	74,098	65,766	79,367	66,937	75,820
Non-instructional programs	10,717	9,312	9,521	8,792	8,419	8,174	8,388	13,175	7,731	9,233
Capital Outlay	-	-	-	155,162	946,587	2,495,019	502,255	-	42,954	-
Long-term debt:										
Principal	811,560	168,742	125,000	120,000	95,000	65,000	-	-	-	-
Interest and other charges	93,162	126,620	114,651	119,001	106,790	86,525	-	-	-	-
Other expenditures:										
AEA flow-through	66,458	65,781	75,639	75,820	70,798	69,288	68,493	66,244	66,884	65,032
Total	\$ 2,514,270	1,960,661	2,024,006	2,231,388	3,244,684	4,547,483	2,538,084	2,063,774	1,987,749	1,912,608

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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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 the Titonka Consolidated School District:

We have audited 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, 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, 2013, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 19, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Titonka Consolidated School District's internal control over financial reporting to determine the auditing procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Titonka Consolidated School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Titonka Consolidated School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, there can be no assurance all deficiencies, significant material weaknesses or deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control we consider to be a material weakness and significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings as item I-A-13 to be a material weakness.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in part I of the accompanying Schedule of Findings as items I-B-13 and I-C-13 to be significant deficiencies.

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, 2013 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.

Titonka Consolidated School District's Responses to Findings

Titonka Consolidated School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. Titonka Consolidated School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion of the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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.


NOLTE, CORNMAN & JOHNSON, P.C.

March 19, 2014
Newton, Iowa

TITONKA CONSOLIDATED SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

I-A-13 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. One individual may perform two or more functions in each of the following areas for the District:

- 1) Cash - bank reconciliations, cash receipts and the disbursement function, handles petty cash, replenishing petty cash and custody.
- 2) Investments - investing, detailed recordkeeping, custody of investments and reconciling earnings.
- 3) Receipts - collecting, recording, depositing, journalizing, posting and reconciling.
- 4) Disbursements - purchase order processing, check preparation, signing checks, mailing and recording, voucher preparation and reconciling disbursements to the check register.
- 5) Payroll - recording, posting and approval of all payroll information entered into the accounting system, approval of and payment of payroll taxes.
- 6) Wire transfers - processing and approving.
- 7) Financial reporting - preparing, reconciling and approving.
- 8) Computer systems - performing all general accounting functions and controlling all data input and output.
- 9) Journal entries - creating journal entries, approval and posting.

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 continue to look for ways to better segregate duties.

Conclusion - Response accepted.

I-B-13 Capital Assets - A record of fixed asset acquisitions and disbursements are kept, however these changes are not kept up to date and are not being kept on the District's software system. Capital assets are required to be maintained for financial statement presentation.

Recommendation - Fixed asset updates should be made on a continuous basis to allow the school officials and outsiders an accurate account of the fixed assets at any point in time. This is necessary for both an accurate account of assets and to ensure a proper amount of

insurance is carried to cover the assets in case of loss from fire, vandalism, or theft. The District should have a complete list of additions, deletions, and current assets for reporting purposes.

Response - The school will be closing its doors on June 30, 2014 at which time all inventory will be taken to Algona and a new inventory will be kept.

Conclusion - Response accepted.

I-C-13 Purchase Orders for Credit Cards - We noted during our audit that the District currently uses purchase orders in the purchasing process, however, we noted that purchase orders are not used when employees make purchases with the District's credit cards.

Recommendation - Since the District has a purchase order system in place, all purchases made with the District's credit cards should have a completed purchase order approved by an administrator.

Response - In the future, all purchases will require an approved purchase order.

Conclusion - Response accepted.

OTHER MATTERS:

I-D-13 Box Tops for Education Donations - We noted the District recorded revenue from Box Tops for Education in the Student Activity Fund.

Recommendation - Donations to a school should be expended according to donor request. According to information contained on the website for Box Tops, the donations can be used for items such as books, computers or playground equipment. Since the items listed for purchase appear to be more instructional in nature, the most logical place to record these donations would be the General Fund.

Response - Any future donations of this type will be recorded in the general fund.

Conclusion - Response accepted.

TITONKA CONSOLIDATED SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013

Part II: Other Findings Related to Required Statutory Reporting:

II-A-13 Certified Budget - Expenditures for the year ended June 30, 2013 exceeded the certified budget amounts in the instruction, non-instructional programs and other expenditures functional areas. District expenditures also exceeded the total certified budgeted expenditures.

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

Response - In the future, the budget will be amended in a timely manner to avoid overexpenditure.

Conclusion - Response accepted.

II-B-13 Questionable Disbursements - No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

II-C-13 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. However, we noted instances of employees paying for hotel rooms with their personal credit card and subsequently being reimbursed for the full purchase price, including sales tax, by the District. As the District is a tax-exempt entity, reimbursements for sales tax would not appear to meet public purpose as defined in the Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review their procedures in place, and make necessary adjustments to comply with the Attorney General's opinion dated April 25, 1979.

Response - The procedure has been reviewed to eliminate future errors of this nature.

Conclusion - Response accepted.

II-D-13 Business Transactions - No business transactions between the District and District officials or employees were noted.

II-E-13 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-F-13 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-13 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-H-13 Supplementary Weighting - We noted no variances in the supplementary weighting data certified to the Department of Education.

II-I-13 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-13 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and noted no significant deficiencies in the amounts reported.

II-K-13 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

II-L-13 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2013, the District reported for the statewide sales, services and use tax revenue in the District's CAR including adjustments identified during the fiscal year 2013 audit:

Beginning balance		\$	71,814
Sales tax revenues	\$	131,045	
Other local revenues		60	131,105
			<u>202,919</u>
Expenditures/transfer out:			
Equipment	\$	5,149	
Transfer to another fund:			
Debt service fund		450,071	455,220
			<u>252,301</u>
Ending balance		\$	<u><u>(252,301)</u></u>

For the year ended June 30, 2013, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

II-M-13 Financial Condition - At June 30, 2013, the Enterprise: School Nutrition Fund had deficit unassigned balance of \$19,204 and deficit net position of \$18,373. The Capital Projects: Statewide Sales, Services and Use Tax Fund had a deficit unassigned balance of \$252,301. The Debt Service Fund had a deficit unassigned balance of \$1,002.

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

Response - The Debt Service Fund deficit balance will be eliminated through sales tax receipts, future permanent transfers from PPEL and the pending merger with Algona.

Conclusion - Response accepted.

II-N-13 Nutrition Interfund Loan - In the prior year the District made a permanent transfer of \$9,639 from the General Fund to the School Nutrition Fund to cover a portion of the Nutrition Fund salaries. The Iowa Department of Education and SBRC have stated that Nutrition Fund has to be self-sustaining and permanent transfers from other funds to make Nutrition Fund solvent are not allowable.

During the year ended June 30, 2013, the District created an interfund loan between the General Fund and the Nutrition Fund of \$18,895 without approval from the District's Board of Directors to cover nutrition salaries. Since the prior year unallowable permanent transfer has not been remedied and due to materiality of this amount to the Nutrition Fund, \$9,639 has been added to the fiscal 2013 interfund loan of \$18,895 on the financial statements of this report. Additionally, as of the date of this report, the interfund loan between the General Fund and the Nutrition Fund had not been repaid.

Recommendation - According to a Declaratory Order issued by the Iowa Department of Education to the Auditor of State dated April 11, 2008, interfund loans on the District's year-end financial statements must be approved by the District's Board of Directors and be repaid to their respective funds on or before October 1st of the following fiscal year or the date of the District's Board of Directors organizational meeting, whichever is later. If the District is unable to repay the interfund loans by that time, the District must seek outside funding to repay the interfund loans according to Iowa Code Chapter 74.

The District should contact the Iowa Department of Education to create a workout plan to eliminate the interfund loan. The Iowa Department of Education would work with the District to develop ideas of how to manage the Nutrition Fund budget on the revenues collected.

Additionally, the District needs to review program costs compared to sales, labor costs of staff, balances of individual student accounts and possible issues with internal controls and reporting. The District should consider raising meal prices and other alternatives to bring the Nutrition Fund back to a level of self-sustainability. District staff may also need additional training to gain the knowledge needed to properly manage costs to revenues.

Response - The lunch program was terminated at the end of the 2012-13 school year and the Enterprise: School Nutrition Fund has now been closed. All cash remaining was transferred to the General Fund.

Conclusion - Response accepted.

II-O-13 **Advanced Revenue Bond Refunding** - We noted during our audit that in the January 1, 2013 Board minutes, the District's Board of Directors approved an interfund loan from the General Fund to the Capital Projects: Statewide Sales, Services and Use Tax Fund for the purpose of advance refunding the revenue bonds dated May 30, 2008. Proceeds from the approved interfund loan were to be transferred from the Capital Projects: Statewide Sales, Services and Use Tax Fund to the Debt Service to complete the advance refunding.

Although, this was the action the Board of Directors approved, the following are the transactions that were recorded in the District's uniform accounting system for the advance refunding of revenue bonds dated May 30, 2008:

- The District recorded a non-Board approved permanent transfer of \$186,909 from the Capital Projects: Physical Plant and Equipment Levy Fund to the Debt Service Fund for a portion of the \$685,000 of principal to be repaid for the advanced refunding.

Chapter 298.3(d) of the Code of Iowa states that revenues from the physical plant and equipment levies can be used for, "the payment of debts contracted for the erection or construction of schoolhouses or buildings, not including the interest on bonds." Pursuant to Chapter 298.3(d) of the Code of Iowa, it would appear that the District's non-Board approved permanent transfer would be an allowable Capital Projects: Physical Plant and Equipment Levy Fund transaction. Subsequently, the

District's Board of Directors approved this transfer of \$186,909 for principal repaid on the advanced revenue bond refunding (See Note 4, page 33).

- The District used \$47,423 of debt service levy tax from the Debt Service Fund in error to pay a portion of the advance refunding of the revenue bonds dated May 30, 2008.

Pursuant to Chapter 76.1 and Chapter 384.4 of the Code of Iowa, a school corporation shall establish a debt service fund and shall certify taxes to be levied for the debt service fund in the amount necessary to pay the principal at maturity of all general obligation bonds issued. Therefore, the District's use of debt service levy tax to repay revenue bond indebtedness would appear to not be appropriate. A corrective transfer was made by the District to remedy this error (See Note 4, page 33).

- The District recorded a non-Board approved interfund loan from the General Fund to the Debt Service Fund for \$284,494. In discussions with District officials, this interfund loan was recorded in error.

Subsequently, the District has made adjustments to have the interfund loan shown from the General Fund to the Capital Projects: Statewide Sales, Services and Use Tax Fund (See Note 3, page 33).

Recommendation - The District should review Chapter 76.1 and Chapter 384.4 of the Code of Iowa and not expend debt service levy tax for any other purposes than repayment of general obligation bonds. The District should have Board approval for all interfund loans and transfers and follow the Board's approvals as noted in the District's minutes.

Response - The District will review the Code of Iowa and ensure that all interfund loans and transfers are approved by the Board.

Conclusion- Response accepted.