

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2004

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Marshalltown Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Bob Christensen	President	2005
Wayne Sawtelle	Vice President	2005
Pam Swarts	Board Member	2003
Bob Downy	Board Member	2003
Richard Russell	Board Member	2003
Adrienne Macmillen	Board Member	2004
Kent Loney	Board Member	2004
Board of Education (After September 2003 Election)		
Bob Christensen	President	2005
Wayne Sawtelle	Vice President	2005
Adrienne Macmillen	Board Member	2004
Kent Loney	Board Member	2004
Pam Swarts	Board Member	2006
Richard Russell	Board Member	2006
Anne Bacon	Board Member	2006
School Officials		
Dr. Richard Doyle	Superintendent	2004
Dan Gillen	District Secretary/ Director of Finance	2004
Rex J. Ryden	Attorney	2004
Ahlers & Cooney, P.C.	Attorney	2004

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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
Marshalltown 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 Marshalltown 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 Marshalltown 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.

In accordance with Government Auditing Standards, we have also issued our reports dated November 29, 2004 on our consideration of the Marshalltown Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are 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 38 through 41 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 Marshalltown 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 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 7, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, 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.

November 29, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Marshalltown 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.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$36,568,050 in fiscal 2003 to \$36,877,720 in fiscal 2004, while General Fund expenditures increased from \$36,531,422 in fiscal 2003 to \$37,714,157 in fiscal 2004. This resulted in a decrease in the District's General Fund balance from a deficit balance of \$445,667 in fiscal 2003 to a deficit balance of \$1,282,054 in fiscal 2004, a 187% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in state and federal grant revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in support services. One reason the General Fund balance decreased is because the increase in expenditures was more than the increase in revenue for fiscal 2004. Another reason for the General Fund decrease was a reduction of state aid in the amount of \$474,854. As a result, the District's General Fund decreased.

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

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

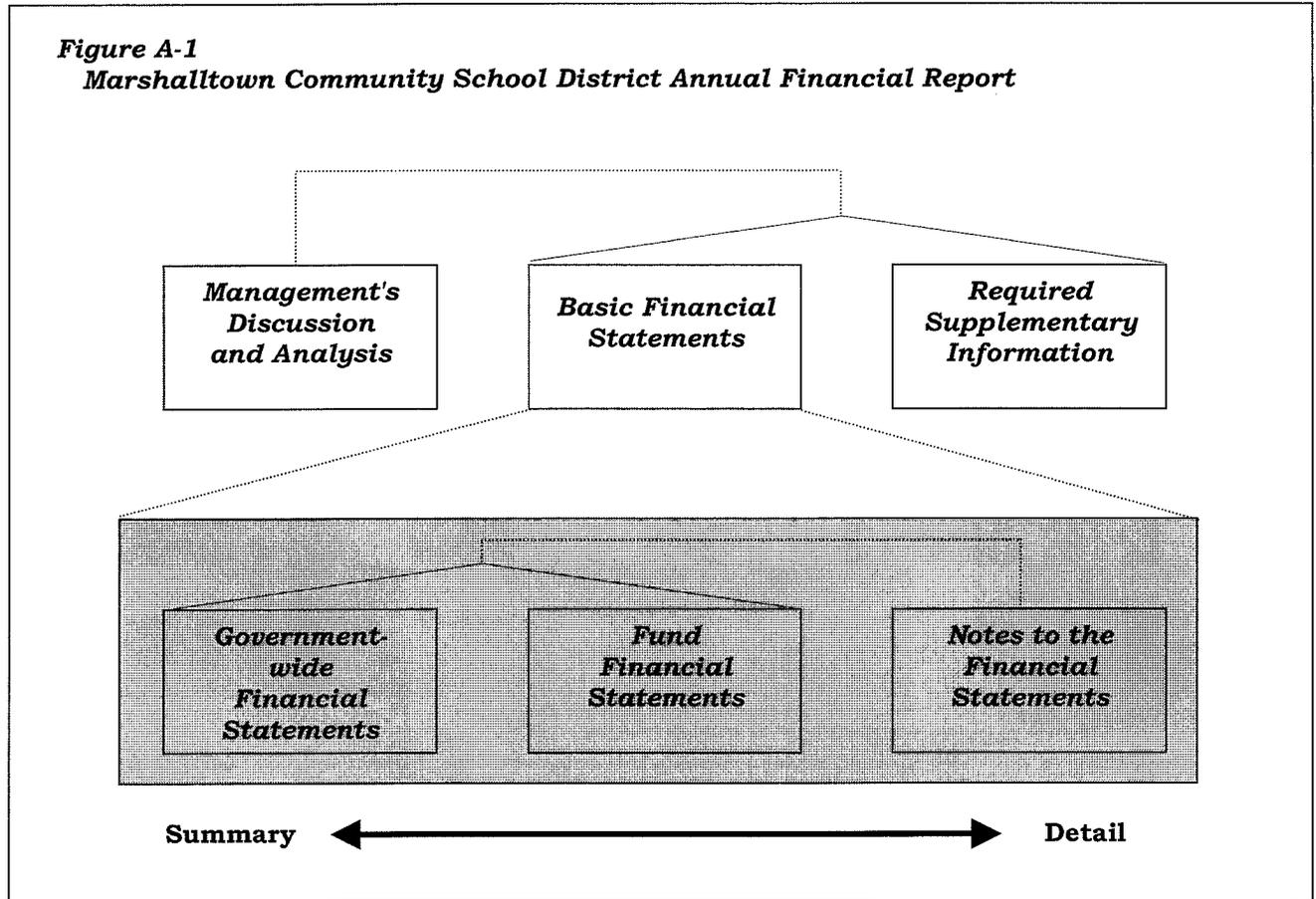


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

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

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

The required financial statements for 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 two enterprise funds, the School Nutrition Fund and the Caring Resale 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.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Private-Purpose Trust Fund.

a. Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2004	2003	2004	2003	2004	2003	2003-04
Current and other assets	\$ 26,930,113	26,890,673	640,213	657,400	27,570,326	27,548,073	0.1%
Capital assets	10,422,250	9,002,192	314,029	291,363	10,736,279	9,293,555	15.5%
Total assets	37,352,363	35,892,865	954,242	948,763	38,306,605	36,841,628	4.0%
Long-term obligations	6,307,930	6,316,327	0	0	6,307,930	6,316,327	-0.1%
Other liabilities	25,762,820	24,235,631	244,994	188,405	26,007,814	24,424,036	6.5%
Total liabilities	32,070,750	30,551,958	244,994	188,405	32,315,744	30,740,363	5.1%
Net assets:							
Invested in capital assets, net of related debt	8,155,684	6,192,569	314,029	291,363	8,469,713	6,483,932	30.6%
Restricted	715,785	1,924,097	0	0	715,785	1,924,097	-62.8%
Unrestricted	(3,589,856)	(2,775,759)	395,219	468,995	(3,194,637)	(2,306,764)	38.5%
Total net assets	\$ 5,281,613	5,340,907	709,248	760,358	5,990,861	6,101,265	-1.8%

The District's combined net assets decreased by 1.8% or \$110,404 over the prior year. The largest portion of the District's net assets is the restricted net assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets decreased \$1,208,312 or 63 percent over the prior year. The decrease was

primarily a result of reclassifying the Capital Projects and Debt Service fund balance to the invested in capital assets, net of related debt category and the Management Fund to the unrestricted category.

Unrestricted net assets- the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirements-decreased \$887,873 or 38 percent. 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		Business-type Activities		Total School District		Total Change
	2004	2003	2004	2003	2004	2003	2003-04
Revenues:							
Program revenues:							
Charges for services	\$ 2,125,590	2,054,825	838,853	846,095	2,964,443	2,900,920	2.2%
Operating grants and contributions and restricted interest	5,658,636	5,610,234	1,105,253	1,034,332	6,763,889	6,644,566	1.8%
Capital grants and contributions and restricted interest	1,200,000	6,565	0	0	1,200,000	6,565	18178.8%
General revenues:							
Local tax	11,593,268	11,650,804	0	0	11,593,268	11,650,804	-0.5%
Unrestricted state grants	19,935,470	19,651,109	0	0	19,935,470	19,651,109	1.4%
Other	14,000	(3,334)	1,142	946	15,142	(2,388)	-734.1%
Total revenues	40,526,964	38,970,203	1,945,248	1,881,373	42,472,212	40,851,576	4.0%
Program expenses:							
Governmental activities:							
Instructional	25,173,992	25,561,441	0	0	25,173,992	25,561,441	-1.5%
Support services	12,736,438	11,264,316	0	0	12,736,438	11,264,316	13.1%
Non-instructional programs	87,783	99,208	1,996,358	1,869,159	2,084,141	1,968,367	5.9%
Other expenses	2,588,045	2,600,289	0	0	2,588,045	2,600,289	-0.5%
Total expenses	40,586,258	39,525,254	1,996,358	1,869,159	42,582,616	41,394,413	2.9%
Changes in net assets	(59,294)	(555,051)	(51,110)	12,214	(110,404)	(542,837)	-79.7%
Net assets beginning of year	5,340,907	5,895,958	760,358	748,144	6,101,265	6,644,102	-8.2%
Net assets end of year	5,281,613	5,340,907	709,248	760,358	5,990,861	6,101,265	-1.8%

Property tax and unrestricted state grants account for 74% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 89% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$40,526,964 and expenses were \$40,586,258.

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	\$ 25,173,992	17,686,634
Support services	12,736,438	12,711,180
Non-instructional	87,783	87,783
Other expenses	2,588,045	1,116,435
Totals	\$ 40,586,258	31,602,032

- The cost financed by users of the District’s programs was \$2,125,590.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$5,658,636.
- The net cost of governmental activities was financed with \$11,593,268 in local tax, \$19,935,470 in unrestricted state grants, and \$13,950 in net interest income.

Business-Type Activities

Revenues of the District’s business-type activities were \$1,945,248 and expenses were \$1,996,358. The District’s business-type activities include the School Nutrition and Caring Resale 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 Marshalltown 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 a deficit \$1,226,896 below last year’s ending fund balances of a positive \$1,429,780. However, the primary reason for the decrease was the increased expenditures in the Capital Projects Fund.

Governmental Fund Highlights

- The District’s decreasing General Fund financial position is the product of many factors. Increase in grants resulted in an increase in revenues. The increase in revenues was less than the increase in General Fund expenditures ensuring the financial position of the District decrease.
- The Activity and Expendable Trust Fund combined balance decreased from \$248,573 in 2003, to \$124,328 in 2004, due to the increase in expenditures in both funds.
- The Physical Plant and Equipment Levy (PPEL) and Playground Education Recreation Levy (PERL) combined fund balance decreased from \$679,882 to \$557,635, due to a transfer of funds out of the PPEL Fund to the Debt Service Fund during the year.
- The Capital Projects fund balance decreased during the current year, from \$746,633 to a deficit balance of \$266,949. This was a result of an increase in expenditures.
- The Debt Service fund balance decreased from \$159,961 to \$101,508. This was a result of increased expenditures.

Proprietary Fund Highlights

The Enterprise Funds net assets decreased from \$760,358 at June 30, 2003 to \$709,248 at June 30, 2004, representing a decrease of approximately 7%.

BUDGETARY HIGHLIGHTS

Over the course of the year, Marshalltown Community School District amended its annual budget one time to reflect additional expenditures for the Vision Iowa and Iowa Demonstration Grant projects.

The District's revenues were \$399,749 more than budgeted revenues, a variance of 1%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

Total expenditures were less than budgeted, 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 exceeded in the support services functional program area due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$10.7 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 140% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$727,730.

The original cost of the District's capital assets was \$26,532,452. Governmental funds account for \$25,858,966 with the remainder of \$673,486 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$9,635,194 at June 30, 2004, compared to \$8,096,062 reported at June 30, 2003. This increase resulted from new additions being completed during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2,004	2,003	2,004	2,003	2,004	2,003	2003-04
Land	\$ 279,929	279,929	0	0	279,929	279,929	0.0%
Buildings	9,635,194	8,096,062	0	0	9,635,194	8,096,062	19.0%
Machinery and equipment	507,127	626,201	314,029	291,363	821,156	917,564	-10.5%
Total	\$ 10,422,250	9,002,192	314,029	291,363	10,736,279	9,293,555	8.5%

Long-Term Debt

At June 30, 2004, the District had long-term debt outstanding of \$6,296,805 in general obligation bonds, capital loan notes, early retirement, and compensated absences. This represents a decrease of approximately 0.3% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had total outstanding general obligation bonds payable of \$1,000,000 at June 30, 2004.

The District had a capital loan note payable of \$1,090,000 at June 30, 2004.

The District also had total outstanding early retirement payable of \$4,122,961 at June 30, 2004.

The District had compensated absences payable at June 30, 2004, totaling \$83,844.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2,004	2,003	
General obligation bonds	\$ 1,000,000	1,180,000	-15.3%
Capital loan notes	1,090,000	1,610,000	-32.3%
Early retirement	4,122,961	3,442,371	19.8%
Compensated absences	83,844	83,956	-0.1%
Total	<u>\$ 6,296,805</u>	<u>6,316,327</u>	<u>-0.3%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District has experienced stable enrollment for a few years, the District expects enrollment to remain the same.
- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten-year period beginning in fiscal year 2005.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

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 Dan Gillen, District Board Secretary/Director of Finance, Marshalltown Community School District, 317 Columbus Dr., Marshalltown, Iowa, 50158.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments			
ISCAP(Note 5)	\$ 4,534,574	0	4,534,574
Other	4,229,275	562,096	4,791,371
Receivables:			
Property tax:			
Delinquent	205,843	0	205,843
Succeeding year	12,373,660	0	12,373,660
Interfund	3,703,251	0	3,703,251
Accounts	1,810,323	4,985	1,815,308
Accrued interest - ISCAP(Note 5)	4,308	0	4,308
Inventories	68,879	73,132	142,011
Capital assets, net of accumulated depreciation(Note 6)	10,422,250	314,029	10,736,279
TOTAL ASSETS	37,352,363	954,242	38,306,605
LIABILITIES			
Interfund payable	3,483,360	232,634	3,715,994
Accounts payable	355,651	5,514	361,165
Interest payable	11,125	0	11,125
ISCAP drawdown payable(Note 5)	700,000	0	700,000
Salaries and benefits payable	3,655,316	0	3,655,316
Deferred revenue:			
Succeeding year property tax	12,373,660	0	12,373,660
Other	108,498	6,846	115,344
ISCAP warrants payable(Note 5)	4,504,000	0	4,504,000
ISCAP accrued interest payable(Note 5)	14,152	0	14,152
ISCAP premiums payable	56,758	0	56,758
Incurred but not reported	511,425	0	511,425
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds	200,000	0	200,000
Capital loan notes	535,000	0	535,000
Early retirement	62,138	0	62,138
Compensated absences	83,844	0	83,844
Portion due after one year:			
General obligation bonds	800,000	0	800,000
Capital loan notes	555,000	0	555,000
Early retirement	4,060,823	0	4,060,823
TOTAL LIABILITIES	32,070,750	244,994	32,315,744
NET ASSETS			
Investment in capital assets, net of related debt	8,155,684	314,029	8,469,713
Restricted for:			
Early intervention	29,754	0	29,754
Teacher quality	2,814	0	2,814
Phase III	1,254	0	1,254
Physical plant & equipment levy	358,740	0	358,740
Playground education and equipment levy	198,895	0	198,895
Other special revenue purposes	124,328	0	124,328
Unrestricted	(3,589,856)	395,219	(3,194,637)
TOTAL NET ASSETS	\$ 5,281,613	709,248	5,990,861

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Expenses	Charges for Services	Program Revenues	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs				
Governmental activities:				
Instruction:				
Regular instruction	\$ 15,070,162	437,101	4,161,768	1,200,000
Special instruction	7,221,755	173,210	0	0
Other instruction	2,882,075	1,515,279	0	0
	25,173,992	2,125,590	4,161,768	1,200,000
Support services:				
Student services	2,372,252	0	0	0
Instructional staff services	1,806,060	0	0	0
Administration services	4,164,990	0	0	0
Operation and maintenance of plant services	2,868,350	0	0	0
Transportation services	1,039,598	0	25,258	0
Central support services	485,188	0	0	0
	12,736,438	0	25,258	0
Non-instruction:				
Community service & education operations	87,783	0	0	0
Other expenditures:				
Facilities acquisitions	651,991	0	0	0
Long-term debt interest	93,836	0	0	0
AEA flowthrough	1,471,610	0	1,471,610	0
Depreciation (unallocated) *	370,608	0	0	0
	2,588,045	0	1,471,610	0
Total governmental activities	40,586,258	2,125,590	5,658,636	1,200,000
Business-Type activities:				
Non-instructional programs:				
Nutrition services	1,973,314	810,135	1,105,253	0
Caring resale	23,044	28,718	0	0
Total business-type activities	1,996,358	838,853	1,105,253	0
Total	\$ 42,582,616	2,964,443	6,763,889	1,200,000

General Revenues:

Property tax levied for:
 General purposes
 Debt services
 Capital outlay
Unrestricted state grants
Unrestricted investment earnings
Sale of equipment and materials

Total general revenues

Changes in net assets

Net assets beginning of year

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(9,271,293)	0	(9,271,293)
(7,048,545)	0	(7,048,545)
(1,366,796)	0	(1,366,796)
(17,686,634)	0	(17,686,634)
(2,372,252)	0	(2,372,252)
(1,806,060)	0	(1,806,060)
(4,164,990)	0	(4,164,990)
(2,868,350)	0	(2,868,350)
(1,014,340)	0	(1,014,340)
(485,188)	0	(485,188)
(12,711,180)	0	(12,711,180)
(87,783)	0	(87,783)
(651,991)	0	(651,991)
(93,836)	0	(93,836)
0	0	0
(370,608)	0	(370,608)
(1,116,435)	0	(1,116,435)
(31,602,032)	0	(31,602,032)
0	(57,926)	(57,926)
0	5,674	5,674
0	(52,252)	(52,252)
(31,602,032)	(52,252)	(31,654,284)
\$ 10,508,467	0	10,508,467
219,873	0	219,873
864,928	0	864,928
19,935,470	0	19,935,470
13,950	1,142	15,092
50	0	50
31,542,738	1,142	31,543,880
(59,294)	(51,110)	(110,404)
5,340,907	760,358	6,101,265
\$ 5,281,613	709,248	5,990,861

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

	General	Other Governmental Funds	Total
ASSETS			
Cash and pooled investments			
ISCAP(Note 5)	\$ 4,534,574	0	4,534,574
Other	(59,724)	2,483,169	2,423,445
Receivables:			
Property tax			
Delinquent	177,305	28,538	205,843
Succeeding year	10,460,913	1,912,747	12,373,660
Interfund	2,696,797	1,006,454	3,703,251
Accounts	660,539	50,000	710,539
Accrued interest - ISCAP(Note 5)	4,308	0	4,308
Inventories	68,879	0	68,879
TOTAL ASSETS	\$ 18,543,591	5,480,908	24,024,499
LIABILITIES AND FUND BALANCES			
Liabilities:			
Interfund payable	\$ 250,000	3,233,360	3,483,360
Accounts payable	76,008	279,643	355,651
ISCAP drawdown payable(Note 5)	700,000	0	700,000
Salaries and benefits payable	3,655,316	0	3,655,316
Deferred revenue:			
Succeeding year property tax	10,460,913	1,912,747	12,373,660
Other	108,498	0	108,498
ISCAP warrants payable(Note 5)	4,504,000	0	4,504,000
ISCAP accrued interest payable(Note 5)	14,152	0	14,152
ISCAP premiums payable	56,758	0	56,758
Total liabilities	19,825,645	5,425,750	25,251,395
Fund balances:			
Reserved for:			
Early intervention	29,754	0	29,754
Teacher quality	2,814	0	2,814
Phase III	1,254	0	1,254
Unreserved:			
Undesignated	(1,315,876)	55,158	(1,260,718)
Total fund balances	(1,282,054)	55,158	(1,226,896)
TOTAL LIABILITIES AND FUND BALANCES	\$ 18,543,591	5,480,908	24,024,499

SEE NOTES TO FINANCIAL STATEMENTS.

MARSHALLTOWN 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)	\$	(1,226,896)
 <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 report as assets in in the governmental funds.		10,422,250
Blending of the Internal Service Funds to be reflected on an entity-wide basis.		2,394,189
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(11,125)
Long-term liabilities, including bonds payable, capital loan notes, compensated absences and early retirement are not due and payable in the current period and, are not reported as liabilities in the governmental funds.		(6,296,805)
Net assets of governmental activities (page 14)	\$	<u>5,281,613</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Other		Total
	General	Funds	
REVENUES:			
Local sources:			
Local tax	\$ 10,019,434	1,573,834	11,593,268
Tuition	610,311	0	610,311
Other	655,575	873,654	1,529,229
State sources	22,765,945	1,706	22,767,651
Federal sources	2,826,455	1,200,000	4,026,455
Total revenues	36,877,720	3,649,194	40,526,914
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	15,701,301	0	15,701,301
Special instruction	7,219,374	0	7,219,374
Other instruction	1,886,850	987,789	2,874,639
	24,807,525	987,789	25,795,314
Support services:			
Student services	2,422,512	0	2,422,512
Instructional staff services	1,601,250	44,314	1,645,564
Administration services	2,895,621	1,016,333	3,911,954
Operation and maintenance of plant services	2,934,819	0	2,934,819
Transportation services	1,042,819	0	1,042,819
Central support services	507,200	0	507,200
	11,404,221	1,060,647	12,464,868
Non-instructional:			
Community service & education operations	30,801	56,982	87,783
Other expenditures:			
Facilities acquisitions	0	2,561,731	2,561,731
Long-term debt:			
Principal	0	700,000	700,000
Interest and fiscal charges	0	102,334	102,334
AEA flowthrough	1,471,610	0	1,471,610
	1,471,610	3,364,065	4,835,675
Total expenditures	37,714,157	5,469,483	43,183,640
Deficiency of revenues under expenditures	(836,437)	(1,820,289)	(2,656,726)
Other financing sources(uses):			
Transfers in	0	521,972	521,972
Transfers out	0	(521,972)	(521,972)
Sale of equipment and materials	50	0	50
Total other financing sources(uses)	50	0	50
Net change in fund balances	(836,387)	(1,820,289)	(2,656,676)
Fund balance beginning of year	(445,667)	1,875,447	1,429,780
Fund balance end of year	\$ (1,282,054)	55,158	(1,226,896)

SEE NOTES TO FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds (page 19)		\$ (2,656,676)
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlays expenditures exceeded depreciation expense in the current year, as follows:		
Capital expenditures	\$ 2,105,469	
Depreciation expense	(685,411)	1,420,058
Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis.		1,149,304
Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.		700,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		8,498
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 fund.		
Early retirement	(680,590)	
Compensated absences	112	(680,478)
Changes in net assets of governmental activities (page 16)		\$ (59,294)

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business-Type Activities:			Governmental
	Enterprise Fund			Activities:
	School	Caring	Total	Internal
Nutrition	Resale	Service Fund		
ASSETS				
Cash and cash equivalents	\$ 536,056	26,040	562,096	1,805,830
Accounts receivable	4,985	0	4,985	1,099,784
Inventories	73,132	0	73,132	0
Capital assets, net of accumulated depreciation	314,029	0	314,029	0
TOTAL ASSETS	928,202	26,040	954,242	2,905,614
LIABILITIES				
Interfund payable	232,634	0	232,634	0
Accounts payable	5,274	240	5,514	0
Incurred but not reported	0	0	0	511,425
Deferred revenues	6,846	0	6,846	0
TOTAL LIABILITES	244,754	240	244,994	511,425
NET ASSETS				
Invested in capital assets, net of related debt	314,029	0	314,029	0
Unrestricted	369,419	25,800	395,219	2,394,189
TOTAL NET ASSETS	\$ 683,448	25,800	709,248	2,394,189

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business-Type Activities:			Governmental
	Enterprise Fund			Activities:
	School Nutrition	Caring Resale	Total	Internal Service Fund
OPERATING REVENUE:				
Local sources:				
Other local sources:				
Sale of lunches and breakfasts:				
Students	\$ 413,633	0	413,633	0
Adults	41,240	0	41,240	0
A la carte	311,558	0	311,558	0
Miscellaneous	36,078	28,718	64,796	5,984,599
TOTAL OPERATING REVENUES	802,509	28,718	831,227	5,984,599
OPERATING EXPENSES:				
Salaries	687,723	0	687,723	0
Benefits	141,037	0	141,037	4,835,295
Services	112,615	250	112,865	0
Supplies	980,558	22,763	1,003,321	0
Other	1,407	31	1,438	0
Depreciation	42,319	0	42,319	0
TOTAL OPERATING EXPENSES	1,965,659	23,044	1,988,703	4,835,295
OPERATING INCOME (LOSS)	(1,163,150)	5,674	(1,157,476)	1,149,304
NON-OPERATING REVENUES:				
Loss on disposal of assets	(7,655)	0	(7,655)	0
Interest	940	202	1,142	0
State sources	22,318	0	22,318	0
Federal sources	1,090,561	0	1,090,561	0
TOTAL NON-OPERATING REVENUES	1,106,164	202	1,106,366	0
Net income (loss)	(56,986)	5,876	(51,110)	1,149,304
Retained earnings at beginning of year	740,434	19,924	760,358	1,244,885
Retained earnings end of year	\$ 683,448	25,800	709,248	2,394,189

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business-Type Activities:			Governmental
	Enterprise Fund			Activities:
	School Nutrition	Caring Resale	Total	Internal Service Fund
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 764,534	0	764,534	0
Cash received from miscellaneous operating activities	36,078	28,718	64,796	4,884,815
Cash payments to employees for services	(828,760)	0	(828,760)	(4,490,870)
Cash payments to suppliers for goods or services	(995,407)	(22,804)	(1,018,211)	0
Net cash provided by (used in) operating activities	(1,023,555)	5,914	(1,017,641)	393,945
Cash flows from non-capital financing activities:				
Proceeds from the General Fund	82,460	0	82,460	0
State grants received	22,318	0	22,318	0
Federal grants received	981,643	0	981,643	0
Net cash provided by non-capital financing activities	1,086,421	0	1,086,421	0
Cash flows from investing activities:				
Interest on investments	940	202	1,142	0
Net cash provided by investing activities	940	202	1,142	0
Cash flows from capital financing activities:				
Purchase of assets	(72,640)	0	(72,640)	0
Net cash used by financing activities	(72,640)	0	(72,640)	0
Net increase (decrease) in cash and cash equivalents	(8,834)	6,116	(2,718)	393,945
Cash and cash equivalents at beginning of year	544,890	19,924	564,814	1,411,885
Cash and cash equivalents at end of year	\$ 536,056	26,040	562,096	1,805,830
Reconciliation of operating income (loss) to net cash used provided by (used in) operating activities:				
Operating income (loss)	\$ (1,163,150)	5,674	(1,157,476)	1,149,304
Adjustments to reconcile operating loss to net cash used in operating activities:				
Commodities consumed	108,918	0	108,918	0
Depreciation	42,319	0	42,319	0
Decrease in inventories	15,196	0	15,196	0
Decrease(increase) in accounts receivable	(727)	240	(487)	(1,099,784)
Decrease in accounts payable	(24,941)	0	(24,941)	0
Increase in incurred but not reported	0	0	0	344,425
Decrease in deferred revenue	(1,170)	0	(1,170)	0
Net cash provided by (used in) operating activities	\$ (1,023,555)	5,914	(1,017,641)	393,945
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:				
Current assets:				
Cash and pooled investments	\$ 536,056	26,040	562,096	1,805,830
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:				
During the year ended June 30, 2004, the District received Federal commodities valued at \$108,918.				
SEE NOTES TO FINANCIAL STATEMENTS.				

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2004

	Private Purpose Trust	Scholarship
ASSETS		
Cash and pooled investments	\$	30,000
Interfund receivable		12,743
		<u>42,743</u>
LIABILITIES		<u>0</u>
NET ASSETS		
Reserved for scholarships	\$	<u>42,743</u>

SEE NOTES TO FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2004

	Private Purpose Trust Scholarship
Additions:	
Local sources:	
Interest on investments	\$ 202
Total additions	202
Deletions:	
Scholarships awarded	500
Total deletions	500
Change in net assets	(298)
Net assets beginning of year	43,041
Net assets end of year	\$ 42,743

SEE NOTES TO FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

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

The Marshalltown 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 Marshalltown, Iowa, and the predominate agricultural territory in Marshall County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, Marshalltown 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 Marshalltown Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The District reports the following major proprietary fund:

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 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	\$ 1,000
Buildings	1,000
Improvements other than buildings	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

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

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

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

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

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

Compensated absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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 support services area exceeded the amount budgeted.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$487,852 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 investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

(3) Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2004 is as follows:

Receivable Fund	Payable Fund	Amount
General	Nutrition	\$ 232,634
General	Management	1,173,654
General	Capital Projects	277,427
General	Activity	10,000
General	Debt Service	962,345
General	PPEL	40,737
Debt Service	PPEL	663,466
Capital Projects	General	250,000
PPEL	Capital Projects	88,258
PPEL	Debt Service	4,730
Non-expendable Trust	Activity	12,743
Total		<u>\$ 3,715,994</u>

(4) Transfers

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

Transfer to	Transfer from	Amount
Debt Service	PPEL	<u>\$ 521,972</u>

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

(5) 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	\$ 1,015,604	4,308	1,004,000	14,152
2004-05A	6/30/04	6/30/05	3,518,970	0	3,500,000	0
Total			\$ 4,534,574	4,308	4,504,000	14,152

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

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2003-04A	\$ 0	3,500,000	3,500,000	0
2003-04B	0	1,700,000	1,000,000	700,000
Total	\$ 0	5,200,000	4,500,000	700,000

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%

(6) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 635,335	72,640	34,489	673,486
Less accumulated depreciation	343,972	42,319	26,834	359,457
Business-type activities capital assets, net	\$ 291,363	30,321	7,655	314,029

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 279,929	0	0	279,929
Total capital assets not being depreciated	279,929	0	0	279,929
Capital assets being depreciated:				
Buildings	17,738,849	1,909,740	0	19,648,589
Land improvements	138,433	0	0	138,433
Machinery and equipment	5,716,163	195,729	119,877	5,792,015
Total capital assets being depreciated	23,593,445	2,105,469	119,877	25,579,037
Less accumulated depreciation for:				
Buildings	9,642,787	370,608	0	10,013,395
Land improvements	138,433	0	0	138,433
Machinery and equipment	5,089,962	314,803	119,877	5,284,888
Total accumulated depreciation	14,871,182	685,411	119,877	15,436,716
Total capital assets being depreciated, net	8,722,263	1,420,058	0	10,142,321
Governmental activities capital assets, net	\$ 9,002,192	1,420,058	0	10,422,250

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 140,526
Special		2,381
Other		9,246
Support services:		
Student services		3,339
Instructional staff services		1,151
Operation and maintenance of plant services		13,982
Transportation		144,178
		314,803
Unallocated depreciation		370,608
Total governmental activities depreciation expense		\$ 685,411
Business-type activities:		
Food services		\$ 42,319

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation	\$ 1,180,000	0	180,000	1,000,000	200,000
Capital loan notes	1,610,000	0	520,000	1,090,000	535,000
Early retirement	3,442,371	1,512,227	831,637	4,122,961	62,138
Compensated absences	83,956	83,844	83,956	83,844	83,844
Total	\$ 6,316,327	1,596,071	1,615,593	6,296,805	880,982

General Obligation

Details of the District's June 30, 2004 General Obligation bonds indebtedness is as follows:

Year Ending June 30,	Interest Rate	Bond issue May 1, 2002		
		Principal	Interest	Total
2005	3.50 %	\$ 200,000	39,500	239,500
2006	3.75	200,000	32,500	232,500
2007	4.00	200,000	25,000	225,000
2008	4.20	200,000	17,000	217,000
2009	4.30	200,000	8,600	208,600
Subtotal		\$ 1,000,000	122,600	1,122,600

Capital Loan Notes Payable

Details of the District's June 30, 2004 capital loan notes Indebtedness are as follows:

Year Ending June 30,	Interest Rate	Loans dated June 30, 2004		
		Principal	Interest	Total
2005	2.50 %	\$ 535,000	27,250	562,250
2006	2.50	555,000	13,875	568,875
Total		\$ 1,090,000	41,125	1,131,125

Early Retirement

The District has in place a retirement incentive plan, that provides a monthly stipend based in a percentage of the employee's last full time contract. This stipend continues until the retiree reaches the age of 65. Early retirement benefits paid during the year ended June 30,2004, totaled \$831,637. A liability has been recorded in the Government-wide financial statements representing the District's commitment to fund non-current early retirement.

(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 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 \$1,455,131, \$1,310,741, and \$1,286,284 respectively, equal to the required contributions for each year.

(9) Risk Management

Marshalltown Community School District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: health, dental, and prescription.

Each member's contributions to ISEBA funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$32,870.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the District's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

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

Marshalltown 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.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$1,471,610 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.

(11) Deficit Fund Balance

The District has a deficit undesignated fund balance in the General Fund of \$1,315,876, in the Management Fund of \$461,364, and in the Capital Projects Fund of \$266,949.

(12) Early Retirement Workout Plan

The District currently has a workout plan approved by the School Budget Review Committee for the repayment of early retirement benefits originally paid from the Management fund which should have been paid from the General fund. The Districts' approved plan requires transfers to the Management fund as follows:

Year Ending June 30	Amount
2005	\$ 76,187.62
Total	\$ 76,187.62

(13) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2004, disbursements in the support services functional program area exceeded the amount budgeted.

REQUIRED SUPPLEMENTAL INFORMATION

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF RECEIPTS, DISBURSEMENTS AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (CASH 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	\$ 13,765,421	838,098
Intermediate sources	0	0
State sources	22,918,675	22,318
Federal sources	4,018,143	1,082,935
Total receipts	40,702,239	1,943,351
Disbursements:		
Instruction	27,247,542	0
Support services	12,955,907	0
Non-instructional programs	208,057	2,028,529
Other expenditures	4,211,064	0
Total disbursements	44,622,570	2,028,529
Excess(deficiency) of receipts over(under) disbursements	(3,920,331)	(85,178)
Other financing sources, net	50	0
Excess(deficiency) of receipts and other financing sources over(under) disbursements	(3,920,281)	(85,178)
Balance beginning of year	6,563,617	414,640
Balance end of year	\$ 2,643,336	329,462

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
14,603,519	15,177,898	15,177,898	(574,379)
0	14,224	14,224	(14,224)
22,940,993	23,871,417	23,871,417	(930,424)
5,101,078	3,182,302	3,182,302	1,918,776
42,645,590	42,245,841	42,245,841	399,749
27,247,542	25,279,547	27,279,547	32,005
12,955,907	11,044,447	11,044,447	(1,911,460)
2,236,586	2,011,347	4,511,347	2,274,761
4,211,064	4,878,829	4,878,829	667,765
46,651,099	43,214,170	47,714,170	1,063,071
(4,005,509)	(968,329)	(5,468,329)	1,462,820
50	0	0	50
(4,005,459)	(968,329)	(5,468,329)	1,462,870
6,978,257	9,286,295	9,286,295	(2,308,038)
2,972,798	8,317,966	3,817,966	(845,168)

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE-
 BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types		
	Cash Basis	Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 40,702,239	(175,325)	40,526,914
Expenses	44,622,570	(1,438,930)	43,183,640
Net	(3,920,331)	1,263,605	(2,656,726)
Other financing sources, net	50	0	50
Beginning fund balances	6,563,617	(5,133,837)	1,429,780
Ending fund balances	\$ 2,643,336	(3,870,232)	(1,226,896)

	Proprietary Fund Type		
	Cash Basis	Enterprise Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 1,943,351	1,897	1,945,248
Expenses	2,028,529	(32,171)	1,996,358
Net	(85,178)	34,068	(51,110)
Beginning retained earnings	414,640	345,718	760,358
Ending retained earnings	\$ 329,462	379,786	709,248

MARSHALLTOWN 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, the District adopted one budget amendment increasing budgeted disbursements by \$4,500,000.

During the year ended June 30, 2004, disbursements in the support services functional program area exceeded the amounts budgeted.

OTHER SUPPLEMENTAL INFORMATION

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

	Special Revenue Funds					
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Playground Education Recreation Levy	Expendable Trust	Total Special Revenue
ASSETS						
Cash and pooled investments	\$ 702,065	141,234	981,722	197,221	5,837	2,028,079
Receivables:						
Property tax:						
Current year delinquent	10,225	0	12,876	1,674	0	24,775
Succeeding year	795,000	0	782,078	95,869	0	1,672,947
Interfund	0	0	92,988	0	0	92,988
Accounts	0	0	0	0	0	0
TOTAL ASSETS	\$ 1,507,290	141,234	1,869,664	294,764	5,837	3,818,789
LIABILITIES AND FUND EQUITY						
Liabilities:						
Interfund payable	\$ 1,173,654	22,743	704,203	0	0	1,900,600
Accounts payable	0	0	24,643	0	0	24,643
Deferred revenue:						
Succeeding year property tax	795,000	0	782,078	95,869	0	1,672,947
	1,968,654	22,743	1,510,924	95,869	0	3,598,190
Fund equity:						
Fund balances:						
Unreserved:						
Undesignated	(461,364)	118,491	358,740	198,895	5,837	220,599
Total fund balances	(461,364)	118,491	358,740	198,895	5,837	220,599
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,507,290	141,234	1,869,664	294,764	5,837	3,818,789

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 1

Debt Service	Capital Projects	Total Nonmajor Governmental Funds
401,354	53,736	2,483,169
3,763	0	28,538
239,800	0	1,912,747
663,466	250,000	1,006,454
0	50,000	50,000
<u>1,308,383</u>	<u>353,736</u>	<u>5,480,908</u>
967,075	365,685	3,233,360
0	255,000	279,643
239,800	0	1,912,747
<u>1,206,875</u>	<u>620,685</u>	<u>5,425,750</u>
101,508	(266,949)	55,158
<u>101,508</u>	<u>(266,949)</u>	<u>55,158</u>
<u>1,308,383</u>	<u>353,736</u>	<u>5,480,908</u>

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

	Special Revenue					Total Special Revenue
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Playground Education Recreation Levy	Expendable Trust	
REVENUES:						
Local sources:						
Local tax	\$ 489,033	0	768,951	95,977	0	1,353,961
Other	3,263	863,544	4,611	432	0	871,850
State sources	555	0	810	109	0	1,474
Federal sources	0	0	200,000	0	0	200,000
TOTAL REVENUES	492,851	863,544	974,372	96,518	0	2,427,285
EXPENDITURES:						
Current:						
Instruction:						
Other instruction	0	986,289	0	0	1,500	987,789
Support services:						
Instructional staff services	0	0	44,314	0	0	44,314
Administration services	994,613	0	21,720	0	0	1,016,333
	994,613	0	66,034	0	0	1,060,647
Non-instructional:						
Community service & education operations	0	0	0	56,982	0	56,982
Other expenditures:						
Facility acquisition	0	0	521,924	26,225	0	548,149
Long-term debt:						
Principle	0	0	0	0	0	0
Interest and fiscal charges	0	0	0	0	0	0
	0	0	521,924	26,225	0	548,149
TOTAL EXPENDITURES	994,613	986,289	587,958	83,207	1,500	2,653,567
Excess(deficiency) of revenue over (under) expenditures	(501,762)	(122,745)	386,414	13,311	(1,500)	(226,282)
Other financing sources(uses):						
Operating transfers in	0	0	0	0	0	0
Operating transfers out	0	0	(521,972)	0	0	(521,972)
Total other financing sources(uses)	0	0	(521,972)	0	0	(521,972)
Excess(deficiency) of revenue and other financing sources over(under) expenditures and other financing uses	(501,762)	(122,745)	(135,558)	13,311	(1,500)	(748,254)
Fund balance beginning of year	40,398	241,236	494,298	185,584	7,337	968,853
Fund balance end of year	\$ (461,364)	118,491	358,740	198,895	5,837	220,599

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Debt Service	Capital Projects	Total Nonmajor Governmental Funds
219,873	0	1,573,834
1,804	0	873,654
232	0	1,706
0	1,000,000	1,200,000
221,909	1,000,000	3,649,194
0	0	987,789
0	0	44,314
0	0	1,016,333
0	0	1,060,647
0	0	56,982
0	2,013,582	2,561,731
700,000	0	700,000
102,334	0	102,334
802,334	2,013,582	3,364,065
802,334	2,013,582	5,469,483
(580,425)	(1,013,582)	(1,820,289)
521,972	0	521,972
0	0	(521,972)
521,972	0	0
(58,453)	(1,013,582)	(1,820,289)
159,961	746,633	1,875,447
101,508	(266,949)	55,158

MARSHALLTOWN 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
Senior High School	\$ 152,142	673,757	781,765	44,134
Anson Middle School	15,835	78,193	80,998	13,030
Miller Middle School	23,318	74,333	99,369	(1,718)
Anson Middle School	819	5,309	5,423	705
Fisher Elementary School	1,725	10,990	3,760	8,955
Franklin Elementary School	8,641	8,072	7,975	8,738
Hoglan Elementary School	6,877	8,294	4,463	10,708
Rogers Elementary School	3,318	6	1,410	1,914
Woodbury Elementary School	28,561	4,590	1,126	32,025
Total	\$ 241,236	863,544	986,289	118,491

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 FIDUCIARY FUND, PRIVATE-PURPOSE TRUST ACCOUNTS
 YEAR ENDED JUNE 30, 2004

	Kiser Memorial	Supinger Memorial	White Memorial	Total
ASSETS				
Cash and pooled investments	\$ 4,682	15,453	9,865	30,000
Interfund receivable	0	12,743	0	12,743
TOTAL ASSETS	\$ 4,682	28,196	9,865	42,743
LIABILITIES AND FUND EQUITY				
Liabilities:	\$ 0	0	0	0
Fund Equity:				
Reserved for scholarships	4,682	28,196	9,865	42,743
TOTAL LIABILITIES AND FUND EQUITY	\$ 4,682	28,196	9,865	42,743

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE
 FIDUCIARY FUND, PRIVATE-PURPOSE TRUST ACCOUNTS
 YEAR ENDED JUNE 30, 2004

	Kiser Memorial	Supinger Memorial	White Memorial	Total
REVENUES:				
Local sources:				
Interest on investments	\$ 0	202	0	202
	0	202	0	202
EXPENDITURES:				
Student services:				
Scholarships awarded	0	0	500	500
	0	0	500	500
Excess(deficiency) of revenues over(under) expenditures	0	202	(500)	(298)
Fund balance beginning of year	4,682	27,994	10,365	43,041
Fund balance end of year	\$ 4,682	28,196	9,865	42,743

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN 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
Revenues:				
Local sources:				
Local tax	\$ 11,593,268	11,650,804	11,436,687	11,279,647
Tuition	610,311	631,562	654,923	738,665
Other	1,529,229	1,489,683	1,668,031	1,895,354
Intermediate sources	0	0	13,672	12,335
State sources	22,767,651	22,639,199	22,670,821	21,766,920
Federal sources	4,026,455	2,628,709	2,299,185	1,609,800
Total	\$ 40,526,914	39,039,957	38,743,319	37,302,721
Expenditures:				
Instruction:				
Regular instruction	\$ 15,701,301	15,915,399	14,742,805	14,234,046
Special instruction	7,219,374	6,659,921	6,550,381	6,238,015
Other instruction	2,874,639	2,877,112	3,016,728	3,060,883
Support services:				
Student services	2,422,512	2,175,732	2,080,534	1,869,119
Instructional staff services	1,645,564	1,684,562	1,553,112	1,129,263
Administration services	3,911,954	3,165,386	3,254,436	3,027,874
Operation and maintenance of plant services	2,934,819	2,881,455	2,768,887	2,636,849
Transportation services	1,042,819	1,013,771	961,862	915,994
Central support services	507,200	453,544	153	462,133
Non-instructional:				
Food service	87,783	102,501	165,421	152,967
Other expenditures:				
Facilities acquisitions	2,561,731	2,480,724	676,584	380,268
Long Term Debt:				
Principal	700,000	170,000	465,000	710,000
Interest	102,334	64,751	123,200	125,451
AEA flow-through	1,471,610	1,504,345	1,478,762	1,496,393
Total	\$ 43,183,640	41,149,203	37,837,865	36,439,255

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DIRECT:			
DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
21ST CENTURY COMMUNITY LEARNING CENTER PROGRAM	84.287	S287A000125-02	\$ 301,038
21ST CENTURY COMMUNITY LEARNING CENTER PROGRAM	84.287	S287A000125-01	847,096
			<u>1,148,134</u>
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION (non-cash)	10.550	FY 04	108,918
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 04	177,767
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 04	788,872
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	FY 04	7,626
FRUIT AND VEGETABLE PILOT PROGRAM	10.555	FY 04	18,629
			<u>992,894</u>
TEAM NUTRITION GRANT	10.574	FY 04	2,993
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	4104-G	613,473
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	4104-GC	22,515
			<u>635,988</u>
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)	84.298	FY 03	25,326
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)	84.298	FY 04	24,655
			<u>49,981</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 02	1,554
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 03	4,510
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 04	13,748
			<u>19,812</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 03	78,031
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 04	178,618
			<u>256,649</u>
GOALS 2000 - STATE AND LOCAL EDUCATION SYSTEMIC IMPROVEMENT GRANTS	84.276	FY 03	4,755
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A)	84.369	FY 03	8,194
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A)	84.369	FY 04	29,340
			<u>37,534</u>

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2004

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT (CONTINUED)			
IMMIGRANT EDUCATION	84.162	FY 02	24,624
BILINGUAL EDUCATION - COMPREHENSIVE SCHOOL GRANTS	84.290	FY 04	262,398
BILINGUAL EDUCATION SUPPORT SERVICES	84.194	FY 04	56,797
FUND FOR THE IMPROVEMENT OF EDUCATION (IOWA DEMONSTRATION GRANT)	84.215	FY 03	915,900
FUND FOR THE IMPROVEMENT OF EDUCATION (IOWA DEMONSTRATION GRANT)	84.215	FY 04	80,444
			996,344
FUND FOR THE IMPROVEMENT OF EDUCATION (IOWA'S BILINGUAL TRAINING PROGRAM)	84.215	FY 04	24,510
SCHOOL RENOVATION GRANT PROGRAM	84.352	FY 04	89,932
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 04	2,014
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 04	69,867
			71,881
SPECIAL EDUCATION - GRANTS TO STATES (SUCCESS 4)	84.027	FY 03	809
SPECIAL EDUCATION - GRANTS TO STATES (SUCCESS 4)	84.027	FY 04	36,000
			36,809
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 04	214,679
SPECIAL EDUCATION - STATE PROGRAM IMPROVEMENT GRANTS (CAREER LADDER)	84.323	FY 03	10,360
SPECIAL EDUCATION - STATE PROGRAM IMPROVEMENT GRANTS (CAREER LADDER)	84.323	FY 04	6,492
			16,852
TOTAL			\$ 5,052,484

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Marshalltown Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements.

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
Marshalltown Community School District:

We have audited the financial statements of Marshalltown Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated November 29, 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 Marshalltown Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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 Part IV the accompanying Schedule of Findings and Questioned Costs.

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 except for IV-A-04, IV-B-04, IV-G-04, and IV-K-04.

Internal Control Over Financial Reporting

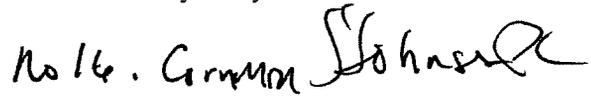
In planning and performing our audit, we considered Marshalltown Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control 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 and Questioned Costs.

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 II-A-04 is a material weakness. Prior year reportable conditions have all been resolved, except II-A-04, II-B-04, and II-C-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Marshalltown Community School District and other parties to whom Marshalltown 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 Marshalltown Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

November 29, 2004

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

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Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance

To the Board of Education of
Marshalltown Community School District

Compliance

We have audited the compliance of Marshalltown Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Marshalltown Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Marshalltown Community School District's management. Our responsibility is to express an opinion on Marshalltown Community School District's compliance based on our audit.

We conducted our audit of compliance 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 and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Marshalltown Community School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Marshalltown Community School District's compliance with those requirements.

In our opinion, Marshalltown Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Marshalltown Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Marshalltown Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 non-compliance with applicable requirements of laws, regulations,

contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we believe item III-A-04 is a material weakness.

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


NOLTE, CORNMAN & JOHNSON, P.C.

November 29, 2004

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - Clustered
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.555 - Fruit and Vegetable Pilot
 - CFDA Number 10.559 - Summer Food Service Program for Children
 - Individual
 - CFDA Number 84.010 - Title I grants to Local Educational agencies
 - CFDA Number 84.215 - Funds for the Improvement of Education
 - CFDA Number 84.287 - 21st Century Community Learning Center Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Marshalltown Community School District did not qualify as a low-risk auditee.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

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

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-04 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. We noted in the Student Activity and the School Nutrition Funds, that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

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

Conclusion - Response accepted.

II-B-04 Parking Rents/Fees - We noted during our audit that the district receives money for use of facilities in the form of parking fees which was recorded in the Activity Fund.

Recommendation - Chapter 297.9 of the code of Iowa requires rent to be receipted into the general fund. The district should receipt rent collected for facility usage into the general fund.

Response - We will comply.

Conclusion - Response accepted.

II-C-04 Early Retirement - We noted during our audit that the District's Early Retirement workout plan, as agreed upon by the Department of Education, continues to be in place.

Recommendation - The District should continue to monitor the plan, implement modifications when necessary, to achieve the total transfer required.

Response - We will continue to monitor this plan and expect upon completion the total transfer will be made.

Conclusion - Response accepted.

II-D-04 Student Activity Fund - We noted during our audit that the Student Activity fund included an interest account.

Recommendation - Interest should be allocated out at year-end to various accounts.

Response - We will make the necessary changes.

Conclusion - Response accepted

II-E-04 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year.

Recommendation - The District needs to forward these checks to the Treasurer of Iowa when completing their report of unclaimed property each year.

Response - We will forward these checks.

Conclusion - Response accepted.

II-F-04 Inventory - We noted during our audit that the District currently combines all building supply purchases for more cost effectiveness and subsequently distributes the supplies as the buildings need them. We noted that the inventory maintained was not adjusted when supplies are distributed to individual buildings. This resulted in an overstatement of inventory and an understatement of supply costs to individual buildings. The adjustment reflecting actual inventory has been done, as part of the audit adjustments.

Recommendation - The District should review procedures for recording the distribution of supplies to the buildings. The adjustments should be completed on a regular basis throughout the year, as well as, at year end when the inventory balance is adjusted to actual counts.

Response - We will make timely adjustments.

Conclusion - Response accepted.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 10.553: School Breakfast Program and
CFDA Number 10.555: National School Lunch Program
CFDA Number 10.555: Fruit and Vegetable Pilot
CFDA Number 10.559: Summer Food Service Program for Children
Federal Award Year: 2004
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Educational Agencies
Agency Numbers: 4104-G and 4104-GC
Federal Award Year: 2004
U.S. Department of Education
Passed Through the Iowa Department of Education

III-A-04 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. We noted in the School Nutrition Fund, that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

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

Conclusion - Response accepted.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part IV: Other Findings Related to Statutory Reporting

IV-A-04 Official Depositories - A resolution naming official depositories has been approved by the Board. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2004.

Recommendation - The district should increase their depository limits.

Response - We will increase depository limits.

Conclusion - Response accepted.

IV-B-04 Certified Budget - District disbursements for the year ended June 30, 2004, exceeded the amount budgeted in the support services functional program area.

Recommendation -The 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 - We will monitor the functional expenses and amend the budget when necessary.

Conclusion - Response accepted.

IV-C-04 Questionable Disbursements - We noted during our audit that there were clothing items purchased for coaches out of the Activity Fund which may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review these types of expenditures and document the public purpose served. The District may consider adopting a policy directed to requirements in meeting public purpose criteria. If no public purpose is identified, these types of expenditures should be added to the individuals W-2's or the District should be reimbursed by the individuals who received the items of clothing.

Response - We will review practices of purchases of clothing items and document public purpose.

Conclusion - Response accepted.

IV-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.

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

IV-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.

IV-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 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.

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

IV-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. However we did note that the investments are not on the general ledger at their appropriate values. Also, we noted a transfer in the Activity Fund which was classified as a revenue.

Recommendation - The District should reconcile on a monthly basis the savings, certificate of deposits, ISJIT, and money market accounts to the general ledger. Also when investments are transferred to checking the District should refrain from recording deposits as revenue. Instead an entry should be made to increase the checking and to decrease the investment balance.

Response - We will reconcile the investments on a monthly basis. There was a one time error in recording the transfer as revenue in the Activity Fund. We will review our procedures, so this does not happen.

Conclusion - Response accepted.

IV-J-04 Certified Annual Report - The Certified Annual Report was not filed with the Department of Education timely.

Recommendation - The District should file an amended Certified Annual Report with the changes.

Response - We will try to file the CAR timely.

Conclusion - Response accepted.

IV-K-04 Financial Condition - During our audit we noted that the District had negative account balances in the Student Activity Fund, and deficit fund balances in the General Fund of \$1,315,876, Management Fund of \$461,364, and Capital Projects Fund of \$266,949.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficit.

Response - We are monitoring these funds and are working to eliminate the deficits.

Conclusion - Response accepted.

IV-L-04 Student Activity Expenditure - During our audit we noted that there were expenditures made for computers and lease payments for a library copier out of the Student Activity Fund that would be more appropriately made out of the General Fund.

Recommendation - In the future, the District should pay for these expenditures out of the General Fund.

Response - We will pay these expenditures out of the General Fund.

Conclusion - Response accepted.