

C & M COMMUNITY SCHOOL DISTRICT
MASSENA, IOWA

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

JUNE 30, 2005

TABLE OF CONTENTS

	Page
OFFICIALS	3
INDEPENDENT AUDITOR’S REPORT	4-5
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)	6-15
BASIC FINANCIAL STATEMENTS	
Exhibit	
District-Wide Financial Statements:	
A Statement of Net Assets	18
B Statement of Activities	20-23
Governmental Fund Financial Statements:	
C Balance Sheet	24
D Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	25
E Statement of Revenues, Expenditures and Changes in Fund Balances	26-27
F Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	28
Proprietary Fund Financial Statements:	
G Statement of Net Assets	29
H Statement of Revenues, Expenses, and Changes in Net Assets	30
I Statement of Cash Flows	31
Fiduciary Fund Financial Statements:	
J Statement of Fiduciary Net Assets	32
K Statement of Changes in Fiduciary Net Assets	33
Notes to Financial Statements	34-44
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Fund	46
Budgetary Comparison Schedule - Budget to GAAP Reconciliation	47
Notes to Required Supplementary Information – Budgetary Reporting	48
OTHER SUPPLEMENTARY INFORMATION:	
Schedule	
Nonmajor Governmental Funds:	
1 Combining Balance Sheet	50
2 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	51
3 Schedule of Changes in Special Revenue Fund, Student Activity Accounts	52
4 Schedule of Changes in Fiduciary Assets and Liabilities – Agency Fund	53
5 Schedule of Revenues by Source and Expenditures by Function – All Governmental Funds	54
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	55-56
SCHEDULE OF FINDINGS	57-58

C & M COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2004 Election)		
Galen Becker	President	2004
Jennifer Holste	Vice President	2005
Todd McKee	Board Member	2006
Rob Ticknor	Board Member	2006
Brian Bower	Board Member	2005
<u>Board of Education</u>		
(After September 2004 Election)		
Galen Becker	President	2007
Jennifer Holste	Vice President	2005
Todd McKee	Board Member	2006
Rob Ticknor	Board Member	2006
Brian Bower	Board Member	2005
<u>School Officials</u>		
James Hammrich	Superintendent	2005
Linda Edwards	District Secretary/Treasurer	2005
Rick Franck	Attorney	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
C & M 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 C & M Community School District, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 C & M Community School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated July 28, 2005 on our consideration of C & M Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 6 through 15 and 46 through 48 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise C & M 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, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 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.

Oskaloosa, Iowa
July 28, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

C & M Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Financial Highlights

- General Fund revenues increased from \$1,928,419 in fiscal 2004 to \$1,986,840 in fiscal 2005, while General Fund expenditures increased from \$2,088,375 in fiscal 2004 to \$2,105,056 in fiscal 2005. This resulted in a decrease in the District's General Fund balance from \$235,111 in fiscal 2004 to \$117,247 in fiscal 2005, a 50 percent decrease from the prior year.
- Cass County held an election to determine whether to collect the School Infrastructure Local Option sales tax. With the passage and addition of the SILO tax this year, the district added \$57,559. This fund can be used for any of the projects that the PPEL fund can be used for.
- Two buses and a suburban were purchased using PPEL funds in fiscal year 2005. This should put our transportation department in good shape for the 2006 fiscal year. The district is looking at some repairs to the buildings for next year, which will be funded by both SILO and PPEL funds.

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- The statements for *fiduciary funds* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

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

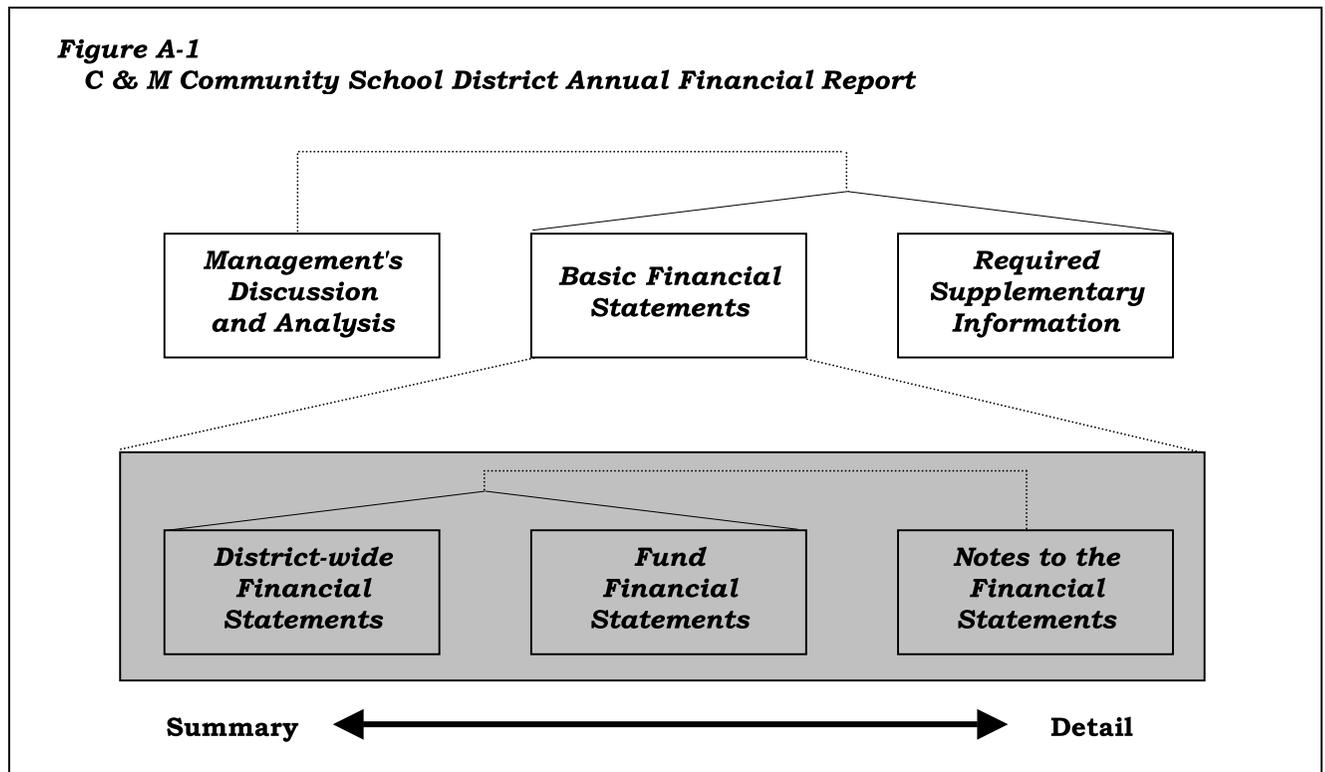


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2				
Major Features of the District-Wide and Fund Financial Statements				
	District-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	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net 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 net assets • 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

District-wide Statements

The District-wide 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 District-wide 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, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-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:

- *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. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.

- The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Fund.
- *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 District-wide statements.
 - The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency funds.
 - Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
 - Agency Fund – These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employees' purchases for the Hearts and Flowers fund and for the CMEA (Education Association) 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.

Financial Analysis of the District as a Whole

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2005 compared to 2004.

**Figure A-3
Condensed Statement of Net Assets**

	Governmental Activities		Business-type Activities		Total School District		Total Change 2004-2005
	2005	2004	2005	2004	2005	2004	
Current and other assets	\$1,292,538	\$1,265,939	\$2,902	\$659	\$1,295,440	\$1,266,598	2.3%
Capital assets	1,408,533	1,346,865	4,679	5,595	\$1,413,212	1,352,460	4.5%
Total Assets	2,701,071	2,612,804	7,581	6,254	2,708,652	2,619,058	3.4%
Long-term obligations	17,515	14,729	0	0	17,515	14,729	18.9%
Other obligations	894,317	719,434	0	0	894,317	719,434	24.3%
Total Liabilities	911,832	734,163	0	0	911,832	734,163	24.2%
Net assets:							
Invested in capital assets, net of related debt	1,408,533	1,346,865	4,679	5,595	1,413,212	1,352,460	4.5%
Restricted	213,356	251,939	0	0	213,356	251,939	-15.3%
Unrestricted	167,350	279,837	2,902	659	170,252	280,496	-39.3%
Total Net Assets	1,789,239	1,878,641	7,581	6,254	1,796,820	1,884,895	-4.7%

Other obligations increased 24.3% due to the fact that the whole grade sharing payment to Anita Community School was recorded as a liability in 2005 since it was paid after June 30, 2005. In the prior year this payment was made prior to year end.

Unrestricted net assets decreased 39.3% due in part to increased expenditures from the negotiated salary and benefits settlement.

Changes in net assets – Figure A-4 shows the changes in net assets for the year ended June 30, 2005, compared to 2004.

**Figure A-4
Changes in Net Assets**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total School District</u>		<u>Total Change</u>
	June 30 2005	June 30 2004	June 30 2005	June 30 2004	June 30 2005	June 30 2004	June 30 2004-2005
Revenues:							
Program revenues:							
Charges for service and sales	\$268,911	\$263,751	\$43,048	\$41,303	\$311,959	\$305,054	2.3%
Operating grants, contributions, and restricted interest	277,719	282,247	46,315	44,283	\$324,034	326,530	-0.8%
Capital grants, contributions and restricted interest	0	0	0	0	0	0	0.0%
General revenues:							
Property tax	790,113	893,888	0	0	790,113	893,888	-11.6%
Unrestricted state grants	758,959	611,327	0	0	758,959	611,327	24.1%
Unrestricted investment earnings	9,339	6,528	44	28	9,383	6,566	42.9%
Other	123,195	120,873	0	0	123,195	120,873	1.9%
Total Assets	2,228,236	2,178,614	89,407	85,614	2,317,643	2,264,228	2.4%
Program expenses:							
Governmental activities							
Instruction	1,440,265	1,506,411	0	0	1,440,265	1,504,411	-4.3%
Support services	761,698	650,347	0	0	761,698	650,347	17.1%
Non-instructional programs	2,287	3,352	88,080	86,823	90,367	90,175	0.2%
Other expenses	113,388	121,223	0	0	113,388	121,223	-6.5%
Total Liabilities	2,317,638	2,281,333	88,080	86,823	2,405,718	2,368,156	1.6%
Change in net assets	<u>-89,402</u>	<u>-102,719</u>	<u>1,327</u>	<u>-1,209</u>	<u>-88,075</u>	<u>-103,928</u>	<u>-15.3%</u>

In 2005, property tax and unrestricted state grants account for 67 percent of the total revenue. The District's expenses primarily relate to instruction and support services which account for 92 percent of the total expenses.

Governmental Activities

Revenues for governmental activities were \$2,228,236 and expenses were \$2,317,638.

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**

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$1,440,265	\$967,404
Support Services	\$761,698	\$754,177
Non-instructional programs	\$2,287	2,287
Other expenses	<u>\$113,388</u>	<u>\$47,140</u>
Totals	\$2,317,638	\$1,771,008

- The cost financed by users of the District's programs was \$268,911.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$277,719.
- The net cost of governmental activities was financed with \$790,113 in property tax, \$758,959 in state foundation aid, \$55,657 in income surtax, \$9,339 in interest income, and \$67,538 in other general revenues.

Business-Type Activities

Revenues of the District's business-type activities were \$89,407 and expenses were \$88,080. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2005, the District increased meal prices. The School Nutrition Fund had been running a deficit for a significant number of years. The District will increase meal prices again for the upcoming fiscal year in an effort to meet expenses.

Financial Analysis of the District's Funds

As previously noted, the C & M 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 balances of \$348,118, again lower than last year's ending fund balances of \$462,657.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors. Growth during the year in tax and grants resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures requiring the District to use carryover fund balance to meet its financial obligations during the year.
- The General Fund balance decreased from \$235,111 to \$117,247, due in part to the negotiated salary and benefits settlement.
- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$148,286 in fiscal 2004 to \$112,027 in fiscal 2005. The District purchased two new buses and a pickup with PPEL funds and also transferred a portion of the balance of the Debt Service Fund (\$28,369) to PPEL. The remainder of the balance will be transferred fiscal 2006.

Proprietary Fund Highlights

The District is making strides in improving the financial situation of the School Nutrition Fund. A two-year increase in meal prices enabled the District to be at, at least, a break even point.

Budgetary Highlights

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 its private-purpose trust and agency funds. 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 budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 46-48.

Legal Budgetary Highlights

The District's total actual receipts were \$41,816 more than the total budgeted receipts, a variance of 1.9%. The most significant change resulted from the District receiving additional tuition through the whole-grade sharing program that was not included in the budget.

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

Capital Asset and Debt Administration

Capital Assets

At June 30, 2005, the District had invested \$1,413,212, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$116,040.

The original cost of the District's capital assets was \$3,229,672. Governmental funds account for \$3,048,248 with the remainder of \$181,424 in the Proprietary, School Nutrition Fund.

Significant capital assets activities include the purchase of two buses and a suburban, repairs to heaters, and the purchase of a new PA system.

Long-Term Debt

At June 30, 2005, the District had long-term debt totaling \$17,515, for two early-retirement plans. More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

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 evaluated the condition of its transportation vehicles and determined that a car would be purchased to replace a high-mileage vehicle. No other transportation vehicles should need to be purchased in Fiscal Year 2006.
- Whole-grade sharing revenues and expenditures should be at the same level as Fiscal Year 2005.
- The District will continue to receive whole-grade sharing dollars in Fiscal Years 2006 and 2007. The Sharing Agreement will expire at the end of 2006 and will be brought before the Boards again during this Fiscal Year.
- Open enrollment-out expenditures should be at approximately the same level for fiscal 2006 as the previous year.

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 Linda Edwards, District Secretary/Treasurer and Business Manager, C & M Community School District, PO Box 7, Massena, Iowa, 50853.

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Basic Financial Statements

C & M COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2005

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	\$ 451,516	\$ 1,579	\$ 453,095
Receivables:			
Property tax:			
Current year	19,691	-	19,691
Succeeding year	748,346	-	748,346
Income surtax	50,103	-	50,103
Accounts	1,343	-	1,343
Due from other governments	21,539	-	21,539
Inventories	-	1,323	1,323
Capital assets, net of accumulated depreciation (note 4)	1,408,533	4,679	1,413,212
	<hr/>	<hr/>	<hr/>
Total assets	2,701,071	7,581	2,708,652
Liabilities			
Accounts payable	145,971	-	145,971
Deferred revenue:			
Succeeding year property tax	748,346	-	748,346
Long-term liabilities (note 5):			
Portion due within one year:			
Early retirement	6,560	-	6,560
Portion due after one year:			
Early retirement	10,955	-	10,955
	<hr/>	<hr/>	<hr/>
Total liabilities	911,832	-	911,832
Net Assets			
Invested in capital assets	\$ 1,408,533	\$ 4,679	\$ 1,413,212
Restricted for:			
Management levy	10,614	-	10,614
Physical plant and equipment levy	112,027	-	112,027
Other special revenue purposes	14,443	-	14,443
Debt service	18,713	-	18,713
Capital projects	57,559	-	57,559
Unrestricted	167,350	2,902	170,252
	<hr/>	<hr/>	<hr/>
Total net assets	\$ <u>1,789,239</u>	\$ <u>7,581</u>	\$ <u>1,796,820</u>

See notes to financial statements.

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C & M COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants, Contributions and Restricted Interest
Governmental Activities:			
Instruction:			
Regular instruction	\$ 1,070,156	\$ 238,218	\$ 146,814
Special instruction	176,453	-	62,593
Other instruction	193,656	23,566	1,670
	<u>1,440,265</u>	<u>261,784</u>	<u>211,077</u>
Support services:			
Student services	627	-	-
Instructional staff services	108,022	-	-
Administration services	243,972	-	394
Operation and maintenance of plant services	256,480	2,420	-
Transportation services	152,597	4,707	-
	<u>761,698</u>	<u>7,127</u>	<u>394</u>
Non-instructional programs	<u>2,287</u>	<u>-</u>	<u>-</u>
Other expenditures:			
Facilities acquisition	1,033	-	-
AEA flowthrough	66,248	-	66,248
Depreciation (unallocated) *	46,107	-	-
	<u>113,388</u>	<u>-</u>	<u>66,248</u>
Total governmental activities	2,317,638	268,911	277,719
Business-Type Activities:			
Non-instructional programs:			
Food service operations	<u>88,080</u>	<u>43,048</u>	<u>46,315</u>
Total	<u>\$ 2,405,718</u>	<u>\$ 311,959</u>	<u>\$ 324,034</u>

Net (Expense) Revenue
and Changes in Net Assets

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>		<u>Total</u>
\$	(685,124)	-	\$	(685,124)
	(113,860)	-		(113,860)
	(168,420)	-		(168,420)
	<u>(967,404)</u>	<u>-</u>		<u>(967,404)</u>
	(627)	-		(627)
	(108,022)	-		(108,022)
	(243,578)	-		(243,578)
	(254,060)	-		(254,060)
	(147,890)	-		(147,890)
	<u>(754,177)</u>	<u>-</u>		<u>(754,177)</u>
	<u>(2,287)</u>	<u>-</u>		<u>(2,287)</u>
	(1,033)	-		(1,033)
	-	-		-
	(46,107)	-		(46,107)
	<u>(47,140)</u>	<u>-</u>		<u>(47,140)</u>
	(1,771,008)	-		(1,771,008)
	<u>-</u>	<u>1,283</u>		<u>1,283</u>
	<u>(1,771,008)</u>	<u>1,283</u>		<u>(1,769,725)</u>

C & M COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

Functions/Programs

General Revenues:

Property tax levied for:

General purposes

Capital outlay

Income surtax

Local option sales and services tax

Unrestricted state grants

Unrestricted investment earnings

Other

Total general revenues

Change 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 the various programs.

See notes to financial statements.

Net (Expense) Revenue
and Changes in Net Assets

<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
\$ 692,558	\$ -	\$ 692,558
97,555	-	97,555
55,657	-	55,657
57,395	-	57,395
758,959	-	758,959
9,339	44	9,383
10,143	-	10,143
<hr/>		
1,681,606	44	1,681,650
<hr/>		
(89,402)	1,327	(88,075)
1,878,641	6,254	1,884,895
<hr/>		
<u>\$ 1,789,239</u>	<u>\$ 7,581</u>	<u>\$ 1,796,820</u>

C & M COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	General	Special Revenue Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and pooled investments	\$ 234,087	\$ 109,596	\$ 107,833	\$ 451,516
Receivables:				
Property tax:				
Current year	15,980	2,431	1,280	19,691
Succeeding year	618,532	89,867	39,947	748,346
Income surtax	50,103	-	-	50,103
Accounts	1,343	-	-	1,343
Due from other governments	11,808	-	9,731	21,539
	<u>\$ 931,853</u>	<u>\$ 201,894</u>	<u>\$ 158,791</u>	<u>\$ 1,292,538</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 145,971	\$ -	\$ -	\$ 145,971
Deferred revenue:				
Succeeding year property tax	618,532	89,867	39,947	748,346
Other	50,103	-	-	50,103
Total liabilities	<u>814,606</u>	<u>89,867</u>	<u>39,947</u>	<u>944,420</u>
Fund balance:				
Reserved for:				
Debt service	-	-	18,713	18,713
Unreserved:				
Reported in nonmajor Special Revenue Funds	-	-	42,572	42,572
Undesignated	117,247	112,027	57,559	286,833
Total fund balances	<u>117,247</u>	<u>112,027</u>	<u>118,844</u>	<u>348,118</u>
Total liabilities and fund balances	<u>\$ 931,853</u>	<u>\$ 201,894</u>	<u>\$ 158,791</u>	<u>\$ 1,292,538</u>

See notes to financial statements.

C & M COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

June 30, 2005

Total fund balances of governmental funds	\$ 348,118
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,408,533
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	50,103
Long-term liabilities, including early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(17,515)</u>
Net assets of governmental activities	<u>\$ 1,789,239</u>

See notes to financial statements.

C & M COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	General	Special Revenue Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
Revenues:				
Local sources:				
Local tax	\$ 691,053	\$ 97,491	\$ 108,730	\$ 897,274
Tuition	230,603	-	-	230,603
Other	32,240	4,343	25,006	61,589
State sources	928,815	64	33	928,912
Federal sources	104,129	-	-	104,129
Total revenues	<u>1,986,840</u>	<u>101,898</u>	<u>133,769</u>	<u>2,222,507</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	1,082,985	-	6,515	1,089,500
Special instruction	176,453	-	-	176,453
Other instruction	169,365	-	24,291	193,656
	<u>1,428,803</u>	<u>-</u>	<u>30,806</u>	<u>1,459,609</u>
Support services:				
Student services	627	-	-	627
Instructional staff services	75,550	32,472	-	108,022
Administration services	235,387	-	6,981	242,368
Operation and maintenance of plant services	201,800	44,923	20,016	266,739
Transportation services	94,354	127,220	8,013	229,587
	<u>607,718</u>	<u>204,615</u>	<u>35,010</u>	<u>847,343</u>
Non-instructional programs	<u>2,287</u>	<u>-</u>	<u>-</u>	<u>2,287</u>
Other expenditures:				
Facilities acquisition	-	1,033	-	1,033
AEA flowthrough	66,248	-	-	66,248
	<u>66,248</u>	<u>1,033</u>	<u>-</u>	<u>67,281</u>
Total expenditures	<u>2,105,056</u>	<u>205,648</u>	<u>65,816</u>	<u>2,376,520</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(118,216)</u>	<u>(103,750)</u>	<u>67,953</u>	<u>(154,013)</u>

C & M COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	General	Special Revenue Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
Other financing sources (uses):				
Sale of equipment	\$ 352	\$ -	\$ -	\$ 352
Sale of real property	-	39,122	-	39,122
Interfund transfers in (note 3)	-	28,369	-	28,369
Interfund transfers out (note 3)	-	-	(28,369)	(28,369)
Total other financing sources (uses)	<u>352</u>	<u>67,491</u>	<u>(28,369)</u>	<u>39,474</u>
Net change in fund balances	(117,864)	(36,259)	39,584	(114,539)
Fund balances beginning of year	<u>235,111</u>	<u>148,286</u>	<u>79,260</u>	<u>462,657</u>
Fund balances end of year	<u>\$ 117,247</u>	<u>\$ 112,027</u>	<u>\$ 118,844</u>	<u>\$ 348,118</u>

See notes to financial statements.

C & M COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

Net change in fund balances - total governmental funds \$ (114,539)

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

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

	Capital outlays	\$ 176,792	
	Depreciation expense	<u>(115,124)</u>	61,668

Certain income surtax not received until several months after the District's
fiscal year ends is not considered available revenue in the governmental
funds and is deferred. It is, however, recorded as revenue in the
statement of activities. 5,377

Some expenses, such as early retirement, reported in the statement of activities
do not require the use of current financial resources and, therefore, are not
reported as expenditures in governmental funds. (2,786)

Proceeds from the sale of assets provide current financial resources to
governmental funds but decrease assets in the statement of net assets and
do not affect the statement of activities. (39,122)

Change in net assets of governmental activities \$ (89,402)

See notes to financial statements.

C & M COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
PROPRIETARY FUND

June 30, 2005

	<u>School Nutrition</u>
Assets	
Cash and cash equivalents	\$ 1,579
Inventories	1,323
Capital assets, net of accumulated depreciation	<u>4,679</u>
Total assets	<u>7,581</u>
Liabilities	
None	<u>-</u>
Net Assets	
Invested in capital assets	4,679
Unrestricted	<u>2,902</u>
Total net assets	<u>\$ 7,581</u>

See notes to financial statements.

C & M COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
Year Ended June 30, 2005

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for services	\$ <u>43,048</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	38,071
Benefits	4,906
Purchased services	84
Supplies	43,612
Depreciation	916
Other	491
	<u>88,080</u>
Operating loss	<u>(45,032)</u>
Non-operating revenues:	
Interest on investments	44
State sources	1,298
Federal sources	45,017
Total non-operating revenues	<u>46,359</u>
Change in net assets	1,327
Net assets beginning of year	<u>6,254</u>
Net assets end of year	\$ <u><u>7,581</u></u>

See notes to financial statements.

C & M COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2005

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 43,008
Cash received from miscellaneous operating activities	40
Cash payments to employees for services	(42,977)
Cash payments to suppliers for goods or services	<u>(40,814)</u>
Net cash used in operating activities	<u>(40,743)</u>
Cash flows from non-capital financing activities:	
State grants received	1,298
Federal grants received	<u>40,919</u>
Net cash provided by non-capital financing activities	<u>42,217</u>
Cash flows from investing activities:	
Interest on investments	<u>44</u>
Net increase in cash and cash equivalents	1,518
Cash and cash equivalents beginning of year	<u>61</u>
Cash and cash equivalents end of year	<u>\$ 1,579</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (45,032)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	916
Commodities used	4,098
(Increase) in inventories	<u>(725)</u>
Net cash used in operating activities	<u>\$ (40,743)</u>
Non-cash investing, capital and financing activities:	
During the year ended June 30, 2005, the District received \$4,098 of federal commodities.	

See notes to financial statements.

C & M COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 June 30, 2005

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Cash and pooled investments	\$ 23,340	\$ 315
Liabilities:		
Other payables	-	\$ 315
Net assets:		
Reserved for scholarships	\$ 23,340	

See notes to financial statements.

C & M COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 Year Ended June 30, 2005

	<u>Private Purpose Trust</u>	<u>Scholarship</u>
Additions:		
Local sources:		
Interest	\$	<u>437</u>
Deductions:		
None		<u>-</u>
Change in net assets		437
Net assets beginning of year		<u>22,903</u>
Net assets end of year	\$	<u><u>23,340</u></u>

See notes to financial statements.

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies

C & M Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through eight. 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 Cumberland and Massena, Iowa, and the predominate agricultural territory in Cass and Adams 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, C & M Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. C & M Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

District-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 service.

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 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 asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Unrestricted net assets 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 which can be removed or modified.

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

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the District-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 main operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Special Revenue, Physical Plant and Equipment Levy Fund is used to account for the payment of capital and related expenditures for building improvements and certain types of equipment.

The District reports the following proprietary fund:

The Enterprise, 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 with restrictions of income earned to be used to benefit individuals through scholarship awards.

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

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

The District-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.

All proprietary funds of the District apply 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 non-operating 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 non-operating 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.

C & M COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the statement of net assets and 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, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in Governmental Funds is 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 to the County Board of Supervisors. Current year property tax receivable represents unpaid taxes from the current year. 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 to the County Auditor by April 15 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 District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2004.

Income Surtax Receivable – Income surtax budgeted for the fiscal year ended June 30, 2005 will not be received by the District until the fiscal year ending June 30, 2006. Accordingly, income surtax is recorded as a receivable and included in deferred revenue on the modified accrual basis for the governmental funds. For the District-wide statements, on the Statement of Activities the income surtax revenue is recognized.

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.

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

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

Asset Class	Amount
Land	\$ 2,500
Buildings	2,500
Improvements other than buildings	2,500
Furniture and equipment:	
School Nutrition Fund Equipment	500
Other furniture and equipment	2,500

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

Asset Class	Estimated Useful Lives
Buildings	50 years
Improvements other than buildings	20 years
Furniture and equipment	5-12 years

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible 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 represents 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, the succeeding year property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in 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.

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation and sick leave. The District’s policy is not to reimburse employees for sick leave or vacation.

Vacation can only be used by the employee in the year it is earned. The District has no compensated absences liability at June 30, 2005.

Long-term Liabilities – In the District-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 Balances – 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.

Invested in capital assets – In the District-wide statement of net assets, the net asset balance invested in capital assets is equal to the capital assets balances, including restricted capital assets, less accumulated depreciation and the outstanding balances of any bonds, notes, or other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets – In the District-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. Budgets and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Note 2. Cash and Pooled Investments

The District’s deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

C & M COMMUNITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2005

Note 2. Cash and Pooled Investments (continued)

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

	Amortized Cost
Diversified Portfolio	\$ 370,031

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

Interest rate risk – The District’s investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit Risk – The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody’s Investors Service.

Note 3. Interfund Transfers

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

Transfer to	Transfer from	Amount
Special Revenue:		
Physical Plant and Equipment Levy	Debt Service	\$ 28,369

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

C & M COMMUNITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2005

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 31,200	\$ -	\$ -	\$ 31,200
Capital assets being depreciated:				
Buildings	2,295,646	-	-	2,295,646
Improvements other than buildings	37,202	-	-	37,202
Furniture and equipment	548,911	176,792	41,503	684,200
Total capital assets being depreciated	2,881,759	176,792	41,503	3,017,048
Less accumulated depreciation for:				
Buildings	1,219,943	45,913	-	1,265,856
Improvements other than buildings	33,523	194	-	33,717
Furniture and equipment	312,628	69,017	41,503	340,142
Total accumulated depreciation	1,566,094	115,124	41,503	1,639,715
Total capital assets being depreciated, net	1,315,665	61,668	-	1,377,333
Governmental activities capital assets, net	\$ 1,346,865	\$ 61,668	\$ -	\$ 1,408,533

C & M COMMUNITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2005

Note 4. Capital Assets (continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	\$ 181,424	\$ -	\$ -	\$ 181,424
Less accumulated depreciation	175,829	916	-	176,745
Business-type activities capital assets, net	\$ 5,595	\$ (916)	\$ -	\$ 4,679

Depreciation expense was charged by the District to the following functions:

Governmental activities:

Instruction:				
Regular			\$	6,167
Support services:				
Administration				1,605
Operation and maintenance of plant services				9,037
Transportation				52,208
				69,017
Unallocated depreciation				46,107
Total governmental activities depreciation expense			\$	115,124

Business-type activities:

Food service operations			\$	916
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C & M COMMUNITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2005

Note 5. Long-Term Liabilities

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

	Early Retirement
Balance beginning of year	\$ 14,729
Additions	9,300
Reductions	6,514
Balance end of year	\$ 17,515
Due within one year	\$ 6,560

Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must be at least age fifty-five and employees must have completed twenty-five years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to \$100 per month toward the cost of single insurance coverage for eight years or until the retiree becomes eligible for Medicare, whichever is sooner. Early retirement benefits paid during the year ended June 30, 2005, totaled \$6,514. The long-term portion of early retirement is recorded as a long-term liability of the Governmental Activities in the District-wide Statement of Net Assets.

Note 6. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$60,447, \$61,864, and \$65,099 respectively, equal to the required contributions for each year.

Note 7. Risk Management

C & M Community School District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 7. Risk Management (continued)

In July 2004, ISEBA converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members continuing membership in the Association had their deficit recovery assessment included in their annual premium for the 2004-2005 and 2005-2006 plan years. The deficit recovery is equal to 2% of the annual premium. The total amount of the deficit recoveries of current members is estimated to be \$2.2 million. Since the program is now fully insured, there will be no additional assessments due to claims exceeding premiums charged to members.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2005 were \$136,872.

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.

C & M 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.

Note 8. Related Party Transactions

The District had business transactions totaling \$447 between the District and District officials during the year ended June 30, 2005.

Note 9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$66,248 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Required Supplementary Information

C & M COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances –
 Budget and Actual (Cash Basis) – All Governmental Funds
 and Proprietary Fund
 Required Supplementary Information
 Year Ended June 30, 2005

	Governmental Funds - Actual	Proprietary Fund - Actual	Total Actual	Budgeted Amounts Original and Final	Final to Actual Variance
RECEIPTS:					
Local sources	\$ 1,181,075	\$ 43,092	\$ 1,224,167	\$ 1,133,410	\$ 90,757
State sources	948,419	1,298	949,717	964,490	(14,773)
Federal sources	72,815	45,017	117,832	152,000	(34,168)
Total receipts	2,202,309	89,407	2,291,716	2,249,900	41,816
DISBURSEMENTS:					
Instruction	1,313,639	-	1,313,639	1,377,684	64,045
Support services	847,344	-	847,344	906,982	59,638
Non-instructional programs	2,286	87,889	90,175	95,496	5,321
Other expenditures	67,281	-	67,281	128,874	61,593
Total disbursements	2,230,550	87,889	2,318,439	2,509,036	190,597
Excess (deficiency) of receipts over (under) disbursements	(28,241)	1,518	(26,723)	(259,136)	232,413
Other financing sources, net	39,474	-	39,474	387	39,087
Excess (deficiency) of receipts and other financing sources over (under) disbursements	11,233	1,518	12,751	(258,749)	271,500
Balance beginning of year	440,283	61	440,344	462,316	(21,972)
Balance end of year	<u>\$ 451,516</u>	<u>\$ 1,579</u>	<u>\$ 453,095</u>	<u>\$ 203,567</u>	<u>\$ 249,528</u>

See accompanying independent auditor's report.

C & M COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule – Budget to GAAP Reconciliation
 Required Supplementary Information
 Year Ended June 30, 2005

	Governmental Funds		
	Cash	Accrual	Modified
	Basis	Adjust- ments	Accrual Basis
Revenues	\$ 2,202,309	\$ 20,198	\$ 2,222,507
Expenditures	2,230,550	145,970	2,376,520
Net	(28,241)	(125,772)	(154,013)
Other financing sources (uses)	39,474	-	39,474
Beginning fund balances	440,283	22,374	462,657
Ending fund balances	<u>\$ 451,516</u>	<u>\$ (103,398)</u>	<u>\$ 348,118</u>
	Proprietary Fund		
	Enterprise		
	Cash	Accrual	Accrual
	Basis	Adjust- ments	Basis
Revenues	\$ 89,407	\$ -	\$ 89,407
Expenses	87,889	191	88,080
Net	1,518	(191)	1,327
Beginning net assets	61	6,193	6,254
Ending net assets	<u>\$ 1,579</u>	<u>\$ 6,002</u>	<u>\$ 7,581</u>

See accompanying independent auditor's report.

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the 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 functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, no amendments were made to the budget.

Other Supplementary Information

C & M COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2005

	Special Revenue				Total
	Management Levy	Student Activity	Capital Projects	Debt Service	
Assets					
Cash and pooled investments	\$ 26,849	\$ 14,443	\$ 47,828	\$ 18,713	\$ 107,833
Receivables:					
Property tax:					
Current year	1,280	-	-	-	1,280
Succeeding year	39,947	-	-	-	39,947
Due from other governments	-	-	9,731	-	9,731
Total assets	\$ 68,076	\$ 14,443	\$ 57,559	\$ 18,713	\$ 158,791
Liabilities and Fund Equity					
Liabilities:					
Deferred revenue:					
Succeeding year property tax	\$ 39,947	\$ -	\$ -	\$ -	\$ 39,947
Fund equity:					
Fund balances:					
Reserved for:					
Debt service	-	-	-	18,713	18,713
Unreserved:					
Undesignated	28,129	14,443	57,559	-	100,131
Total fund equity	28,129	14,443	57,559	18,713	118,844
Total liabilities and fund equity	\$ 68,076	\$ 14,443	\$ 57,559	\$ 18,713	\$ 158,791

See accompanying independent auditor's report.

C & M COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	Special Revenue		Capital Projects	Debt Service	Total
	Management Levy	Student Activity			
Revenues:					
Local sources:					
Local tax	\$ 51,335	\$ -	\$ 57,395	\$ -	\$ 108,730
Other	1,129	23,713	164	-	25,006
State sources	33	-	-	-	33
Total revenues	<u>52,497</u>	<u>23,713</u>	<u>57,559</u>	<u>-</u>	<u>133,769</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	6,515	-	-	-	6,515
Other instruction	-	24,291	-	-	24,291
Support services:					
Administration services	6,981	-	-	-	6,981
Operation and maintenance of plant services	20,016	-	-	-	20,016
Transportation services	8,013	-	-	-	8,013
Total expenditures	<u>41,525</u>	<u>24,291</u>	<u>-</u>	<u>-</u>	<u>65,816</u>
Excess (deficiency) of revenues over (under) expenditures	10,972	(578)	57,559	-	67,953
Other financing uses:					
Interfund transfers out	-	-	-	28,369	28,369
Excess (deficiency) of revenues over (under) expenditures and other financing uses	10,972	(578)	57,559	(28,369)	39,584
Fund balances beginning of year	<u>17,157</u>	<u>15,021</u>	<u>-</u>	<u>47,082</u>	<u>79,260</u>
Fund balances end of year	<u>\$ 28,129</u>	<u>\$ 14,443</u>	<u>\$ 57,559</u>	<u>\$ 18,713</u>	<u>\$ 118,844</u>

See accompanying independent auditor's report.

C & M COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Athletics	\$ 40	\$ -	\$ -	\$ 40
Cheerleaders	473	-	-	473
Elementary	2,310	9,598	8,964	2,944
Middle School	387	2,801	2,909	279
Special	7,764	9,236	9,180	7,820
Future Farmers of America	1,130	-	544	586
Band	1,324	1,640	1,593	1,371
Vocal	1,150	290	1,101	339
Interest	443	148	-	591
 Total	 \$ 15,021	 \$ 23,713	 \$ 24,291	 \$ 14,443

See accompanying independent auditor's report.

C & M COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 Year Ended June 30, 2005

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance End of Year</u>
Assets				
Cash	\$ <u>925</u>	\$ <u>10,056</u>	\$ <u>10,666</u>	\$ <u>315</u>
Liabilities				
Other payables	\$ <u>925</u>	\$ <u>10,056</u>	\$ <u>10,666</u>	\$ <u>315</u>

See accompanying independent auditor's report.

C & M COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	Modified Accrual Basis Years Ended June 30,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 897,274	\$ 938,295	\$ 913,613	\$ 920,301
Tuition	230,603	205,089	58,211	79,708
Other	61,589	97,371	125,141	131,259
Intermediate sources	-	5,357	-	-
State sources	928,912	783,182	768,035	830,182
Federal sources	104,129	105,274	94,638	66,950
Total revenues	<u>\$ 2,222,507</u>	<u>\$ 2,134,568</u>	<u>\$ 1,959,638</u>	<u>\$ 2,028,400</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 1,089,500	\$ 1,124,215	\$ 761,743	\$ 738,541
Special instruction	176,453	173,278	193,181	164,952
Other instruction	193,656	193,682	292,783	312,186
Support services:				
Student services	627	2,312	19,771	23,464
Instructional staff services	108,022	47,121	43,715	42,661
Administration services	242,368	238,009	254,806	254,036
Operation and maintenance of plant services	266,739	247,130	324,464	264,978
Transportation services	229,587	139,228	103,958	104,874
Central and other support services	-	1,076	-	-
Non-instructional programs	2,287	3,352	5,407	4,050
Other expenditures:				
Facilities acquisition	1,033	-	-	-
AEA flowthrough	66,248	65,950	69,934	71,470
Total expenditures	<u>\$ 2,376,520</u>	<u>\$ 2,235,353</u>	<u>\$ 2,069,762</u>	<u>\$ 1,981,212</u>

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Education of
C & M Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of C & M Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated July 28, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-05 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether C & M Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about C & M Community School District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of C & M Community School District and other parties to whom C & M Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of C & M 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.

Oskaloosa, Iowa
July 28, 2005

C & M COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2005

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

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

I-A-05 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal and the recording, preparing and signing of checks 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. However, due to staff size it will be difficult to make any adjustments to the current system. We have incorporated the superintendent’s assistance into the control system whenever possible.

Conclusion – Response accepted.

I-B-05 Disbursement Approval – Out of forty disbursements tested, the Board had not approved two disbursements. The Board does have a written policy regarding payment prior to approval for certain types of expenditures. However, these particular payments were not later formally approved by the Board as the policy requires.

Recommendation – The procedures described in the above comment weaken the control that the Board has over disbursements. All disbursements should be approved by the Board.

Chapter 279.29 of the Code of Iowa provides that “the Board shall audit and allow all just claims against the corporation and no order shall be drawn upon the treasury until the claim therefore has been audited and allowed.”

Chapter 279.30 of the Code of Iowa allows payment of specific items, such as freight, utilities, postage, salaries and printing, without prior Board approval. In addition, the secretary, upon documentation of approval by the board president, may issue warrants for other verified bills prior to board approval when the board is not in session. All such bills must then be approved by the Board at the next meeting.

Response – We will review and implement this recommendation.

Conclusion – Response accepted.

C & M COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting:

- II-A-05 Official Depositories – Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.
- II-B-05 Certified Budget – Disbursements for the year ended June 30, 2005, did not exceed the amounts budgeted.
- II-C-05 Questionable Expenditures – No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- II-D-05 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-E-05 Business Transactions – Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Brian Bower, Board Member Owner of Bower Welding	Repairs, supplies	\$ 447

In accordance with an Attorney General’s opinion dated November 9, 1976, the transaction above does not appear to represent a conflict of interest.

- II-F-05 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-G-05 Board Minutes – Except as previously mentioned, no transactions requiring Board approval which had not been approved by the Board were noted.
- II-H-05 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.
- II-I-05 Deposits and Investments – 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 were noted.
- II-J-05 Certified Annual Report – The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

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