

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

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Martensdale-St. Marys Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 election)		
Merle Allen	President	2003
Dean Gavin	Vice President	2003
Holly Estell	Board Member	2005
Larry Henson	Board Member	2004
Patrick Connor	Board Member	2005
Board of Education (After September 2003 election)		
Merle Allen	President	2006
Dean Gavin	Vice President	2006
Holly Estell	Board Member	2005
Larry Henson	Board Member	2004
Patrick Connor	Board Member	2005
School Officials		
Peggy Huisman	Superintendent	2004
Jane Cassady	Business Manager	2004
Brick, Gentry, Bowers, Swartz Stoltze, Schuling & Levis, P.C.	Attorney	2004

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(a professional corporation)
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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Martensdale-St. Marys 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 Martensdale-St. Marys 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 Martensdale-St. Marys Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with U.S. generally accepted accounting principles.

As described in Note 11 to the financial statements, during the year ended June 30, 2004, Martensdale-St. Marys Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation Number 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated November 19, 2004 on our consideration of the Martensdale-St. Marys Community School District's internal control over

financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 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 Martensdale-St. Marys Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

NOLTE, CORNMAN & JOHNSON, P.C.

November 19, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,924,979 in fiscal 2003 to \$3,927,587 in fiscal 2004, while General Fund expenditures increased from \$3,619,826 in fiscal 2003 to \$3,674,474 in fiscal 2004. The District's General Fund balance was \$162,510 in fiscal 2003 and \$415,623 in fiscal 2004, a 155.75% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in property tax revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures.
- A decline in interest rates during the past fiscal year, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone to decrease from \$6,483 in fiscal year 2003 to \$1,417 in fiscal year 2004.

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 Martensdale-St. Marys 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 Martensdale-St. Marys 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 Martensdale-St. Marys 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.

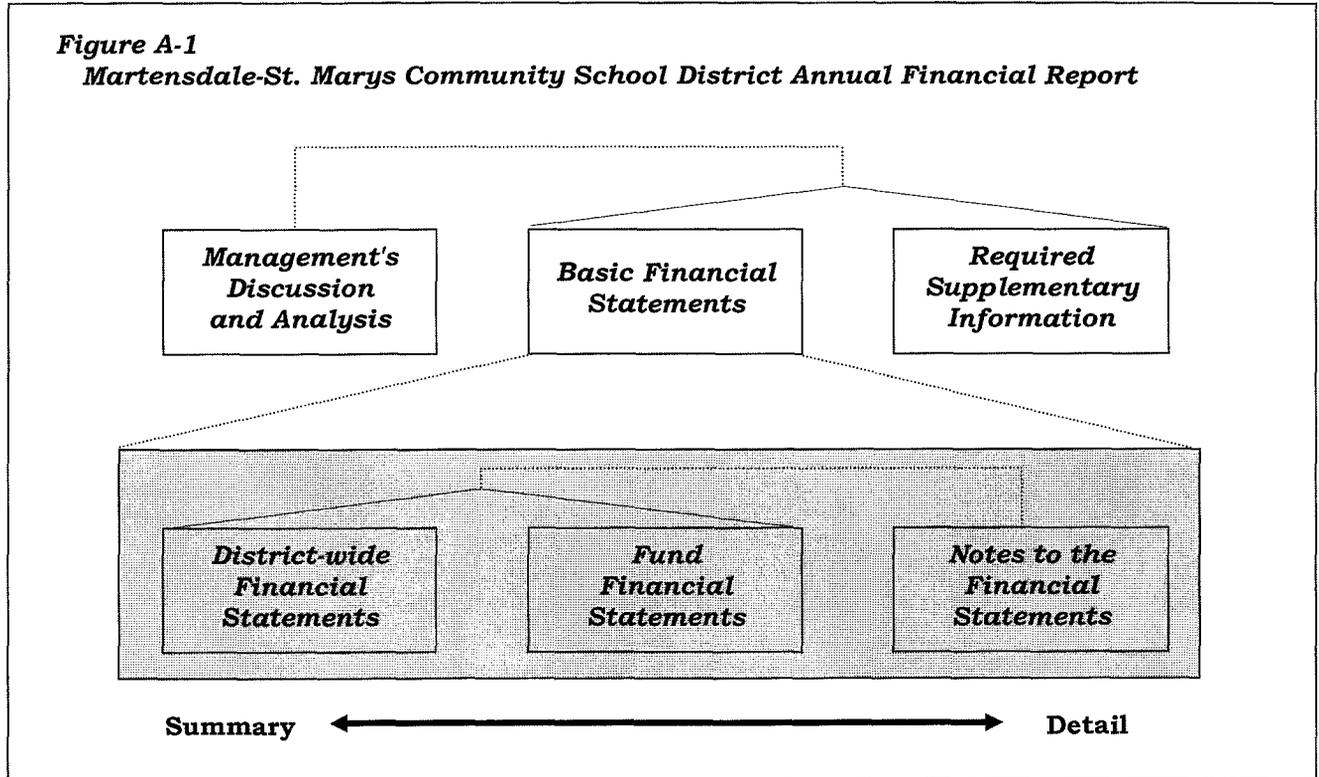


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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, e.g., food service	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, Debt Service Fund and Capital Projects Fund.

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

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

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

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

The required financial statements for fiduciary funds include a statement of fiduciary net 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 2004	Business-type Activities 2004	Total School District 2004
Current and other assets	\$ 6,156,623	28,469	6,185,092
Capital assets	1,450,269	9,018	1,459,287
Total assets	<u>7,606,892</u>	<u>37,487</u>	<u>7,644,379</u>
Long-term obligations	2,758,945	0	2,758,945
Other liabilities	2,974,893	9,377	2,984,270
Total liabilities	<u>5,733,838</u>	<u>9,377</u>	<u>5,743,215</u>
Net assets:			
Invested in capital assets, net of related debt	1,259,548	9,018	1,268,566
Restricted	91,011	0	91,011
Unrestricted	522,495	19,092	541,587
Total net assets	<u>\$ 1,873,054</u>	<u>28,110</u>	<u>1,901,164</u>

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

Figure A-4
Changes of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Revenues:			
Program revenues:			
Charges for services	\$ 429,132	147,251	576,383
Operating grants and contributions and restricted interest	448,810	66,708	515,518
Operating grants and contributions and restricted interest	77,985	0	77,985
General revenues:			
Property tax	1,496,600	0	1,496,600
Unrestricted state grants	1,856,295	0	1,856,295
Unrestricted investment earnings	36,159	210	36,369
Total revenues	<u>4,344,981</u>	<u>214,169</u>	<u>4,559,150</u>
Program expenses:			
Governmental activities:			
Instructional	2,675,611	0	2,675,611
Support services	1,170,933	0	1,170,933
Non-instructional programs	0	202,904	202,904
Other expenses	227,794	0	227,794
Total expenses	<u>4,074,338</u>	<u>202,904</u>	<u>4,277,242</u>
Changes in net assets	<u>\$ 270,643</u>	<u>11,265</u>	<u>281,908</u>

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 90% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$4,344,981 and expenses were \$4,074,338.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 2,675,611	1,942,073
Support services	1,170,933	1,088,486
Other expenses	227,794	87,852
Totals	<u>\$ 4,074,338</u>	<u>3,118,411</u>

- The cost financed by users of the District's programs was \$429,132.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$526,795.

-
- The net cost of governmental activities was financed with \$1,496,600 in property tax, \$1,856,295 in state foundation aid and \$36,159 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$214,169 and expenses were \$202,904. The District's business-type activities include the School Nutrition Fund and Day Care 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 Martensdale-St. Marys 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 \$3,044,429, above last year's ending fund balances of a \$246,941. However, the primary reason for the increase in combined fund balances in fiscal 2004 is due to the issuance of \$2.7 million in general obligations bonds.

Governmental Fund Highlights

- The District's improving General Fund financial position from \$162,510 to \$415,623 is the product of many factors:
 - An increase in tax levy during the year resulted in increased revenues.
 - The increase in negotiated salary and benefits settlement, as well as existing expenditure commitments of the District, resulted in an increase in expenditures.
- The Capital Projects Fund balance increased from \$0 in fiscal 2003 to \$2,525,866 in fiscal 2004. The District issued \$2.7 million in general obligation bonds to construct new classrooms and other various projects. The expenditures from this fund make up the construction in progress balance. These various projects will be capitalized and depreciated upon completion of the capital improvements.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$17,076 at June 30, 2003 to \$28,068 at June 30, 2004, representing an increase of 64.37%. The Day Care Fund net assets increased from a deficit \$231 at June 30, 2003 to \$42 at June 30, 2004, representing an increase of 118.18%.

BUDGETARY HIGHLIGHTS

Over the course of the year, Martensdale-St. Marys Community School District amended its annual budget one time to reflect additional expenditures associated with the other expenditures.

The District's revenues were \$18,526 more than budgeted revenues, a variance of .41%. 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.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$1.5 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) More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$75,313.

The original cost of the District's capital assets was \$3.2 million. Governmental funds account for \$3.15 million with the remainder of \$0.05 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$205,122 at June 30, 2004, compared to \$0 reported at June 30, 2003. This increase resulted from the current year capital improvements in progress due to the issuance of general obligation bonds.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Land	\$ 110,000	0	110,000
Construction in progress	205,122	0	205,122
Buildings and improvements	1,063,590	0	1,063,590
Machinery and equipment	71,557	9,018	80,575
Total	\$ 1,450,269	9,018	1,459,287

Long-Term Debt

At June 30, 2004, the District had \$2,758,945 in general obligation and other long-term debt outstanding. This represents an increase of 10,785.6% 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 \$2,700,000 at June 30, 2004.

The District had total outstanding Post Employment Benefits payable from the General Fund of \$45,960 at June 30, 2004.

The District had total outstanding Bus Loan payable from the Special Revenue – Physical Plant and Equipment Levy Fund of \$12,985 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
General Obligation Bonds	\$ 2,700,000	0	100.0%
Post Employment Benefit	45,960	0	100.0%
Bus Loan	12,985	25,345	-48.8%
Totals	<u>\$ 2,758,945</u>	<u>25,345</u>	<u>10785.6%</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 state's economy is showing limited signs of economic recovery. A weaker economy adversely impacts the amount of new general fund money available to the District.
- Historically, the District has entered into annual contracts with its collective bargaining units. The District will negotiate new agreements during fiscal 2005. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance. Corresponding cost reductions will be made to offset the cost of negotiated settlements and other cost increases.
- The voters of Warren and Madison County passed the Local Option Sales and Services Tax for School Infrastructure (SILO). This 1 cent tax on sales and services will greatly benefit the District in maintaining their buildings and purchasing equipment. The funding will begin in September 2004.

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 Jane Cassidy, Business Manager, Martensdale-St. Marys Community School District, Martensdale, Iowa, 50160.

BASIC FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP(Note 5)	\$ 1,173,723	23,475	1,197,198
Other	3,338,449	0	3,338,449
Receivables:			
Property tax:			
Delinquent	22,484	0	22,484
Succeeding year	1,359,336	0	1,359,336
Income surtax	156,815	0	156,815
Interfund	2,547	0	2,547
Accounts	2,206	704	2,910
Accrued ISCAP interest(Note 5)	2,283	0	2,283
Due from other governments	98,780	0	98,780
Inventories	0	4,290	4,290
Capital assets, net of accumulated depreciation(Note 6)	1,450,269	9,018	1,459,287
TOTAL ASSETS	7,606,892	37,487	7,644,379
LIABILITIES			
Excess of warrants issued over bank balances	4,468	176	4,644
Interfund payable	2,547	0	2,547
Accounts payable	98,549	486	99,035
Salaries and benefits payable	307,744	0	307,744
ISCAP warrants payable(Note 5)	1,177,000	0	1,177,000
ISCAP interest payable(Note 5)	3,629	0	3,629
ISCAP unamortized premium	2,106	0	2,106
Interest payable	19,514	0	19,514
Deferred revenue:			
Succeeding year property tax	1,359,336	0	1,359,336
Other	0	8,715	8,715
Long-term liabilities(Note 7):			
Portion due within one year:			
General obligation bonds payable	35,000	0	35,000
Post employment benefit payable	8,000	0	8,000
Bus loan payable	12,985	0	12,985
Portion due after one year:			
General obligation bonds payable	2,665,000	0	2,665,000
Post employment benefit payable	37,960	0	37,960
TOTAL LIABILITIES	5,733,838	9,377	5,743,215
NET ASSETS			
Investment in capital assets, net of related debt	1,259,548	9,018	1,268,566
Restricted for:			
Phase III	3,856	0	3,856
Teacher compensation	127	0	127
Management levy	12,684	0	12,684
Physical plant and equipment levy	14,778	0	14,778
Other special revenue purposes	59,566	0	59,566
Unrestricted	522,495	19,092	541,587
TOTAL NET ASSETS	\$ 1,873,054	28,110	1,901,164

SEE NOTES TO FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	\$ 1,880,006	202,149	285,847	0
Special instruction	422,627	35,031	18,559	0
Other instruction	372,978	191,952	0	0
	<u>2,675,611</u>	<u>429,132</u>	<u>304,406</u>	<u>0</u>
Support services:				
Student services	89,627	0	0	0
Instructional staff services	57,935	0	0	0
Administration services	519,924	0	0	77,985
Operation and maintenance of plant services	285,465	0	0	0
Transportation services	213,099	0	4,462	0
Central support	4,883	0	0	0
	<u>1,170,933</u>	<u>0</u>	<u>4,462</u>	<u>77,985</u>
Other expenditures:				
Facilities acquisitions	26,514	0	0	0
Long-term debt:				
Interest and fiscal charges	20,788	0	0	0
AEA flowthrough	139,942	0	139,942	0
Depreciation(unallocated)*	40,550	0	0	0
	<u>227,794</u>	<u>0</u>	<u>139,942</u>	<u>0</u>
Total governmental activities	4,074,338	429,132	448,810	77,985
Business-Type activities:				
Non-instructional programs:				
Nutrition services	173,147	117,431	66,708	0
Day care services	29,757	29,820	0	0
Total business-type activities	<u>202,904</u>	<u>147,251</u>	<u>66,708</u>	<u>0</u>
Total	<u>\$ 4,277,242</u>	<u>576,383</u>	<u>515,518</u>	<u>77,985</u>

General Revenues:

Property tax levied for:
 General purposes
 Capital projects
 Unrestricted state grants
 Unrestricted investment earnings

Total general revenues

Changes in net assets

Net assets beginning of year, as restated(Note 11)

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(1,392,010)	0	(1,392,010)
(369,037)	0	(369,037)
(181,026)	0	(181,026)
<u>(1,942,073)</u>	<u>0</u>	<u>(1,942,073)</u>
(89,627)	0	(89,627)
(57,935)	0	(57,935)
(441,939)	0	(441,939)
(285,465)	0	(285,465)
(208,637)	0	(208,637)
(4,883)	0	(4,883)
<u>(1,088,486)</u>	<u>0</u>	<u>(1,088,486)</u>
(26,514)	0	(26,514)
(20,788)	0	(20,788)
0	0	0
(40,550)	0	(40,550)
<u>(87,852)</u>	<u>0</u>	<u>(87,852)</u>
(3,118,411)	0	(3,118,411)
0	10,992	10,992
0	63	63
0	11,055	11,055
<u>(3,118,411)</u>	<u>11,055</u>	<u>(3,107,356)</u>
\$ 1,410,359	0	1,410,359
86,241	0	86,241
1,856,295	0	1,856,295
36,159	210	36,369
<u>3,389,054</u>	<u>210</u>	<u>3,389,264</u>
270,643	11,265	281,908
<u>1,602,411</u>	<u>16,845</u>	<u>1,619,256</u>
<u>\$ 1,873,054</u>	<u>28,110</u>	<u>1,901,164</u>

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments:				
ISCAP(Note 5)	\$ 1,173,723	0	0	1,173,723
Other	645,730	2,620,014	72,705	3,338,449
Receivables:				
Property tax:				
Delinquent	20,050	0	2,434	22,484
Succeeding year	1,031,666	0	327,670	1,359,336
Income surtax	156,815	0	0	156,815
Interfund	2,547	0	0	2,547
Accounts	710	0	1,496	2,206
Accrued ISCAP interest(Note 5)	2,283	0	0	2,283
Due from other governments	65,205	0	33,575	98,780
TOTAL ASSETS	\$ 3,098,729	2,620,014	437,880	6,156,623
LIABILITIES AND FUND BALANCES				
Liabilities:				
Excess of warrants issued over				
bank balances	\$ 0	0	4,468	4,468
Interfund payable	0	0	2,547	2,547
Accounts payable	4,146	94,148	255	98,549
Salaries and benefits payable	307,744	0	0	307,744
ISCAP warrants payable(Note 5)	1,177,000	0	0	1,177,000
ISCAP interest payable(Note 5)	3,629	0	0	3,629
ISCAP unamortized premium	2,106	0	0	2,106
Deferred revenue:				
Succeeding year property tax	1,031,666	0	327,670	1,359,336
Income surtax	156,815	0	0	156,815
Total liabilities	2,683,106	94,148	334,940	3,112,194
Fund balances:				
Reserved for:				
Debt Service	0	0	2,927	2,927
Phase III	3,856	0	0	3,856
Teacher compensation	127	0	0	127
Unreserved:				
Undesignated:				
General	411,640	0	0	411,640
Capital projects	0	2,525,866	0	2,525,866
Management levy	0	0	12,684	12,684
Physical plant and equipment levy	0	0	27,763	27,763
Other special revenue purposes	0	0	59,566	59,566
Total fund balances	415,623	2,525,866	102,940	3,044,429
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,098,729	2,620,014	437,880	6,156,623

SEE NOTES TO FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS 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 16)	\$	3,044,429
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		1,450,269
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.		156,815
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, are deferred in the governmental funds.		(19,514)
Long-term liabilities, including general obligation bonds, post employment benefit payable, and bus loan payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(2,758,945)</u>
Net assets of governmental activities (page 13)	\$	<u><u>1,873,054</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax:	\$ 1,324,125	0	143,964	1,468,089
Tuition	237,180	0	0	237,180
Other	61,322	30,988	135,801	228,111
State sources	2,196,860	0	145	2,197,005
Federal sources	108,100	0	77,985	186,085
Total revenues	<u>3,927,587</u>	<u>30,988</u>	<u>357,895</u>	<u>4,316,470</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	1,824,800	0	0	1,824,800
Special instruction	422,627	0	0	422,627
Other instruction	235,625	0	131,981	367,606
	<u>2,483,052</u>	<u>0</u>	<u>131,981</u>	<u>2,615,033</u>
Support services:				
Student services	89,627	0	0	89,627
Instructional staff services	57,935	0	0	57,935
Administration services	413,185	0	106,739	519,924
Operation and maintenance of plant services	294,810	0	54,155	348,965
Transportation services	191,040	0	6,363	197,403
Central support	4,883	0	0	4,883
	<u>1,051,480</u>	<u>0</u>	<u>167,257</u>	<u>1,218,737</u>
Other expenditures:				
Facilities acquisitions	0	205,122	26,514	231,636
Long-term debt:				
Principal	0	0	12,360	12,360
Interest and fiscal charges	0	0	1,274	1,274
AEA flowthrough	139,942	0	0	139,942
	<u>139,942</u>	<u>205,122</u>	<u>40,148</u>	<u>385,212</u>
Total expenditures	<u>3,674,474</u>	<u>205,122</u>	<u>339,386</u>	<u>4,218,982</u>
Excess(deficiency) of revenues over(under) expenditures	253,113	(174,134)	18,509	97,488
Other financing sources(uses):				
Sale of bonds	0	2,700,000	0	2,700,000
Transfer in	0	0	25,507	25,507
Transfer out	0	0	(25,507)	(25,507)
Total other financing sources(uses)	<u>0</u>	<u>2,700,000</u>	<u>0</u>	<u>2,700,000</u>
Net change in fund balances	253,113	2,525,866	18,509	2,797,488
Fund balance beginning of year	162,510	0	84,431	246,941
Fund balance end of year	<u>\$ 415,623</u>	<u>2,525,866</u>	<u>102,940</u>	<u>3,044,429</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds (page 18) \$ 2,797,488

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

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

Expenditures for capital assets	\$ 268,622	
Depreciation expense	(70,864)	197,758

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceed repayments, as follows:

Issued	\$ (2,700,000)	
Repaid	12,360	(2,687,640)

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. (19,514)

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds. 28,511

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. (45,960)

Early Retirement

Changes in net assets of governmental activities (page 15) \$ 270,643

SEE NOTES TO FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2004

	School Nutrition	Day Care	Total
ASSETS			
Current assets:			
Cash and pooled investments	\$ 23,475	0	23,475
Receivables:			
Accounts	0	704	704
Inventories	4,290	0	4,290
Capital assets, net of accumulated depreciation (Note 6)	9,018	0	9,018
TOTAL ASSETS	36,783	704	37,487
LIABILITIES			
Excess of warrants issued over bank balance			
	0	176	176
Accounts payable	0	486	486
Deferred revenue:			
Other	8,715	0	8,715
TOTAL LIABILITIES	8,715	662	9,377
NET ASSETS			
Investment in capital assets, net of related debt	9,018	0	9,018
Unrestricted	19,050	42	19,092
Total net assets	\$ 28,068	42	28,110

SEE NOTES TO FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2004

	School Nutrition	Day Care	Total
OPERATING REVENUE:			
Local sources:			
Charges for service	\$ 117,431	29,820	147,251
OPERATING EXPENSES:			
Non-instructional programs:			
Salaries	65,286	21,219	86,505
Benefits	8,769	2,781	11,550
Services	7,014	158	7,172
Supplies	87,629	5,599	93,228
Depreciation	4,449	0	4,449
TOTAL OPERATING EXPENSES	173,147	29,757	202,904
OPERATING INCOME (LOSS)	(55,716)	63	(55,653)
NON-OPERATING REVENUES:			
State sources	2,558	0	2,558
Federal sources	64,150	0	64,150
Interest income	0	210	210
TOTAL NON-OPERATING REVENUES	66,708	210	66,918
Changes in net assets	10,992	273	11,265
Net assets beginning of year, as restated(Note 11)	17,076	(231)	16,845
Net assets end of year	\$ 28,068	42	28,110

SEE NOTES TO FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2004

	School Nutrition	Day Care	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 126,146	0	126,146
Cash received from miscellaneous operating activities	0	29,259	29,259
Cash payments to employees for services	(87,142)	(24,000)	(111,142)
Cash payments to suppliers for goods or services	(80,099)	(5,306)	(85,405)
Net cash used in operating activities	(41,095)	(47)	(41,142)
Cash flows from non-capital financing activities:			
State grants received	2,558	0	2,558
Federal grants received	49,650	0	49,650
Net cash provided by non-capital financing activities	52,208	0	52,208
Cash flows from investing activities:			
Interest on investment	0	210	210
Net cash provided by investing activities	0	210	210
Net increase in cash and cash equivalents	11,113	163	11,276
Cash and cash equivalents at beginning of year	12,362	(339)	12,023
Cash and cash equivalents at end of year	\$ 23,475	(176)	23,299
Reconciliation of operating income(loss) to net cash used in operating activities:			
Operating income(loss)	\$ (55,716)	63	(55,653)
Adjustments to reconcile operating income(loss) to net cash used in operating activities:			
Commodities consumed	14,500	0	14,500
Depreciation	4,449	0	4,449
Decrease in inventories	44	0	44
Increase in accounts receivable	0	(561)	(561)
Increase(Decrease) in accounts payable	(13,087)	451	(12,636)
Increase in deferred revenue	8,715	0	8,715
Net cash used in operating activities	\$ (41,095)	(47)	(41,142)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and investments	\$ 23,475	(176)	23,299
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			

During the year ended June 30, 2004, the District received Federal commodities valued at \$14,500.

SEE NOTES TO FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
ASSETS	
Cash and pooled investments	\$ 77,937
TOTAL ASSETS	<u>77,937</u>
LIABILITIES	<u>0</u>
NET ASSETS	
Reserved for scholarships	<u>\$ 77,937</u>

SEE NOTES TO FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2004

	Private Purpose Trust
	Scholarship
Additions:	
Local sources:	
Interest on investments	\$ 3,235
Total additions	3,235
Deductions:	
Non-instructional programs:	
Scholarships awarded	3,000
Total deductions	3,000
Change in net assets	235
Net assets beginning of year, as restated(Note 11)	77,702
Net assets end of year	\$ 77,937

SEE NOTES TO FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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

The Martensdale-St. Marys 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 Cities of Martensdale and St. Marys, Iowa, and the predominate agricultural territory in Warren and Madison Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, Martensdale-St. Marys 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 Martensdale-St. Marys 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 Warren and Madison Counties Assessors' Conference Board.

B. Basis of Presentation

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

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

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

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

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

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

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

Fund Financial Statements - Separate financial statements are provided for governmental, 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 Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District reports the following proprietary funds:

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

account for the day care service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary 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

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	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

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

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

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

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

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.

(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 \$551,911 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 transfers for the year ended June 30, 2004 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Special Revenue, Physical Plant and Equipment Levy	\$ <u>2,547</u>

The Special Revenue, Physical Plant and Equipment Levy is repaying the General Fund for a fire safety grant that was incorrectly

paid out of the General Fund recorded in the prior year. The balance will be repaid by June 30, 2005.

(4) Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue, Physical Plant and Equipment Levy	Debt Service	\$ 11,873
Debt Service	Special Revenue, Physical Plant and Equipment Levy	13,634
Total		<u>\$ 25,507</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 Schools 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. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2004 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
2003-04B	1/30/04	1/28/05	\$ 439,976	2,283	437,000	3,629
2004-05A	6/30/04	6/30/05	733,747	0	740,000	0
Total			<u>\$ 1,173,723</u>	<u>2,283</u>	<u>1,177,000</u>	<u>3,629</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and 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	480,000	480,000	0
2003-04B	0	100,000	100,000	0
Total	\$ 0	580,000	580,000	0

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as 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, as restated (Note 11)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 110,000	0	0	110,000
Construction in progress	0	205,122	0	205,122
Total capital assets not being depreciated	110,000	205,122	0	315,122
Capital assets being depreciated:				
Buildings and improvements	2,099,950	63,500	0	2,163,450
Machinery and equipment	701,525	0	0	701,525
Total capital assets being depreciated	2,801,475	63,500	0	2,864,975
Less accumulated depreciation for:				
Buildings and improvements	1,059,310	40,550	0	1,099,860
Machinery and equipment	599,654	30,314	0	629,968
Total accumulated depreciation	1,658,964	70,864	0	1,729,828
Total capital assets being depreciated, net	1,142,511	(70,864)	0	1,135,147
Governmental activities capital assets, net	\$ 1,252,511	(70,864)	0	1,450,269
Business-type activities:				
Machinery and equipment	\$ 51,684	0	2,000	49,684
Less accumulated depreciation	38,217	4,449	2,000	40,666
Business-type activities capital assets, net	\$ 13,467	(4,449)	0	9,018

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 9,246
Other		5,372
Support services:		
Transportation		15,696
		<u>30,314</u>
Unallocated depreciation		<u>40,550</u>
		<u>\$ 70,864</u>
Business-type activities:		
Food services		\$ 4,449
Total business-type activities depreciation expense		<u>\$ 4,449</u>

(7) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 0	2,700,000	0	2,700,000	35,000
Post Employment Benefit	0	45,960	0	45,960	8,000
Bus Loan	25,345	0	12,360	12,985	12,985
Total	<u>\$ 25,345</u>	<u>2,745,960</u>	<u>12,360</u>	<u>2,758,945</u>	<u>55,985</u>

General Obligation Bonds Payable

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

Year Ending June 30,	Bond Issue of December 31, 2003			
	Interest Rates	Principal	Interest	Total
2005	5.25 %	\$ 35,000	175,628	210,628
2006	5.25	100,000	115,247	215,247
2007	4.50	105,000	109,997	214,997
2008	4.50	110,000	105,273	215,273
2009	4.25	115,000	100,323	215,323
2010	4.00	120,000	95,435	215,435
2011	3.25	125,000	90,635	215,635
2012	3.50	130,000	86,573	216,573
2013	3.75	135,000	82,022	217,022
2014	4.00	140,000	76,960	216,960
2015	4.10	150,000	71,360	221,360
2016	4.20	155,000	65,210	220,210
2017	4.30	160,000	58,700	218,700
2018	4.40	165,000	51,820	216,820
2019	4.50	175,000	44,560	219,560
2020	4.60	180,000	36,685	216,685
2021	4.70	190,000	28,405	218,405
2022	4.75	200,000	19,475	219,475
2023	4.75	210,000	9,975	219,975
Total		\$ 2,700,000	1,424,283	4,124,283

Post Employment Benefit Payable

The District offered a post employment benefit package. The post employment benefit included family health insurance for four years with a cap of \$800 per month and two more years of single health insurance with a cap of \$315 per month. The post employment benefit will be paid from the General Fund. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

Bus Loan

Details of the District's June 30, 2004 bus loan indebtedness is as follows:

Year Ending June 30,	Interest Rate	Principal	Interest	Total
2005	5.00 %	\$ 12,985	650	13,635

(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

covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$118,426, \$119,110 and \$119,284 respectively, equal to the required contributions for each year.

(9) Risk Management

Martensdale-St. Marys Community School District is a member in the Iowa School Employees Benefits Association, and 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 July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: dental, life and long-term disability.

Each member's contributions to ISEBA funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a GAAP 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 \$8,640.

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.

Martensdale-St. Marys 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 \$139,942 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) Accounting Change and Restatements

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

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

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

Beginning capital assets for governmental activities of \$4,144,772 were restated to \$2,911,475. The restatement primarily removed assets that were not included on a recent appraisal.

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

	Fund			Total
	General	Trust	Other Nonmajor Governmental Funds	
Net assets, June 30, 2003, as previously reported	\$ 162,510	77,702	84,431	324,643
Reclass Trust as Fiduciary Fund Type	0	(77,702)	0	(77,702)
Net assets, July 1, 2003, as restated for governmental funds	<u>\$ 162,510</u>	<u>0</u>	<u>84,431</u>	<u>246,941</u>
GASB 34 adjustments:				
Capital assets, net of accumulated depreciation of \$1,658,964				1,252,511
Income surtax				128,304
Long-term liabilities:				
Bus loan payable				<u>(25,345)</u>
Net assets, July 1, 2003, as restated				<u>\$ 1,602,411</u>

	Fund		
	Enterprise		
	School Nutrition	Day Care	Total
Net assets, June 30, 2003, as previously reported	\$ 6,001	(231)	5,770
Capital contributions	11,075	0	11,075
Net assets, July 1, 2003, as restated for business-type activities	<u>\$ 17,076</u>	<u>(231)</u>	<u>16,845</u>

	Fund	
	Fiduciary	
	Private Purpose Trust - Scholarship	
Net assets, June 30, 2003, as previously reported	\$	0
Reclass Trust as Fiduciary Fund Type		77,702
Net assets, July 1, 2003, as restated for business-type activities	<u>\$</u>	<u>77,702</u>

REQUIRED SUPPLEMENTAL INFORMATION

MARTENSDALE-ST. MARYS 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	\$ 1,894,812	155,615
State sources	2,192,370	2,558
Federal sources	175,259	64,150
Total receipts	<u>4,262,441</u>	<u>222,323</u>
Disbursements:		
Instruction	2,463,630	0
Support services	1,361,746	0
Non-instructional programs	0	211,047
Other expenditures	291,319	0
Total disbursements	<u>4,116,695</u>	<u>211,047</u>
Excess(deficiency) of receipts over(under) disbursements	145,746	11,276
Other financing sources, net	<u>2,700,000</u>	0
Excess(deficiency) of receipts and other financing sources over(under) disbursements	2,845,746	11,276
Balance beginning of year	<u>488,235</u>	12,023
Balance end of year	<u>\$ 3,333,981</u>	<u>23,299</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
2,050,427	2,124,846	2,124,846	(74,419)
2,194,928	2,257,402	2,257,402	(62,474)
239,409	83,990	83,990	155,419
<u>4,484,764</u>	<u>4,466,238</u>	<u>4,466,238</u>	<u>18,526</u>
2,463,630	2,522,433	2,750,000	286,370
1,361,746	1,303,879	1,375,000	13,254
211,047	217,000	300,000	88,953
291,319	224,115	500,000	208,681
<u>4,327,742</u>	<u>4,267,427</u>	<u>4,925,000</u>	<u>597,258</u>
157,022	198,811	(458,762)	(578,732)
<u>2,700,000</u>	<u>0</u>	<u>0</u>	<u>2,700,000</u>
2,857,022	198,811	(458,762)	2,121,268
500,258	280,166	280,166	220,092
<u>3,357,280</u>	<u>478,977</u>	<u>(178,596)</u>	<u>2,341,360</u>

MARTENSDALE-ST. MARYS 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	\$ 4,262,441	54,029	4,316,470
Expenses	4,116,695	102,287	4,218,982
Net	145,746	(48,258)	97,488
Other financing sources	2,700,000	0	2,700,000
Beginning fund balances	488,235	(241,294)	246,941
Ending fund balances	\$ 3,333,981	(289,552)	3,044,429

	Proprietary Fund Type		
	Cash Basis	Enterprise Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 222,323	(8,154)	214,169
Expenses	211,047	(8,143)	202,904
Net	11,276	(11)	11,265
Beginning retained earnings	12,023	4,822	16,845
Ending retained earnings	\$ 23,299	4,811	28,110

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARTENSDALE-ST. MARYS 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 \$657,573.

OTHER SUPPLEMENTAL INFORMATION

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2004

	Special Revenue Funds					Debt Service	Total Other Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds			
ASSETS							
Cash and pooled investments	\$ 11,708	58,070	0	69,778	2,927		72,705
Receivables:							
Property tax:							
Current year delinquent		976	0	1,458	2,434	0	2,434
Succeeding year	50,000	0	87,042	137,042	190,628		327,670
Accounts	0	1,496	0	1,496	0		1,496
Due from other governments	0	0	33,575	33,575	0		33,575
TOTAL ASSETS	\$ 62,684	59,566	122,075	244,325	193,555		437,880
LIABILITIES AND FUND EQUITY							
Liabilities:							
Excess of warrants issued over bank balance	\$ 0	0	4,468	4,468	0		4,468
Interfund payable	0	0	2,547	2,547	0		2,547
Accounts payable	0	0	255	255	0		255
Deferred revenue:							
Succeeding year property tax	50,000	0	87,042	137,042	190,628		327,670
	50,000	0	94,312	144,312	190,628		334,940
Fund equity:							
Fund balances:							
Reserved for debt service	0	0	0	0	2,927		2,927
Unreserved:							
Undesignated	12,684	59,566	27,763	100,013	0		100,013
Total fund balances	12,684	59,566	27,763	100,013	2,927		102,940
TOTAL LIABILITIES AND FUND EQUITY	\$ 62,684	59,566	122,075	244,325	193,555		437,880

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2004

	Special Revenue Funds				Debt Service	Total Other Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds		
REVENUES:						
Local sources:						
Local tax	\$ 57,723	0	86,241	143,964	0	143,964
Other	253	132,621	0	132,874	2,927	135,801
State sources	58	0	87	145	0	145
Federal sources	0	0	77,985	77,985	0	77,985
TOTAL REVENUES	58,034	132,621	164,313	354,968	2,927	357,895
EXPENDITURES:						
Current:						
Instruction:						
Other instruction	0	131,981	0	131,981	0	131,981
Support services:						
Administration services	2,671	0	104,068	106,739	0	106,739
Operation and maintenance of plant services	38,379	0	15,776	54,155	0	54,155
Student transportation	6,363	0	0	6,363	0	6,363
Other expenditures:						
Facilities acquisitions	0	0	26,514	26,514	0	26,514
Long-term debt:						
Principal	0	0	0	0	12,360	12,360
Interest and fiscal charges	0	0	0	0	1,274	1,274
TOTAL EXPENDITURES	47,413	131,981	146,358	325,752	13,634	339,386
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	10,621	640	17,955	29,216	(10,707)	18,509
OTHER FINANCING SOURCES (USES):						
Transfer in	0	0	11,873	11,873	13,634	25,507
Transfer out	0	0	(13,634)	(13,634)	(11,873)	(25,507)
	0	0	(1,761)	(1,761)	1,761	0
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	10,621	640	16,194	27,455	(8,946)	18,509
FUND BALANCE BEGINNING OF YEAR	2,063	58,926	11,569	72,558	11,873	84,431
FUND BALANCE END OF YEAR	\$ 12,684	59,566	27,763	100,013	2,927	102,940

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2004

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 3,687	60	1,837	1,910
Vocal Music	397	0	275	122
Instrumental Music	11,984	574	8,695	3,863
Music Resale	383	570	443	510
Band	220	652	826	46
Boys Basketball	4,099	1,772	3,185	2,686
Athletic Resale	185	0	0	185
Athletics	(4,212)	51,748	42,603	4,933
Golf	1,506	1,630	1,970	1,166
Girls Basketball	3,775	3,480	2,746	4,509
Elementary Student Council	193	2,422	560	2,055
Volleyball	876	1,153	905	1,124
Boys Track	0	255	255	0
Football	3,074	10,568	10,235	3,407
Baseball	1,969	8,020	7,195	2,794
Girls Track	0	1,679	1,660	19
Wrestling	143	87	131	99
Softball	0	4,243	2,634	1,609
Junior Student Council	0	16	16	0
Pop	79	4,131	3,152	1,058
Student Council	524	1,317	860	981
Shop	(170)	1,703	2,282	(749)
Pictures	898	1,743	0	2,641
Pictures Interest	7	39	0	46
Activity Center	11,692	0	0	11,692
Textbook	113	0	0	113
National Honor Society	427	0	0	427
Dance	0	568	519	49
Lockers	848	0	241	607
Class of 2002	229	0	0	229
Class of 2004	4,404	2,820	6,056	1,168
Class of 2005	2,063	3,336	3,492	1,907
Class of 2006	1,267	155	0	1,422
Class of 2007	2,107	25	0	2,132
Class of 2008	467	0	0	467
Class of 2009	0	3,616	2,115	1,501
Class of 2010	(19)	1,591	1,572	0
Annual	609	10,036	9,984	661
Wrestling Cheerleaders	1,299	1,015	1,718	596
FB/BB Cheerleaders	2,270	3,829	5,412	687
General Activities	1,105	7,768	8,037	836
Adult Ed	428	0	370	58
Total	\$ 58,926	132,621	131,981	59,566

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARTENSDALE-ST. MARYS 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	\$ 1,468,089	1,428,984	1,229,364	1,282,970
Tuition	237,180	192,862	154,127	143,091
Other	228,111	208,732	214,546	182,506
State sources	2,197,005	2,226,813	2,209,880	2,210,325
Federal sources	186,085	174,344	45,586	35,520
Total	<u>\$ 4,316,470</u>	<u>4,231,735</u>	<u>3,853,503</u>	<u>3,854,412</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 1,824,800	1,794,876	1,758,426	1,667,382
Special instruction	422,627	438,066	443,354	305,017
Other instruction	367,606	358,869	412,283	352,147
Support services:				
Student services	89,627	95,202	101,868	98,048
Instructional staff services	57,935	60,048	118,948	127,005
Administration services	519,924	466,576	406,041	393,950
Operation and maintenance of plant services	348,965	306,520	309,842	364,544
Transportation services	197,403	208,827	201,417	253,530
Central support	4,883	7,840	624	0
Non-instructional programs	0	0	4,860	0
Other expenditures:				
Facilities acquisitions	231,636	10,750	8,391	34,914
Long-term debt:				
Principal	12,360	31,782	32,894	170,000
Interest and fiscal charges	1,274	2,803	2,600	17,910
AEA flow-through	139,942	148,583	148,315	148,845
Total	<u>\$ 4,218,982</u>	<u>3,930,742</u>	<u>3,949,863</u>	<u>3,933,292</u>

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

To the Board of Education of the
Martensdale-St. Marys Community School District:

We have audited the financial statements of Martensdale-St. Marys Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated November 19, 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 Martensdale-St. Marys Community School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved.

Internal Control Over Financial Reporting

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

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

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

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Martensdale-St. Marys Community School District and other parties to whom Martensdale-St. Marys 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 Martensdale-St. Marys 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 19, 2004

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

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

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-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 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.

I-B-04 Grants - We noted during our audit, that when expenditures for specific projects were posted; it appeared that the expenses were not always properly posted to those projects.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting for Iowa LEAs and AEAs. The proper coding also allows the district to maintain accountability of the grants by matching the revenues to the expenditures.

Response - We are working on this.

Conclusion - Response accepted.

I-C-04 Student Activity Fund - We noted during our audit that the Student Activity fund included pictures and locker accounts. We also noted during our audit a Class of 2002 account in the Student Activity fund.

Recommendation - The receipts and expenditures made from the pictures and locker accounts appear to be more appropriately accounted for in the General fund. The District should review the transactions in this account and make the necessary transfers. The Class of 2002 account upon graduation ceases to be a student organization. Once the transactions are completed, the remaining balance should be transferred to other organizations within the Student Activity Fund.

Response - We will make the necessary changes.

Conclusion - Response accepted.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part II: Other Findings Related to Statutory Reporting

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

II-B-04 Certified Budget - District disbursements for the year ended June 30, 2004, did not exceed the amount budgeted.

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

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

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

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

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

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

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

Conclusion - Response accepted.

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

II-I-04 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

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