

MADRID COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

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Madrid Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2004 Election)		
Terry Ostendorf	President	2004
Molly Griswold	Vice-President	2006
Lou Galetich	Board Member	2005
Darci Munford	Board Member	2004
Carolee DeSotel	Board Member	2005
Board of Education (After September 2004 Election)		
Terry Ostendorf	President	2007
Molly Griswold	Vice President	2006
Lou Galetich	Board Member	2005
Darci Munford	Board Member	2007
Carolee DeSotel	Board Member	2005
School Officials		
Dennis Pelisek	Superintendent	2005
Sandy Johnson	Business Manager	2005
Jordan Mahoney Jordan & Quinn, P.C.	Attorney	2005

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

**Certified Public Accountants**

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Madrid Community School District, Madrid, Iowa as of and for the year ended June 30, 2005, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the Madrid 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 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, the business type activities, each major fund and the aggregate remaining fund information of Madrid Community School District at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 30, 2005 on our consideration of Madrid Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting 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.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 34 through 36 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. 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 Madrid Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary 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 30, 2005

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

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

### **2005 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$3,919,338 in fiscal 2004 to \$4,098,606 in fiscal 2005, while General Fund expenditures increased from \$4,107,126 in fiscal 2004 to \$4,291,646 in fiscal 2005. This resulted in a decrease in the District's General Fund balance from \$260,435 in fiscal 2004 to a balance of \$67,395 in fiscal 2005, a 74% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in state sources in fiscal 2005. The increase in expenditures was due primarily to a decrease in instruction and support services functional areas.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Madrid Community School District as a whole and present an overall view of the District's finances.

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

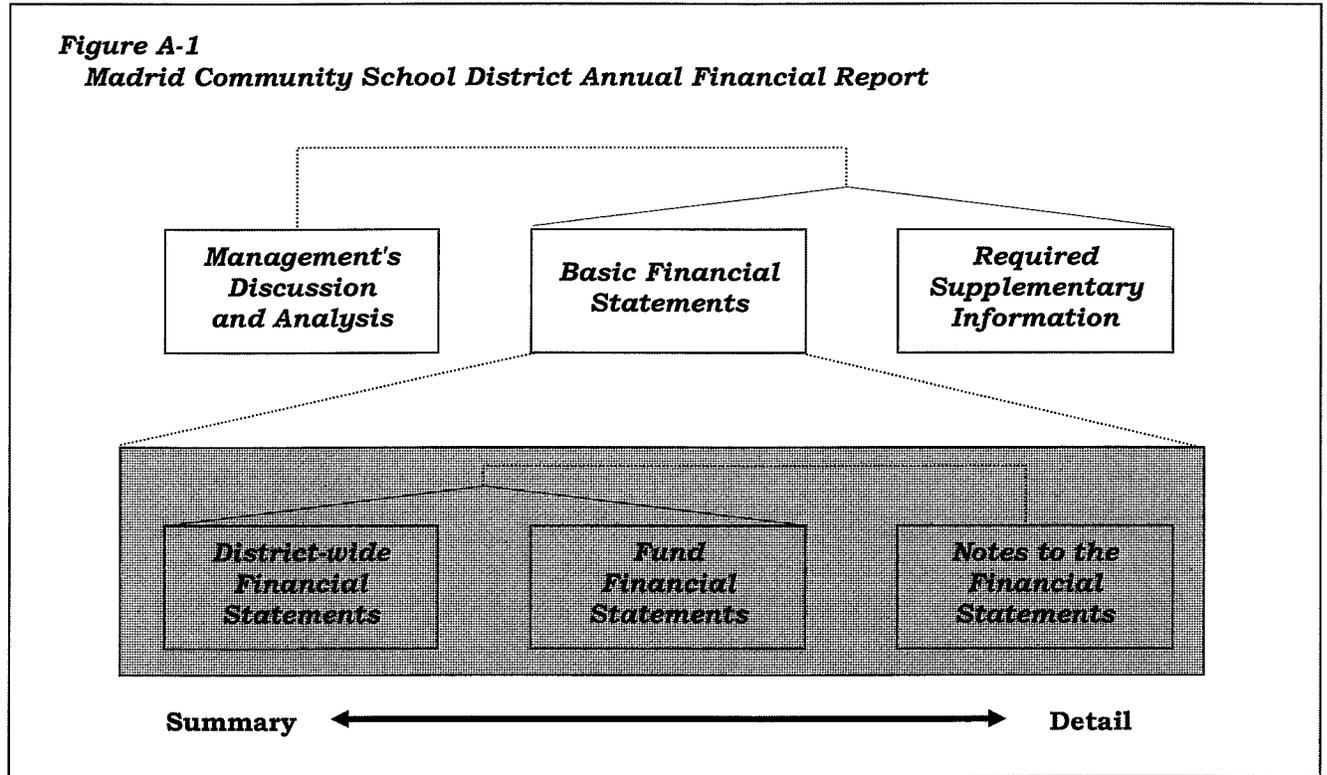


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

**Figure A-2**  
**Major Features of the Government-wide and Fund Financial Statements**

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

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## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

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

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

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

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

### Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

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

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

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Current and other assets	\$ 2,900,662	2,764,472	21,438	27,584	2,922,100	2,792,056	4.66%
Capital assets	3,710,303	3,830,400	23,482	18,983	3,733,785	3,849,383	-3.00%
Total assets	6,610,965	6,594,872	44,920	46,567	6,655,885	6,641,439	0.22%
Long-term obligations	1,661,592	1,733,460	0	0	1,661,592	1,733,460	-4.15%
Other liabilities	2,275,258	2,199,815	3,101	2,388	2,278,359	2,202,203	3.46%
Total liabilities	3,936,850	3,933,275	3,101	2,388	3,939,951	3,935,663	0.11%
Net assets:							
Invested in capital assets, net of related debt	2,345,846	2,139,447	23,482	18,983	2,369,328	2,158,430	9.77%
Restricted	135,128	130,806	0	0	135,128	130,806	3.30%
Unrestricted	193,141	391,344	18,337	25,196	211,478	416,540	-49.23%
Total net assets	\$ 2,674,115	2,661,597	41,819	44,179	2,715,934	2,705,776	0.38%

The District's combined net assets increased by .38%, or \$10,158, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$4,322, or 3.3% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$205,062, or 49.23%.

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

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Revenues:							
Program revenues:							
Charges for services	\$ 350,347	284,411	160,513	152,310	510,860	436,721	16.98%
Operating grants and contributions and restricted interest	476,483	481,678	59,562	60,529	536,045	542,207	-1.14%
General revenues:							
Property tax	1,363,142	1,453,752	0	0	1,363,142	1,453,752	-6.23%
Local option sales and services tax	329,260	97,404	0	0	329,260	97,404	238.04%
Unrestricted state grants	2,226,758	2,048,039	0	0	2,226,758	2,048,039	8.73%
Other	32,584	12,346	73	65	32,657	12,411	163.13%
Total revenues	4,778,574	4,377,630	220,148	212,904	4,998,722	4,590,534	8.89%
Program expenses:							
Governmental activities:							
Instructional	3,012,251	2,817,268	0	0	3,012,251	2,817,268	6.92%
Support services	1,309,655	1,136,049	0	0	1,309,655	1,136,049	15.28%
Non-instructional programs	68,190	62,506	222,508	219,623	290,698	282,129	3.04%
Other expenses	375,960	422,797	0	0	375,960	422,797	-11.08%
Total expenses	4,766,056	4,438,620	222,508	219,623	4,988,564	4,658,243	7.09%
Changes in net assets	12,518	(60,990)	(2,360)	(6,719)	10,158	(67,709)	-115.00%
Beginning net assets	2,661,597	2,722,587	44,179	50,898	2,705,776	2,773,485	-2.44%
Ending net assets	\$ 2,674,115	2,661,597	41,819	44,179	2,715,934	2,705,776	0.38%

Property tax and unrestricted state grants account for 72% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 87% of the total expenses.

Changes in revenues will be as a result of changes in student participation, whether in the regular, special or extracurricular programs. The most significant change in revenues was due to the increase in property tax monies. Fluctuations in basic enrollment will significantly impact the state revenues, as well as property tax revenues, keeping in mind that neither source of funding will be ever fully realized with current law and funding structure as set by the legislature.

The most significant fluctuation in expenditure levels will be caused by increased salary and benefit obligations, in large part resulting from collective bargaining agreements. With a declining enrollment comes lesser ability to fund various programs required by the state and constant evaluation of staffing needs becomes a priority. Even with certain staff reductions there may still be an increase in expenditures due to the salary and benefit requirements.

The District makes a continual effort to be a good steward of public funds and maintains a philosophy of providing the best education possible, exploring every avenue available to fund the programs, while making certain to keep watch for services that could be merged with other programs. The District saw an overall greater increase in revenues than the increase in expenditures, demonstrating an increase in the financial position for the year.

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## Governmental Activities

Revenues for governmental activities were \$4,778,574 and expenses were \$4,766,056. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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	\$ 3,012,251	2,342,082
Support services	1,309,655	1,307,794
Non-instructional programs	68,190	68,190
Other expenses	375,960	221,160
Totals	<u>\$ 4,766,056</u>	<u>3,939,226</u>

- The cost financed by users of the District's programs was \$350,347.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$476,483.
- The net cost of governmental activities was financed with \$1,363,142 in property tax, \$329,260 in local option sales and services tax, \$2,226,758 in state foundation aid and \$32,584 in interest income.

## Business-Type Activities

Revenues of the District's business-type activities were \$220,148 and expenses were \$222,508. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$497,125, above last year's ending fund balances of a \$441,083. However, the primary reason for the increase in combined fund balances in fiscal 2005 is due to the local option sales and services tax monies.

## Governmental Fund Highlights

- The District's declining General Fund financial position from is the product of many factors:
  - Increase in state aid grants during the year resulted in an increase in revenues.
  - The increase in revenues was more than offset by the increase in expenditures, causing the General Fund balance to decrease.

- The Capital Projects Fund balance increased from \$9,368 in fiscal 2004 to \$254,128 in fiscal 2005.

### Proprietary Fund Highlights

The Proprietary Fund net assets decreased from \$44,179 at June 30, 2004 to \$41,819 at June 30, 2005, representing a decrease of 5%.

### BUDGETARY HIGHLIGHTS

The District's revenues were \$720,928 less than budgeted revenues, a variance of 12.61%. The most significant variance resulted from the District receiving less in local sources than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures program functional area due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At June 30, 2005, the District had invested \$3,733,785, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 3.1% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$170,748.

The original cost of the District's capital assets was \$7,582,410. Governmental funds account for \$7,473,189 with the remainder of \$109,221 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$89,263 at June 30, 2005, compared to \$117,811 reported at June 30, 2004.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change 2004-05
	2005	2004	2005	2004	2005	2004	
Land	\$ 112,126	112,126	0	0	112,126	112,126	0.00%
Buildings	3,441,952	3,520,976	0	0	3,441,952	3,520,976	-2.30%
Land improvements	66,962	79,487	0	0	66,962	79,487	-18.70%
Machinery and equipment	89,263	117,811	23,482	18,983	112,745	136,794	-21.33%
Total	\$ 3,710,303	3,830,400	23,482	18,983	3,733,785	3,849,383	-3.10%

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## Long-Term Debt

At June 30, 2005, the District had \$1,661,592 in long-term debt outstanding. This represents a decrease of 4.1% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding general obligation bonds payable of \$1,620,000 at June 30, 2005.

The District had outstanding early retirement payable of \$34,797 at June 30, 2005.

The District had outstanding compensated absences at June 30, 2005 of \$6,795.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	2005	2004	
General obligation bonds	\$ 1,620,000	1,700,000	-4.7%
Compensated absences	6,795	5,873	15.7%
Early Retirement	34,797	27,587	26.1%
Totals	<u>\$ 1,661,592</u>	<u>1,733,460</u>	<u>-4.1%</u>

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District experienced a slight increase in enrollment. The September 2004 enrollment was 587.1, while the September 2005 enrollment was 594.1.
- The District has actively pursued grants from various sources in order to enhance the District's course offerings.
- The District is collecting local option sales tax in Boone, Dallas & Polk counties within the District's boundaries. One-half of Boone County sales taxes are used to reduce the tax asking in the Debt Service Fund.
- The School District continues to see increased valuation due to properties coming off of tax abatement and new building.
- The District is working on correcting the low solvency ratio at the end of the 2004-05 school year by increasing tax askings.
- At the secondary building we will be replacing the old inefficient boiler with a new high efficient boiler.

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## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sandra R. Johnson, Business Manager, Madrid Community School District, 201 North Main St., Madrid, Iowa, 50156.

BASIC FINANCIAL STATEMENTS

MADRID COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2005

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments:			
ISCAP (Note 4)	\$ 975,835	0	975,835
Other	373,562	8,333	381,895
Receivables:			
Property tax:			
Delinquent	27,269	0	27,269
Succeeding year	1,235,342	0	1,235,342
Income surtax	140,920	0	140,920
Accounts	13,902	0	13,902
Accrued interest - ISCAP (Note 4)	5,130	0	5,130
Due from other governments	128,702	0	128,702
Inventories	0	13,105	13,105
Capital assets, net of accumulated depreciation (Note 5)	3,710,303	23,482	3,733,785
<b>TOTAL ASSETS</b>	<b>6,610,965</b>	<b>44,920</b>	<b>6,655,885</b>
<b>LIABILITIES</b>			
Accounts payable	39,461	0	39,461
ISCAP warrants payable (Note 4)	972,000	0	972,000
ISCAP accrued interest payable (Note 4)	5,515	0	5,515
ISCAP unamortized premium	10,299	0	10,299
Accrued interest payable	12,641	0	12,641
Deferred revenue:			
Succeeding year property tax	1,235,342	0	1,235,342
Other	0	3,101	3,101
Long-term liabilities (Note 6):			
Portion due within one year:			
General obligation bonds payable	85,000	0	85,000
Compensated absences	6,795	0	6,795
Early retirement payable	29,627	0	29,627
Portion due after one year:			
General obligation bonds payable	1,535,000	0	1,535,000
Early retirement payable	5,170	0	5,170
<b>TOTAL LIABILITIES</b>	<b>3,936,850</b>	<b>3,101</b>	<b>3,939,951</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	2,345,846	23,482	2,369,328
Restricted for:			
Talented and gifted	8,342	0	8,342
Salary improvement program	37	0	37
Management levy	8,619	0	8,619
Physical plant and equipment levy	69,759	0	69,759
Other special revenue purposes	48,371	0	48,371
Unrestricted	193,141	18,337	211,478
<b>TOTAL NET ASSETS</b>	<b>\$ 2,674,115</b>	<b>41,819</b>	<b>2,715,934</b>

SEE NOTES TO FINANCIAL STATEMENTS.

MADRID COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2005

	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 1,926,662	350,347	294,456
Special instruction	587,167	0	25,366
Other instruction	498,422	0	0
	<u>3,012,251</u>	<u>350,347</u>	<u>319,822</u>
Support services:			
Student services	109,305	0	0
Instructional staff services	194,616	0	0
Administration services	462,552	0	0
Operation and maintenance of plant services	400,929	0	0
Transportation services	142,253	0	1,861
	<u>1,309,655</u>	<u>0</u>	<u>1,861</u>
Non-instructional programs:			
Food service operations	68,190	0	0
	<u>68,190</u>	<u>0</u>	<u>0</u>
Other expenditures:			
Facilities and acquisitions	23,625	0	0
Long-term debt interest	79,235	0	0
AEA flowthrough	154,800	0	154,800
Depreciation(unallocated)*	118,300	0	0
	<u>375,960</u>	<u>0</u>	<u>154,800</u>
Total governmental activities	4,766,056	350,347	476,483
Business-Type activities:			
Non-instructional programs:			
Nutrition services	222,508	160,513	59,562
Total business-type activities	<u>222,508</u>	<u>160,513</u>	<u>59,562</u>
Total	<u>\$ 4,988,564</u>	<u>510,860</u>	<u>536,045</u>

**General Revenues:**

Local tax for:  
  General purposes  
  Debt Service  
  Capital outlay  
  Local option sales and services tax  
Unrestricted state grants  
Unrestricted investment earnings

Total general revenues

Changes in net assets

Net assets beginning of year

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(1,281,859)	0	(1,281,859)
(561,801)	0	(561,801)
(498,422)	0	(498,422)
<u>(2,342,082)</u>	<u>0</u>	<u>(2,342,082)</u>
(109,305)	0	(109,305)
(194,616)	0	(194,616)
(462,552)	0	(462,552)
(400,929)	0	(400,929)
(140,392)	0	(140,392)
<u>(1,307,794)</u>	<u>0</u>	<u>(1,307,794)</u>
(68,190)	0	(68,190)
<u>(68,190)</u>	<u>0</u>	<u>(68,190)</u>
(23,625)	0	(23,625)
(79,235)	0	(79,235)
0	0	0
(118,300)	0	(118,300)
<u>(221,160)</u>	<u>0</u>	<u>(221,160)</u>
(3,939,226)	0	(3,939,226)
0	(2,433)	(2,433)
0	(2,433)	(2,433)
<u>(3,939,226)</u>	<u>(2,433)</u>	<u>(3,941,659)</u>
\$ 1,213,984	0	1,213,984
125,411	0	125,411
23,747	0	23,747
329,260	0	329,260
2,226,758	0	2,226,758
32,584	73	32,657
<u>3,951,744</u>	<u>73</u>	<u>3,951,817</u>
12,518	(2,360)	10,158
<u>2,661,597</u>	<u>44,179</u>	<u>2,705,776</u>
<u>\$ 2,674,115</u>	<u>41,819</u>	<u>2,715,934</u>

MADRID COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>ASSETS</b>				
Cash and pooled investments:				
ISCAP (Note 4)	\$ 975,835	0	0	975,835
Other	10,202	192,075	171,285	373,562
Receivables:				
Property tax:				
Delinquent	22,952	0	4,317	27,269
Succeeding year	1,099,383	0	135,959	1,235,342
Income surtax	140,920	0	0	140,920
Accounts	13,902	0	0	13,902
Accrued interest - ISCAP (Note 4)	5,130	0	0	5,130
Due from other governments	66,649	62,053	0	128,702
<b>TOTAL ASSETS</b>	<b>\$ 2,334,973</b>	<b>254,128</b>	<b>311,561</b>	<b>2,900,662</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 39,461	0	0	39,461
ISCAP warrants payable (Note 4)	972,000	0	0	972,000
ISCAP accrued interest payable (Note 4)	5,515	0	0	5,515
ISCAP unamortized premium	10,299	0	0	10,299
Deferred revenue:				
Succeeding year property tax	1,099,383	0	135,959	1,235,342
Income surtax	140,920	0	0	140,920
Total liabilities	<u>2,267,578</u>	<u>0</u>	<u>135,959</u>	<u>2,403,537</u>
Fund balances:				
Reserved for:				
Talented and gifted	8,342	0	0	8,342
Salary improvement program	37	0	0	37
Debt service	0	0	14,056	14,056
Unreserved:				
General	59,016	0	0	59,016
Management	0	0	43,416	43,416
Capital Projects	0	254,128	0	254,128
Physical plant and equipment levy	0	0	69,759	69,759
Other special revenue purposes	0	0	48,371	48,371
Total fund balances	<u>67,395</u>	<u>254,128</u>	<u>175,602</u>	<u>497,125</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,334,973</b>	<b>254,128</b>	<b>311,561</b>	<b>2,900,662</b>

SEE NOTES TO FINANCIAL STATEMENTS.

MADRID COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2005

<b>Total fund balances of governmental funds (page 17)</b>	\$	497,125
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		3,710,303
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.		140,920
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(12,641)
Long-term liabilities, including early retirement and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(1,661,592)
		<hr style="width: 100%;"/>
<b>Net assets of governmental activites (page 14)</b>	<b>\$</b>	<b><u><u>2,674,115</u></u></b>

SEE NOTES TO FINANCIAL STATEMENTS.

MADRID COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2005

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 1,169,775	329,260	189,260	1,688,295
Tuition	155,947	0	0	155,947
Other	69,889	1,112	155,983	226,984
State sources	2,523,331	0	246	2,523,577
Federal sources	179,664	0	0	179,664
Total revenues	<u>4,098,606</u>	<u>330,372</u>	<u>345,489</u>	<u>4,774,467</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular instruction	1,891,305	0	22,739	1,914,044
Special instruction	587,167	0	0	587,167
Other instruction	340,543	0	157,879	498,422
	<u>2,819,015</u>	<u>0</u>	<u>180,618</u>	<u>2,999,633</u>
Support services:				
Student services	109,305	0	0	109,305
Instructional staff services	194,616	0	0	194,616
Administration services	459,971	0	0	459,971
Operation and maintenance of plant services	367,125	0	29,467	396,592
Transportation services	118,624	0	6,485	125,109
	<u>1,249,641</u>	<u>0</u>	<u>35,952</u>	<u>1,285,593</u>
Non-instructional programs:				
Food service operations	68,190	0	0	68,190
	<u>68,190</u>	<u>0</u>	<u>0</u>	<u>68,190</u>
Other expenditures:				
Facilities acquisitions	0	50,376	0	50,376
Long-term debt:				
Principal	0	0	80,000	80,000
Interest and fiscal charges	0	0	79,833	79,833
AEA flowthrough	154,800	0	0	154,800
	<u>154,800</u>	<u>50,376</u>	<u>159,833</u>	<u>365,009</u>
Total expenditures	<u>4,291,646</u>	<u>50,376</u>	<u>376,403</u>	<u>4,718,425</u>
Excess(deficiency) of revenues over(under) expenditures	(193,040)	279,996	(30,914)	56,042
Other financing sources(uses):				
Operating transfers in	0	0	35,236	35,236
Operating transfers out	0	(35,236)	0	(35,236)
Total other financing sources(uses)	<u>0</u>	<u>(35,236)</u>	<u>35,236</u>	<u>0</u>
Net change in fund balances	(193,040)	244,760	4,322	56,042
Fund balance beginning of year	260,435	9,368	171,280	441,083
Fund balance end of year	<u>\$ 67,395</u>	<u>254,128</u>	<u>175,602</u>	<u>497,125</u>

SEE NOTES TO FINANCIAL STATEMENTS.

MADRID COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2005

Net change in fund balances - total governmental funds (page 19)	\$	56,042
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are 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	\$ 46,706	
Depreciation expense	<u>(166,803)</u>	(120,097)
 Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		
		4,107
 Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.		
		80,000
 Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		
		598
 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.		
Early retirement	\$ (7,210)	
Compensated absences	<u>(922)</u>	<u>(8,132)</u>
 Changes in net assets of governmental activities (page 16)	 \$	 <u>12,518</u>

SEE NOTES TO FINANCIAL STATEMENTS.

MADRID COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2005

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 8,333
Inventories	13,105
Capital assets, net of accumulated depreciation (Note 5)	23,482
TOTAL ASSETS	<u>44,920</u>
LIABILITIES	
Deferred revenue:	
Other	3,101
TOTAL LIABILITIES	<u>3,101</u>
NET ASSETS	
Investment in capital assets, net of related debt	23,482
Unrestricted	18,337
TOTAL NET ASSETS	<u>\$ 41,819</u>

SEE NOTES TO FINANCIAL STATEMENTS.

MADRID COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2005

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 160,513
TOTAL OPERATING REVENUES	160,513
OPERATING EXPENSES:	
Non-instructional programs:	
Salaries	83,137
Benefits	11,909
Services	3,259
Supplies	120,258
Depreciation	3,945
TOTAL OPERATING EXPENSES	222,508
OPERATING LOSS	(61,995)
NON-OPERATING REVENUES:	
State sources	3,228
Federal sources	56,334
Interest on investments	73
TOTAL NON-OPERATING REVENUES	59,635
Change in net assets	(2,360)
Net assets beginning of year	44,179
Net assets end of year	\$ 41,819

SEE NOTES TO FINANCIAL STATEMENTS.

MADRID COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2005

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 156,842
Cash received from miscellaneous	5,036
Cash payments to employees for services	(95,046)
Cash payments to suppliers for goods or services	(115,060)
Net cash used in operating activities	(48,228)
Cash flows from non-capital financing activities:	
State grants received	3,228
Federal grants received	47,175
Net cash provided by non-capital financing activities	50,403
Cash flows from capital and related financing activities:	
Purchase of capital assets	(8,444)
Net cash used in capital and related financing activities	(8,444)
Cash flows from investing activities:	
Interest on investments	73
Net cash provided by investing activities	73
Net decrease in cash and cash equivalents	(6,196)
Cash and cash equivalents at beginning of year	14,529
Cash and cash equivalents at end of year	\$ 8,333
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (61,995)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	9,159
Depreciation	3,945
Increase in inventories	(702)
Decrease in accounts receivable	652
Increase in deferred revenue	713
Net cash used in operating activities	\$ (48,228)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 8,333
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
During the year ended June 30, 2005, the District received Federal commodities valued at \$9,159.	

SEE NOTES TO FINANCIAL STATEMENTS.

MADRID COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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

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

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

A. Reporting Entity

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

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but 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 Boone, Dallas and Polk Counties Assessors' Conference Board.

B. Basis of Presentation

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

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

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

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

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

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

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

Fund Financial Statements - Separate financial statements are provided for governmental, 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 used to account for all resources used in the acquisition and construction of capital facilities.

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 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.

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

Asset Class	Amount
Land	\$ 1,200
Buildings	1,200
Land improvements	1,200
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,200

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	5-20 years

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

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

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

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

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, expenditures in the other expenditures functional area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits 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 Madrid States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments as of June 30, 2005.

(3) **Interfund Transfers**

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	<u>\$ 35,236</u>

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

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

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

period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2005 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued	
				Interest Receivable	Warrants Payable
2004-05A	6/30/2004	6/30/2005	\$ 96	0	0
2004-05B	1/28/2005	1/27/2006	369,063	5,000	368,000
2005-06A	6/30/2005	6/30/2006	606,676	130	604,000
Total			\$ 975,835	5,130	972,000

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2005 is as follows:

Series	Balance	Advances Received	Advances Repaid	Balance
	Beginning of Year			End of Year
2004-05A	\$ 0	250,000	250,000	0

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

Series	Interest Rates on Warrants	Interest Rates on Investments
2004-05A	3.000	2.463
2004-05B	3.500	2.280
2005-06A	3.500	3.903

(5) 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	\$ 112,126	0	0	112,126
Total capital assets not being depreciated	<u>112,126</u>	<u>0</u>	<u>0</u>	<u>112,126</u>
Capital assets being depreciated:				
Buildings	6,183,373	25,384	0	6,208,757
Land improvements	499,633	1,367	0	501,000
Machinery and equipment	676,904	19,955	45,553	651,306
Total capital assets being depreciated	<u>7,359,910</u>	<u>46,706</u>	<u>45,553</u>	<u>7,361,063</u>
Less accumulated depreciation for:				
Buildings	2,662,397	104,408	0	2,766,805
Land improvements	420,146	13,892	0	434,038
Machinery and equipment	559,093	48,503	45,553	562,043
Total accumulated depreciation	<u>3,641,636</u>	<u>166,803</u>	<u>45,553</u>	<u>3,762,886</u>
Total capital assets being depreciated, net	<u>3,718,274</u>	<u>(120,097)</u>	<u>0</u>	<u>3,598,177</u>
Governmental activities capital assets, net	<u>\$ 3,830,400</u>	<u>(120,097)</u>	<u>0</u>	<u>3,710,303</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 105,930	8,444	5,153	109,221
Less accumulated depreciation	86,947	3,945	5,153	85,739
Business-type activities capital assets, net	<u>\$ 18,983</u>	<u>4,499</u>	<u>0</u>	<u>23,482</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 22,004
Support services:	
Administration	5,940
Operation and maintenance of plant	2,572
Transportation	17,987
	<u>48,503</u>
Unallocated depreciation	<u>118,300</u>
Total governmental activities depreciation expense	<u>\$ 166,803</u>
Business-type activities:	
Food services	\$ 3,945
Total business-type activities depreciation expense	<u>\$ 3,945</u>

**(6) Long-Term Liabilities**

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

	Balance			Balance	Due
	Beginning	Additions	Deletions	End of	Within
	of Year			Year	One Year
General obligation bonds	\$ 1,700,000	0	80,000	1,620,000	85,000
Compensated absences	5,873	6,795	5,873	6,795	6,795
Early Retirement	27,587	19,289	12,079	34,797	29,627
Total	\$ 1,733,460	26,084	97,952	1,661,592	121,422

General Obligation Bonds Payable

Details of the District's June 30, 2005 general obligation bonded indebtedness are as follows:

Year	Bond Issue of May 1, 1999			Bond Issue of May 1, 1999			Total		
Ending	Interest			Interest					
June 30,	Rates	Principal	Interest	Rates	Principal	Interest	Principal	Interest	Total
2006	4.50%	\$ 85,000	29,253	5.30%	\$ 46,580	46,580	85,000	75,833	160,833
2007	4.60	90,000	25,427	5.30	46,580	46,580	90,000	72,007	162,007
2008	4.60	95,000	21,288	5.30	46,580	46,580	95,000	67,868	162,868
2009	4.60	95,000	16,917	4.35	46,580	46,580	95,000	63,497	158,497
2010	4.55	100,000	12,548	4.45	46,580	46,580	100,000	59,128	159,128
2011	4.55	105,000	7,997	4.50	46,580	46,580	105,000	54,577	159,577
2012	4.60	70,000	3,220	4.60	40,000	46,580	110,000	49,800	159,800
2013				4.60	115,000	44,740	115,000	44,740	159,740
2014				4.65	120,000	39,450	120,000	39,450	159,450
2015				4.70	130,000	33,870	130,000	33,870	163,870
2016				4.75	135,000	27,760	135,000	27,760	162,760
2017				4.80	140,000	21,348	140,000	21,348	161,348
2018				4.85	145,000	14,628	145,000	14,628	159,628
2019				4.90	155,000	7,595	155,000	7,595	162,595
Total		\$ 640,000	116,650		\$ 980,000	515,451	1,620,000	632,101	2,252,101

Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must be at least fifty-five and employees must have completed ten years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to 35% of the employee's regular contractual salary from the salary schedule in effect during the employees last year of employment. Early retirement benefits paid during the year totaled \$12,079.

**(7) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by

State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$153,880, \$149,584, and \$146,052 respectively, equal to the required contributions for each year.

**(8) Risk Management**

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

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$154,800 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.

**(10) Budget Overexpenditure**

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2005, expenditures in the other expenditures programs functional area exceeded the amounts budgeted.

REQUIRED SUPPLEMENTAL INFORMATION

MADRID COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL (GAAP BASIS) - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
<b>Revenues:</b>		
Local sources	\$ 2,071,226	160,586
State sources	2,523,577	3,228
Federal sources	179,664	56,334
Total revenues	<u>4,774,467</u>	<u>220,148</u>
<b>Expenditures:</b>		
Instruction	2,999,633	0
Support services	1,285,593	0
Non-instructional programs	68,190	222,508
Other expenditures	365,009	0
Total expenditures	<u>4,718,425</u>	<u>222,508</u>
Excess(deficiency) of revenues over(under) expenditures	56,042	(2,360)
Balance beginning of year	<u>441,083</u>	<u>44,179</u>
Balance end of year	<u>\$ 497,125</u>	<u>41,819</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
2,231,812	2,904,343	2,904,343	(672,531)
2,526,805	2,555,200	2,555,200	(28,395)
235,998	256,000	256,000	(20,002)
4,994,615	5,715,543	5,715,543	(720,928)
2,999,633	3,060,000	3,060,000	60,367
1,285,593	1,935,000	1,935,000	649,407
290,698	355,000	355,000	64,302
365,009	328,345	328,345	(36,664)
4,940,933	5,678,345	5,678,345	737,412
53,682	37,198	37,198	(16,484)
485,262	343,277	343,277	141,985
538,944	380,475	380,475	158,469

MADRID COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED 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 comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

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

During the year ended June 30, 2005, expenditures in the other expenditures programs functional area exceeded the amount budgeted.

OTHER SUPPLEMENTAL INFORMATION

MADRID COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2005

	Special Revenue Funds					Total
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
ASSETS						
Cash and pooled investments	\$ 42,501	48,371	69,217	160,089	11,196	171,285
Receivables:						
Property tax:						
Current year delinquent	915	0	542	1,457	2,860	4,317
Succeeding year	60,000	0	24,126	84,126	51,833	135,959
<b>TOTAL ASSETS</b>	<b>\$ 103,416</b>	<b>48,371</b>	<b>93,885</b>	<b>245,672</b>	<b>65,889</b>	<b>311,561</b>
LIABILITIES AND FUND EQUITY						
Liabilities						
Deferred revenue:						
Succeeding year property tax	\$ 60,000	0	24,126	84,126	51,833	135,959
<b>TOTAL LIABILITIES</b>	<b>60,000</b>	<b>0</b>	<b>24,126</b>	<b>84,126</b>	<b>51,833</b>	<b>135,959</b>
Fund equity:						
Fund balances:						
Reserved for:						
Debt Service	0	0	0	0	14,056	14,056
Unreserved:						
Undesignated	43,416	48,371	69,759	161,546	0	161,546
Total fund balances	43,416	48,371	69,759	161,546	14,056	175,602
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 103,416</b>	<b>48,371</b>	<b>93,885</b>	<b>245,672</b>	<b>65,889</b>	<b>311,561</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MADRID COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2005

	Special Revenue Funds				Debt Service	Total Other Nonmajor Governmental Funds
	Management	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds		
REVENUES:						
Local sources:						
Local tax	\$ 40,102	0	23,747	63,849	125,411	189,260
Other	772	154,539	511	155,822	161	155,983
State sources	52	0	31	83	163	246
TOTAL REVENUES	40,926	154,539	24,289	219,754	125,735	345,489
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	22,739	0	0	22,739	0	22,739
Other instruction	0	157,879	0	157,879	0	157,879
Support services:						
Operation and maintenance of plant services	29,467	0	0	29,467	0	29,467
Student transportation	6,485	0	0	6,485	0	6,485
Other expenditures:						
Long-term debt:						
Principal	0	0	0	0	80,000	80,000
Interest and fiscal charges	0	0	0	0	79,833	79,833
TOTAL EXPENDITURES	58,691	157,879	0	216,570	159,833	376,403
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(17,765)	(3,340)	24,289	3,184	(34,098)	(30,914)
OTHER FINANCING SOURCES:						
Operating transfers in	0	0	0	0	35,236	35,236
TOTAL OTHER FINANCING SOURCES	0	0	0	0	35,236	35,236
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(17,765)	(3,340)	24,289	3,184	1,138	4,322
FUND BALANCE BEGINNING OF YEAR	61,181	51,711	45,470	158,362	12,918	171,280
FUND BALANCE END OF YEAR	\$ 43,416	48,371	69,759	161,546	14,056	175,602

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MADRID COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2005

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 696	1,067	1,298	465
7-12 Vocal Music	125	0	0	125
7-12 Music Trip	11,661	19,739	23,044	8,356
7-12 Instrumental Music	0	50	50	0
Elementary Music	1,524	231	80	1,675
7-12 Activities	3,823	9,942	11,053	2,712
Yearbook	47	1,607	1,654	0
HS Student Council	2,250	6,550	3,028	5,772
JH Student Council	276	0	48	228
K-6 Student Council	1,777	0	0	1,777
K-6 Building	2,018	5,007	5,414	1,611
Boys Basketball	3,527	4,405	6,314	1,618
Football	5,624	43,038	45,241	3,421
Baseball	(5,041)	12,504	7,463	0
Boys Track	0	3,080	3,080	0
Golf	0	1,660	1,660	0
Football Camp	0	835	456	379
Girls Basketball	2,171	8,559	8,779	1,951
Volleyball	765	5,913	5,421	1,257
Softball	(696)	6,039	5,343	0
Girls Track	0	2,174	2,174	0
FCCLA	86	2,246	2,243	89
Spanish Club	1,480	150	250	1,380
HS Cheerleaders	2,129	12,869	10,600	4,398
7-12 Activity Awards	0	1,066	1,066	0
6th Grade Activities	4	0	0	4
Class of 2004	1,948	0	1,948	0
Class of 2005	2,623	0	2,623	0
Class of 2006	3,933	3,479	5,167	2,245
Class of 2007	3,896	433	250	4,079
Class of 2008	2,306	250	1	2,555
Class of 2009	862	549	192	1,219
Class of 2010	0	1,097	42	1,055
Class of 2011	1,897	0	1,897	0
<b>Total</b>	<b>\$ 51,711</b>	<b>154,539</b>	<b>157,879</b>	<b>48,371</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2005	2004	2003	2002
<b>Revenues:</b>				
Local sources:				
Local tax	\$ 1,688,295	1,551,156	1,412,004	1,291,685
Tuition	155,947	111,578	85,566	90,921
Other	226,984	185,179	244,071	217,044
State sources	2,523,577	2,346,334	2,430,802	2,543,715
Federal sources	179,664	183,383	109,430	62,642
<b>Total</b>	<b>\$ 4,774,467</b>	<b>4,377,630</b>	<b>4,281,873</b>	<b>4,206,007</b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular instruction	\$ 1,914,044	1,812,725	1,693,854	1,617,117
Special instruction	587,167	559,072	538,235	477,981
Other instruction	498,422	466,306	469,235	462,906
Support services:				
Student services	109,305	107,408	105,299	116,764
Instructional staff services	194,616	196,845	132,072	124,118
Administration services	459,971	440,807	430,228	402,399
Operation and maintenance of plant services	396,592	387,372	403,939	364,672
Transportation services	125,109	113,078	129,108	139,075
Non-instructional programs	68,190	62,506	60,872	57,276
Other expenditures:				
Facilities acquisitions	50,376	121,788	7,991	74,012
Long-term debt:				
Principal	80,000	80,989	75,987	81,974
Interest	79,833	83,108	86,258	89,231
AEA flow-through	154,800	155,671	167,750	169,136
<b>Total</b>	<b>\$ 4,718,425</b>	<b>4,587,675</b>	<b>4,300,828</b>	<b>4,176,661</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

## **Certified Public Accountants**

(a professional corporation)

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

Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and  
on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Education of the  
Madrid 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 Madrid 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 November 30, 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 Madrid States.

### Internal Control Over Financial Reporting

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

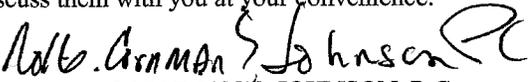
### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 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 Madrid Community School District and other parties to whom Madrid 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 Madrid Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

November 30, 2005

MADRID COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2005

Part I: Findings Related to the Basic Financial Statements:

REPORTABLE CONDITIONS:

I-A-05 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. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

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

Conclusion - Response accepted.

MADRID COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2005

Part II: Other Findings Related to Statutory Reporting

II-A-05 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, 2005.

II-B-05 Certified Budget - District expenditures for the year ended June 30, 2005, exceeded the certified budget amounts in the other expenditures programs functional area.

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

Response - We will comply.

Conclusion - Response accepted.

II-C-05 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-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 - No business transactions between the District and District officials or employees were noted.

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 - We noted no transactions requiring Board approval which have not been approved by the Board.

II-H-05 Certified Enrollment - We noted no variance in the basic enrollment data certified to the Department of Education.

II-I-05 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-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.