

MADRID COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

## Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-13
Basic Financial Statements:	<u>Exhibit</u>	
Government-Wide Financial Statements:		
Statement of Net Assets	A	14
Statement of Activities	B	15-16
Governmental Fund Financial Statements:		
Balance Sheet	C	17
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	18
Statement of Revenues, Expenditures and Changes in Fund Balances	E	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	20
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	21
Statement of Revenues, Expenses and Changes in Fund Net Assets	H	22
Statement of Cash Flows	I	23
Notes to Financial Statements		24-34
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		35-36
Notes to Required Supplementary Information - Budgetary Reporting		37
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	38
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	39
Schedule of Changes in Student Activity Accounts	3	40
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	4	41
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		42-43
Schedule of Findings		44-46

Madrid Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2003 Election)</b>		
Terry Ostendorf	President	2004
Molly Griswold	Vice-President	2003
Lou Galetich	Board Member	2005
Darci Munford	Board Member	2004
Carolee DeSotel	Board Member	2005

<b>Board of Education (After September 2003 Election)</b>		
Terry Ostendorf	President	2004
Molly Griswold	Vice President	2006
Lou Galetich	Board Member	2005
Darci Munford	Board Member	2004
Carolee DeSotel	Board Member	2005

<b>School Officials</b>		
Dennis Pelisek	Superintendent	2004
Sandy Johnson	Business Manager	2004
Jordan Mahoney Jordan & Quinn, P.C.	Attorney	2004

# 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  
Madrid Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Madrid Community School District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Madrid Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with U.S. generally accepted accounting principles.

As described in Note 10 to the financial statements, during the year ended June 30, 2004, Madrid Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated August 20, 2004, on our consideration of the Madrid Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of

laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 35 through 37 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Madrid Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Nolte, Cornman & Johnson PC*

NOLTE, CORNMAN & JOHNSON, P.C.

August 20, 2004

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Madrid Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

### **2004 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$3,884,628 in fiscal 2003 to \$3,919,338 in fiscal 2004, while General Fund expenditures also increased from \$3,921,920 in fiscal 2003 to \$4,107,126 in fiscal 2004. This resulted in a decrease in the District's General Fund balance from \$454,212 in fiscal 2003 to a balance of \$260,435 in fiscal 2004, a 43% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in property tax and federal grant revenue in fiscal 2004. The increase in expenditures was due primarily to an increase 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 Assets and a Statement of Activities. These provide information about the activities of Madrid Community School District as a whole and present an overall view of the District's finances.

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

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.



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

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

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## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

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

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

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

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

### Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

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

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Current and other assets	\$ 2,764,472	27,584	2,792,056
Capital Assets	3,830,400	18,983	3,849,383
Total assets	<u>6,594,872</u>	<u>46,567</u>	<u>6,641,439</u>
Long-term obligations	1,733,460	0	1,733,460
Other liabilities	2,199,815	2,388	2,202,203
Total liabilities	<u>3,933,275</u>	<u>2,388</u>	<u>3,935,663</u>
Net assets:			
Invested in capital assets, net of related debt	2,139,447	18,983	2,158,430
Restricted	130,806	0	130,806
Unrestricted	391,344	25,196	416,540
Total net assets	<u>\$ 2,661,597</u>	<u>44,179</u>	<u>2,705,776</u>

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

Figure A-4  
Changes of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Revenues:			
Program revenues:			
Charges for services	\$ 284,411	152,310	436,721
Operating grants and contributions and restricted interest	481,678	60,529	542,207
General revenues:			
Property tax	1,453,752	0	1,453,752
Local option sales and service tax	97,404	0	97,404
Unrestricted state grants	2,048,039	0	2,048,039
Unrestricted investment earnings	12,346	65	12,411
Total revenues	4,377,630	212,904	4,590,534
Program expenses:			
Governmental activities:			
Instructional	2,817,268	0	2,817,268
Support services	1,136,049	0	1,136,049
Non-instructional programs	62,506	219,623	282,129
Other expenses	422,797	0	422,797
Total expenses	4,438,620	219,623	4,658,243
Change in net assets	\$ (60,990)	(6,719)	(67,709)

Property tax and unrestricted state grants account for approximately 76% of the total revenue. The District's expenses primarily relate to instruction and support services which account for approximately 85% of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$4,377,630 and expenses were \$4,438,020.

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

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 2,817,268	2,208,444
Support services	1,135,449	1,134,455
Non-instructional	62,506	62,506
Other expenses	422,797	267,126
Totals	\$ 4,438,020	3,672,531

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- The cost financed by users of the District's programs was \$284,411.
  - Federal and state governments subsidized certain programs with grants and contributions totaling \$481,678.
  - The net cost of governmental activities was financed with \$1,453,752 in property tax, \$97,404 in Local Option Sales and Services Tax, \$2,048,039 in unrestricted state grants, and \$12,346 in unrestricted investment earnings.

### **Business-Type Activities**

Revenues of the District's business-type activities were \$212,904 and expenses were \$219,623. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

### **INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$441,083, below last year's ending fund balances of a \$651,128.

### **Governmental Fund Highlights**

- The District's deteriorating General Fund financial position is the product of many factors. Growth during the year in tax and grants resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures.
- The General Fund balance decreased from \$454,212 at June 30, 2003, to \$260,435 at June 30, 2004, due in part to the increase in instruction and support services expenditures.

### **Proprietary Fund Highlights**

- The School Nutrition Fund net assets decreased from \$50,898 at June 30, 2003 to \$44,179 at June 30, 2004, representing a decrease of approximately 13%.

### **BUDGETARY HIGHLIGHTS**

The District's receipts were \$590,691 less than budgeted receipts, a variance of 11.40%. The most significant variance resulted from the District receiving less in local and state sources than originally anticipated.

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

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2004, the District had invested \$3,849,383, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$157,394.

The original cost of the District's capital assets was \$7,577,966. Governmental funds account for \$7,472,036 with the remainder of \$105,930 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$3,520,976 at June 30, 2004, compared to \$3,515,573 reported at June 30, 2003.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental	Business-type	Total
	Activities	Activities	School District
	2004	2004	2004
Land	\$ 112,126	0	112,126
Buildings	3,520,976	0	3,520,976
Improvements other than buildings	79,487	0	79,487
Machinery and equipment	117,811	18,983	136,794
Total	\$ 3,830,400	18,983	3,849,383

### Long-Term Debt

At June 30, 2004, the District had \$1,733,460 in general obligation, and other long-term debt outstanding. This represents a decrease of 5% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
General obligation bonds	\$ 1,700,000	1,775,000	-4.2%
Technology loan	0	5,987	-100.0%
Accrued compensated absences	5,873	7,668	-23.4%
Early retirement	27,587	40,786	-32.4%
Totals	\$ 1,733,460	1,829,441	-5.2%

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

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

- State budget cuts continue to be a concern for the District, shifting the majority of funding on property taxes.
- A 2.5% across-the-board state cut did reduce revenues the District received during the 2003-2004 school year. This was due to a downward estimate in state revenues.
- The District experienced a slight increase in enrollment. The September 2002 enrollment was 565.2, while the September 2003 enrollment was 568.8.
- The District has actively pursued grants from various sources in order to enhance the District's course offerings.
- The local option sales and services tax was passed in Boone and Dallas counties. We are now collecting local option sales tax in all 3 counties (Boone, Dallas & Polk) within the District's boundaries.

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## **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 Sandra R. Johnson, Business Manager, Madrid Community School District, 201 North Main St., Madrid, Iowa, 50156.

BASIC FINANCIAL STATEMENTS

MADRID COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents:			
ISCAP (Note 4)	\$ 965,452	0	965,452
Other	303,576	14,529	318,105
Receivables			
Property tax:			
Delinquent	24,667	0	24,667
Succeeding year	1,207,222	0	1,207,222
Income surtax	136,813	0	136,813
Accounts	13,863	652	14,515
Accrued ISCAP interest (Note 4)	2,377	0	2,377
Due from other governments	110,502	0	110,502
Inventories	0	12,403	12,403
Capital assets, net of accumulated depreciation (Note 5)	3,830,400	18,983	3,849,383
<b>TOTAL ASSETS</b>	<b>6,594,872</b>	<b>46,567</b>	<b>6,641,439</b>
<b>LIABILITIES</b>			
Accounts payable	2,474	0	2,474
ISCAP warrants payable (Note 4)	967,000	0	967,000
ISCAP accrued interest payable (Note 4)	3,604	0	3,604
ISCAP unamortized premium	6,276	0	6,276
Accrued interest payable	13,239	0	13,239
Deferred revenue:			
Succeeding year property tax	1,207,222	0	1,207,222
Other	0	2,388	2,388
Long-term liabilities (Note 6):			
Portion due within one year:			
General obligation bonds	80,000	0	80,000
Accrued compensated absences	5,873	0	5,873
Early Retirement	13,376	0	13,376
Portion due after one year:			
General obligation bonds	1,620,000	0	1,620,000
Early Retirement	14,211	0	14,211
<b>TOTAL LIABILITIES</b>	<b>3,933,275</b>	<b>2,388</b>	<b>3,935,663</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	2,139,447	18,983	2,158,430
Restricted for:			
Teacher Compensation	31	0	31
Management levy	33,594	0	33,594
Physical plant and equipment levy	45,470	0	45,470
Other special revenue purposes	51,711	0	51,711
Unrestricted	391,344	25,196	416,540
<b>TOTAL NET ASSETS</b>	<b>\$ 2,661,597</b>	<b>44,179</b>	<b>2,705,776</b>

SEE NOTES TO FINANCIAL STATEMENTS.

MADRID COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2004

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
<b>Governmental activities:</b>			
Instruction:			
Regular instruction	\$ 1,796,500	284,411	304,525
Special instruction	556,307	0	19,888
Other instruction	464,461	0	0
	<u>2,817,268</u>	<u>284,411</u>	<u>324,413</u>
Support services:			
Student services	107,408	0	0
Instructional staff services	196,845	0	0
Administration services	439,466	0	0
Operation and maintenance of plant services	261,946	0	0
Transportation services	130,384	0	1,594
	<u>1,136,049</u>	<u>0</u>	<u>1,594</u>
Non-instructional programs	62,506	0	0
Other expenditures:			
Facilities acquisitions	66,788	0	0
Long-term debt interest	82,546	0	0
AEA flowthrough	155,671	0	155,671
Depreciation(unallocated)*	117,792	0	0
	<u>422,797</u>	<u>0</u>	<u>155,671</u>
Total governmental activities	4,438,620	284,411	481,678
<b>Business-Type activities:</b>			
Non-instructional programs:			
Nutrition services	219,623	152,310	60,529
Total business-type activities	<u>219,623</u>	<u>152,310</u>	<u>60,529</u>
Total	<u>\$ 4,658,243</u>	<u>436,721</u>	<u>542,207</u>

**General Revenues:**

Property tax levied for:  
 General purposes  
 Debt service  
 Capital outlay  
 Local option sales and services  
 Unrestricted state grants  
 Unrestricted investment earnings  
 Total general revenues

Changes in net assets

Net assets beginning of year, as restated(Note 10)

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(1,207,564)	0	(1,207,564)
(536,419)	0	(536,419)
(464,461)	0	(464,461)
(2,208,444)	0	(2,208,444)
(107,408)	0	(107,408)
(196,845)	0	(196,845)
(439,466)	0	(439,466)
(261,946)	0	(261,946)
(128,790)	0	(128,790)
(1,134,455)	0	(1,134,455)
(62,506)		(62,506)
(66,788)	0	(66,788)
(82,546)	0	(82,546)
0	0	0
(117,792)	0	(117,792)
(267,126)	0	(267,126)
(3,672,531)	0	(3,672,531)
0	(6,784)	(6,784)
0	(6,784)	(6,784)
(3,672,531)	(6,784)	(3,679,315)
\$ 1,274,055	0	1,274,055
153,640	0	153,640
26,057	0	26,057
97,404	0	97,404
2,048,039	0	2,048,039
12,346	65	12,411
3,611,541	65	3,611,606
(60,990)	(6,719)	(67,709)
2,722,587	50,898	2,773,485
\$ 2,661,597	44,179	2,705,776

MADRID COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004

	General	Other Nonmajor Governmental Funds	Total
<b>ASSETS</b>			
Cash and pooled investments:			
ISCAP (Note 4)	\$ 965,452	0	965,452
Other	127,173	176,403	303,576
Receivables:			
Property tax:			
Delinquent	20,422	4,245	24,667
Succeeding year	1,018,438	188,784	1,207,222
Income surtax	136,813	0	136,813
Accounts	13,863	0	13,863
Accrued ISCAP interest (Note 4)	2,377	0	2,377
Due from other governments	110,502	0	110,502
<b>TOTAL ASSETS</b>	<b>\$ 2,395,040</b>	<b>369,432</b>	<b>2,764,472</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 2,474	0	2,474
ISCAP warrants payable (Note 4)	967,000	0	967,000
ISCAP accrued interest payable (Note 4)	3,604	0	3,604
ISCAP unamortized premium	6,276	0	6,276
Deferred revenue:			
Succeeding year property tax	1,018,438	188,784	1,207,222
Income surtax	136,813	0	136,813
Total liabilities	<u>2,134,605</u>	<u>188,784</u>	<u>2,323,389</u>
Fund balances:			
Reserved for:			
Teacher Compensation	31	0	31
Debt Service	0	12,918	12,918
Unreserved:			
Designated for special purpose	14,617	0	14,617
Undesignated	245,787	167,730	413,517
Total fund balances	<u>260,435</u>	<u>180,648</u>	<u>441,083</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,395,040</b>	<b>369,432</b>	<b>2,764,472</b>

SEE NOTES TO FINANCIAL STATEMENTS.

MADRID COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2004

Total fund balances of governmental funds (page 17)	\$ 441,083
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	3,830,400
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 governmental funds.	(13,239)
Accounts receivable income surtax, is not yet available to finance expenditures of the current fiscal period.	136,813
Long-term liabilities, including bonds payable, and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(1,733,460)</u>
Net assets of governmental activites (page 14)	<u>\$ 2,661,597</u>

SEE NOTES TO FINANCIAL STATEMENTS.

MADRID COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2004

	General	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>			
Local sources:			
Local tax	\$ 1,227,876	323,280	1,551,156
Tuition	111,578	0	111,578
Other	50,167	135,012	185,179
State sources	2,346,334	0	2,346,334
Federal sources	183,383	0	183,383
Total revenues	<u>3,919,338</u>	<u>458,292</u>	<u>4,377,630</u>
<b>EXPENDITURES:</b>			
Current:			
Instruction:			
Regular instruction	1,789,989	22,736	1,812,725
Special instruction	559,072	0	559,072
Other instruction	332,017	134,289	466,306
	<u>2,681,078</u>	<u>157,025</u>	<u>2,838,103</u>
Support services:			
Student services	107,408	0	107,408
Instructional staff services	196,845	0	196,845
Administration services	440,807	0	440,807
Operation and maintenance of plant services	360,686	26,686	387,372
Transportation services	102,125	10,953	113,078
	<u>1,207,871</u>	<u>37,639</u>	<u>1,245,510</u>
Non-instructional programs	<u>62,506</u>	<u>0</u>	<u>62,506</u>
Other expenditures:			
Facilities acquisitions	0	121,788	121,788
Long-term debt:			
Principal	0	80,989	80,989
Interest and fiscal charges	0	83,108	83,108
AEA flowthrough	155,671	0	155,671
	<u>155,671</u>	<u>285,885</u>	<u>441,556</u>
Total expenditures	<u>4,107,126</u>	<u>480,549</u>	<u>4,587,675</u>
Deficiency of revenues under expenditures	(187,788)	(22,257)	(210,045)
Other financing sources:			
Transfers in	0	5,989	5,989
Transfers out	(5,989)	0	(5,989)
Total other financing sources	<u>(5,989)</u>	<u>5,989</u>	<u>0</u>
Net change in fund balances	(193,777)	(16,268)	(210,045)
Fund balance beginning of year	<u>454,212</u>	<u>196,916</u>	<u>651,128</u>
Fund balance end of year	<u>\$ 260,435</u>	<u>180,648</u>	<u>441,083</u>

SEE NOTES TO FINANCIAL STATEMENTS.

MADRID COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2004

**Net change in fund balances - total governmental funds (page 19)** \$ (210,045)

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

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

Capital outlays	\$ 206,340	
Depreciation expense	(153,828)	52,512

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments were as follows:

Repaid		80,987
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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.

562

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

Early Retirement	13,199	
Compensated absences	1,795	14,994

**Changes in net assets of governmental activities (page 16)** \$ (60,990)

SEE NOTES TO FINANCIAL STATEMENTS.

MADRID COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF NET ASSETS  
 PROPRIETARY FUND  
 YEAR ENDED JUNE 30, 2004

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 14,529
Accounts receivable	652
Inventories	12,403
Capital assets, net of accumulated depreciation	18,983
Total assets	<u>46,567</u>
LIABILITIES	
Deferred revenue	<u>2,388</u>
Total liabilities	<u>2,388</u>
NET ASSETS	
Invested in capital assets, net of related debt	18,983
Unrestricted	<u>25,196</u>
Total net assets	<u>\$ 44,179</u>

SEE NOTES TO FINANCIAL STATEMENTS.

MADRID COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
 PROPRIETARY FUND  
 YEAR ENDED JUNE 30, 2004

	School Nutrition
Operating revenues:	
Local sources:	
Charges for services	\$ 152,310
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	75,914
Benefits	10,675
Services	2,935
Supplies	123,747
Depreciation	3,566
Total operating expenses	216,837
Operating loss	(64,527)
Non-operating revenues:	
Loss on disposal of assets	(2,786)
State sources	3,142
Federal sources	57,387
Interest on investments	65
Total non-operating revenues	57,808
Change in net assets	(6,719)
Net assets beginning of year	50,898
Net assets end of year	\$ 44,179

SEE NOTES TO FINANCIAL STATEMENTS.

MADRID COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2004

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 154,046
Cash payments to employees for services	(86,589)
Cash payments to suppliers for goods or services	(111,971)
Net cash used in operating activities	(44,514)
Cash flows from non-capital financing activities:	
State grants received	3,142
Federal grants received	46,428
Net cash provided by non-capital financing activities	49,570
Cash flows from investing activities:	
Interest on investments	65
Net cash provided by investing activities	65
Net increase in cash and cash equivalents	5,121
Cash and cash equivalents at beginning of year	9,408
Cash and cash equivalents at end of year	\$ 14,529
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (64,527)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	10,959
Depreciation	3,566
Decrease in inventories	3,752
Increase in accounts receivable	(652)
Increase in deferred revenue	2,388
Net cash used in operating activities	\$ (44,514)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 14,529

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2004, the District received Federal commodities valued at \$10,959.

SEE NOTES TO FINANCIAL STATEMENTS.

MADRID COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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

The Madrid Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the city of Madrid, Iowa, and the predominate agricultural territory in Boone, Dallas and Polk Counties. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

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

**A. Reporting Entity**

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

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

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues,

are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The District reports the following proprietary fund:

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

#### C. Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary financial statements are reported using the "economic resources measurement focus". The Government-wide and proprietary fund financial statements are reported using the

accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

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

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

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable

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

Asset Class	Amount
Land	\$ 1,200
Buildings	1,200
Improvements other than buildings	1,200
Machinery and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,000

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

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

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

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

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

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

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally

imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

**E. Budgeting and Budgetary Control**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements in the other expenditures functional are exceeded the amount budgeted.

**(2) Cash and Pooled Investments**

The District's deposits at June 30, 2004 were entirely covered by Federal depository insurance, collateralized with securities or letters of credit held by the District or the District's agent in the District's name, or by multiple financial institution collateral pool 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 and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$145 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investments in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

**(3) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	General Fund	\$ 5,989

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

**(4) Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash

balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2004 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2003-04B	1/30/04	1/28/05	\$ 436,956	2,377	434,000	3,604
2004-05A	6/30/04	6/30/05	528,496	0	533,000	0
			<u>\$ 965,452</u>	<u>2,377</u>	<u>967,000</u>	<u>3,604</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2004 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2003-04A	\$ 0	200,000	200,000	0

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

Series	Interest Rates on Warrants	Interest Rates on Investments
2003-04A	2.000%	1.050%
2003-04B	2.000%	1.310%
2004-05A	3.000%	2.463%

**(5) Capital Assets**

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year, as restated (Note 9)	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 57,126	55,000	0	112,126
Total capital assets not being depreciated	<u>57,126</u>	<u>55,000</u>	<u>0</u>	<u>112,126</u>
<b>Capital assets being depreciated:</b>				
Buildings	6,074,069	109,304	0	6,183,373
Improvements other than buildings	493,039	6,594	0	499,633
Machinery and equipment	641,462	35,442	0	676,904
Total capital assets being depreciated	<u>7,208,570</u>	<u>151,340</u>	<u>0</u>	<u>7,359,910</u>
<b>Less accumulated depreciation for:</b>				
Buildings	2,558,496	103,901	0	2,662,397
Improvements other than buildings	406,255	13,891	0	420,146
Machinery and equipment	523,057	36,036	0	559,093
Total accumulated depreciation	<u>3,487,808</u>	<u>153,828</u>	<u>0</u>	<u>3,641,636</u>
Total capital assets being depreciated, net	<u>3,720,762</u>	<u>(2,488)</u>	<u>0</u>	<u>3,718,274</u>
Governmental activities capital assets, net	\$ <u>3,777,888</u>	<u>52,512</u>	<u>0</u>	<u>3,830,400</u>
<b>Business-type activities:</b>				
Machinery and equipment	\$ 125,159	0	19,229	105,930
Less accumulated depreciation	99,824	3,566	16,443	86,947
Business-type activities capital assets, net	\$ <u>25,335</u>	<u>(3,566)</u>	<u>2,786</u>	<u>18,983</u>

Depreciation expense was charged by the District as follows:

<b>Governmental activities:</b>		
Instruction:		
Regular		\$ 11,336
Support services:		
Administration		3,541
Operation and maintenance of plant		3,772
Transportation		17,387
		<u>36,036</u>
Unallocated depreciation		<u>117,792</u>
Total governmental activities depreciation expense		\$ <u>153,828</u>
<b>Business-type activities:</b>		
Food services		\$ 3,566
Total business-type activities depreciation expense		\$ <u>3,566</u>

## (6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 1,775,000	0	75,000	1,700,000	80,000
Technology loan	5,987	0	5,987	0	0
Accrued compensated absences	7,668	5,873	7,668	5,873	5,873
Early Retirement	40,786	2,031	15,230	27,587	13,376
Total	\$ <u>1,829,441</u>	<u>7,904</u>	<u>103,885</u>	<u>1,733,460</u>	<u>99,249</u>

General Obligation Bonds Payable

Details of the District's June 30, 2004 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of May 1, 1999			Bond Issue of May 1, 1999			Total		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
2005	4.50	80,000	32,852	5.30		46,580	80,000	79,432	159,432
2006	4.50	85,000	29,253	5.30		46,580	85,000	75,833	160,833
2007	4.60	90,000	25,427	5.30		46,580	90,000	72,007	162,007
2008	4.60	95,000	21,288	5.30		46,580	95,000	67,868	162,868
2009	4.60	95,000	16,917	4.35		46,580	95,000	63,497	158,497
2010	4.55	100,000	12,548	4.45		46,580	100,000	59,128	159,128
2011	4.55	105,000	7,997	4.50		46,580	105,000	54,577	159,577
2012	4.60	70,000	3,220	4.60	40,000	46,580	110,000	49,800	159,800
2013				4.60	115,000	44,740	115,000	44,740	159,740
2014				4.65	120,000	39,450	120,000	39,450	159,450
2015				4.70	130,000	33,870	130,000	33,870	163,870
2016				4.75	135,000	27,760	135,000	27,760	162,760
2017				4.80	140,000	21,348	140,000	21,348	161,348
2018				4.85	145,000	14,628	145,000	14,628	159,628
2019				4.90	155,000	7,595	155,000	7,595	162,595
<b>Total</b>		<u>720,000</u>	<u>149,502</u>		<u>980,000</u>	<u>562,031</u>	<u>1,700,000</u>	<u>711,533</u>	<u>2,411,533</u>

Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must be at least fifty-five and employees must have completed ten years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to 35% of the employee's regular contractual salary from the salary schedule in effect during the employees last year of employment. Early retirement benefits paid during the year totaled \$15,230.

**(7) Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$149,584, \$146,052, \$140,169, respectively, equal to the required contributions for each year.

**(8) Risk Management**

Madrid Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural

disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) 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 \$155,671 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(10) Accounting Change and Restatements**

Governmental Accounting Standards Board (GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absences and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board (GASB) Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement Number 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments; Omnibus, Statement Number 38, Certain Financial Statement Note Disclosures, and Statement Number 41, Budgetary Comparison Schedule - Perspective Differences; were implemented during the year ended June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include Government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

Beginning capital assets for governmental activities of \$7,959,413 were restated to \$7,237,586. The restatement primarily removed assets below the District's capitalizations threshold.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund		Total
	General	Other Nonmajor Governmental Funds	
Net assets, June 30, 2003, as previously reported	\$ 454,212	196,916	651,128
GASB Interpretation 6 adjustments	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	<u>\$ 454,212</u>	<u>196,916</u>	<u>651,128</u>
GASB 34 adjustments:			
Capital assets, net of accumulated depreciation of \$3,487,808			3,777,888
Long-term liabilities:			
Bonds		1,775,000	
Loan		5,987	
Accrued compensated absences		7,668	
Early Retirement		40,786	(1,829,441)
Accrued interest payable			(13,801)
Income surtax			136,813
Net assets, July 1, 2003, as restated			<u>\$ 2,722,587</u>

REQUIRED SUPPLEMENTAL INFORMATION

MADRID COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL (GAAP BASIS) - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 1,847,913	152,375
State sources	2,346,334	3,142
Federal sources	183,383	57,387
Total revenues	<u>4,377,630</u>	<u>212,904</u>
Disbursements:		
Instruction	2,838,103	0
Support services	1,245,510	0
Non-instructional programs	62,506	219,623
Other expenditures	441,556	0
Total expenditures	<u>4,587,675</u>	<u>219,623</u>
Excess(deficiency) of receipts over(under) disbursements	(210,045)	(6,719)
Other financing sources, net	<u>0</u>	<u>0</u>
Excess(deficiency) of receipts over(under) disbursements	(210,045)	(6,719)
Balance beginning of year	<u>651,128</u>	<u>50,898</u>
Balance end of year	<u>\$ 441,083</u>	<u>44,179</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
2,000,288	2,446,333	2,446,333	(446,045)
2,349,476	2,488,862	2,488,862	(139,386)
240,770	246,000	246,000	(5,230)
<u>4,590,534</u>	<u>5,181,195</u>	<u>5,181,195</u>	<u>(590,661)</u>
2,838,103	2,955,000	2,955,000	116,897
1,245,510	1,855,000	1,855,000	609,490
282,129	343,000	343,000	60,871
441,556	331,556	331,556	(110,000)
<u>4,807,298</u>	<u>5,484,556</u>	<u>5,484,556</u>	<u>677,258</u>
(216,764)	(303,361)	(303,361)	(86,597)
0	0	0	0
(216,764)	(303,361)	(303,361)	(86,597)
702,026	554,030	554,030	147,996
<u>485,262</u>	<u>250,669</u>	<u>250,669</u>	<u>234,593</u>

MADRID COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2004

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. 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, 2004, disbursements in the other expenditures functional program area exceeded the amounts budgeted.

OTHER SUPPLEMENTAL INFORMATION

MADRID COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2004

	Special Revenue Funds						
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	Capital Projects	Total Nonmajor Governmental Funds
<b>ASSETS</b>							
Cash and pooled investments	\$ 60,313	51,711	44,980	157,004	10,031	9,368	176,403
Receivables:							
Property tax:							
Current year delinquent	868	0	490	1,358	2,887	0	4,245
Succeeding year	40,000	0	23,687	63,687	125,097	0	188,784
<b>TOTAL ASSETS</b>	<b>\$ 101,181</b>	<b>51,711</b>	<b>69,157</b>	<b>222,049</b>	<b>138,015</b>	<b>9,368</b>	<b>369,432</b>
<b>LIABILITIES AND FUND EQUITY</b>							
<b>Liabilities:</b>							
Deferred revenue:							
Succeeding year property tax	40,000	0	23,687	63,687	125,097	0	188,784
<b>Total Liabilities</b>	<b>40,000</b>	<b>0</b>	<b>23,687</b>	<b>63,687</b>	<b>125,097</b>	<b>0</b>	<b>188,784</b>
<b>Fund equity:</b>							
Fund balances:							
Reserved:							
Debt Service	0	0	0	0	12,918	0	12,918
Unreserved:							
Undesignated	61,181	51,711	45,470	158,362	0	9,368	167,730
<b>Total fund balances</b>	<b>61,181</b>	<b>51,711</b>	<b>45,470</b>	<b>158,362</b>	<b>12,918</b>	<b>9,368</b>	<b>180,648</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 101,181</b>	<b>51,711</b>	<b>69,157</b>	<b>222,049</b>	<b>138,015</b>	<b>9,368</b>	<b>369,432</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MADRID COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2004

	Special Revenue Funds						
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	Capital Projects	Total Nonmajor Governmental Funds
REVENUES:							
Local sources:							
Local tax:							
Local tax:	\$ 46,179	0	26,057	72,236	153,640	97,404	323,280
Other	239	130,050	4,555	134,844	125	43	135,012
<b>TOTAL REVENUES</b>	<b>46,418</b>	<b>130,050</b>	<b>30,612</b>	<b>207,080</b>	<b>153,765</b>	<b>97,447</b>	<b>458,292</b>
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	22,736	0	0	22,736	0	0	22,736
Other instruction	0	134,289	0	134,289	0	0	134,289
Support services:							
Operation and maintenance of plant services	26,686	0	0	26,686	0	0	26,686
Student transportation	5,953	0	5,000	10,953	0	0	10,953
Other expenditures:							
Facilities acquisitions	0	0	0	0	0	121,788	121,788
Long-term debt:							
Principal	0	0	0	0	80,989	0	80,989
Interest and fiscal charges	0	0	0	0	83,108	0	83,108
<b>TOTAL EXPENDITURES</b>	<b>55,375</b>	<b>134,289</b>	<b>5,000</b>	<b>194,664</b>	<b>164,097</b>	<b>121,788</b>	<b>480,549</b>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES							
	(8,957)	(4,239)	25,612	12,416	(10,332)	(24,341)	(22,257)
OTHER FINANCING SOURCES:							
Transfers in	0	0	0	0	5,989	0	5,989
Total other financing sources (uses)	0	0	0	0	5,989	0	5,989
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES							
	(8,957)	(4,239)	25,612	12,416	(4,343)	(24,341)	(16,268)
FUND BALANCE BEGINNING OF YEAR	70,138	55,950	19,858	145,946	17,261	33,709	196,916
FUND BALANCE END OF YEAR	\$ 61,181	51,711	45,470	158,362	12,918	9,368	180,648

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MADRID COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2004

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 799	534	637	696
7-12 Vocal Music	125	0	0	125
7-12 Music Trip	10,193	8,125	6,657	11,661
7-12 Instrument Music	41	204	245	0
Elementary Music	1,284	506	266	1,524
7-12 Activities	3,547	15,334	15,058	3,823
Yearbook	1,143	1,291	2,387	47
HS Student Council	2,976	1,600	2,326	2,250
JH Student Council	333	0	57	276
K-6 Student Council	1,777	0	0	1,777
K-6 Building	2,326	1,552	1,860	2,018
Boys Basketball	2,275	11,644	10,392	3,527
Football	7,012	40,847	42,235	5,624
Baseball	(2,087)	6,869	9,823	(5,041)
Boys Track	0	3,588	3,588	0
Golf	0	1,697	1,697	0
Girls Basketball	2,824	4,461	5,114	2,171
Volleyball	736	4,255	4,226	765
Softball	(1,270)	2,934	2,360	(696)
Girls Track	0	1,637	1,637	0
FCCLA	64	2,669	2,647	86
Spanish Club	1,580	0	100	1,480
Booster Club	0	1,845	1,845	0
HS Cheerleaders	3,360	10,217	11,448	2,129
7-12 Activity Awards	0	1,716	1,716	0
6th Grade Activities	4	0	0	4
Class of 2003	1,897	0	0	1,897
Class of 2004	3,457	0	1,509	1,948
Class of 2005	3,123	3,599	4,099	2,623
Class of 2006	3,374	608	49	3,933
Class of 2007	3,696	200	0	3,896
Class of 2008	1,361	1,100	155	2,306
Class of 2009	0	1,018	156	862
<b>Total</b>	<b>\$ 55,950</b>	<b>130,050</b>	<b>134,289</b>	<b>51,711</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
<b>Revenues:</b>				
Local sources:				
Local tax	\$ 1,551,156	1,412,004	1,291,685	1,264,354
Tuition	111,578	85,566	90,921	98,147
Other	185,179	244,071	217,044	319,272
State sources	2,346,334	2,430,802	2,543,715	2,565,140
Federal sources	183,383	109,430	62,642	54,320
<b>Total</b>	<b>\$ 4,377,630</b>	<b>4,281,873</b>	<b>4,206,007</b>	<b>4,323,516</b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular instruction	\$ 1,812,725	1,693,854	1,617,117	1,659,720
Special instruction	559,072	538,235	477,981	472,904
Other instruction	466,306	469,235	462,906	487,089
Support services:				
Student services	107,408	105,299	116,764	102,032
Instructional staff services	196,845	132,072	124,118	140,321
Administration services	440,807	430,228	402,399	388,387
Operation and maintenance of plant services	387,372	403,939	364,672	458,147
Transportation services	113,078	129,108	139,075	137,378
Non-instructional programs	62,506	60,872	57,276	53,412
Other expenditures:				
Facilities acquisitions	121,788	7,991	74,012	229,661
Long-term debt:				
Principal	80,989	75,987	81,974	65,000
Interest and other charges	83,108	86,258	89,231	91,845
AEA flow-through	155,671	167,750	169,136	173,014
<b>Total</b>	<b>\$ 4,587,675</b>	<b>4,300,828</b>	<b>4,176,661</b>	<b>4,458,910</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

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

Telephone (641) 792-1910

### Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting

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

We have audited the financial statements of Madrid Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated August 20, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Compliance

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 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. Prior year statutory comments have all been resolved.

#### Internal Control Over Financial Reporting

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

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

reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have all been resolved except for item I-A-04.

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

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

A handwritten signature in black ink, appearing to read "Nolte, Cornman & Johnson" with a stylized flourish at the end.

NOLTE, CORNMAN & JOHNSON, P.C.

August 20, 2004

MADRID COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004

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

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

I-B-04 Student Activity Fund - We noted during the audit that the Student Activity Fund included old class accounts.

Recommendation - These accounts are inactive accounts as the Class of 2003 and the Class of 2004 have graduated and therefore are no longer legitimate accounts. These balances may be transferred to another student activity account in accordance with the Uniform Accounting Procedure Manual.

Response - We will close these accounts.

Conclusion - Response Accepted.

MADRID COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004

Part II: Other Findings Related to Statutory Reporting

II-A-04 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

II-B-04 Certified Budget - District disbursements for the year ended June 30, 2004 exceeded the certified budget amounts in the other expenditures functional area.

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

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

Conclusion - Response accepted.

II-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-E-04 Business Transactions -- No business transactions between the District and District officials were noted.

II-F-04 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

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

Response - We will provide the minutes within the time period required, however, we are unable to control the publishing dates.

Conclusion- Response accepted.

II-H-04 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-I-04 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-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

II-K-04 Financial Condition - We noted that the Student Activity Fund had accounts with negative balances at June 30, 2004.

Recommendation - The District should continue to monitor these accounts and investigate alternatives to eliminate the deficits.

Response - We will monitor these accounts and investigate any available options to eliminate the deficits.

Conclusion - Response accepted.