

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL
DISTRICT

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

June 30, 2005

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Independent Auditor's Report

To the Board of Education of
Marcus-Meriden-Cleghorn 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 Marcus-Meriden-Cleghorn Community School District, Marcus, 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 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 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 Marcus-Meriden-Cleghorn 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 reports dated August 24, 2005, on our consideration of Marcus-Meriden-Cleghorn Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract 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 14 and 36 through 38 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 Marcus-Meriden-Cleghorn 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). Our opinions for 2004 were unqualified. We expressed qualified opinions for 2003 and 2002 because we were unable to audit the general fixed assets account group. The supplemental information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

August 24, 2005

Management Discussion and Analysis

The Marcus-Meriden-Cleghorn Community School District provides this Management 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 this section.

Financial Highlights

- Interest rates increased throughout the year and revenues exceeded expenditures for the 04-05 fiscal year. The rate increase combined with having more cash available for investing resulted in an increase in interest earnings in the General Fund. Interest earnings went from \$23,295 in fiscal year 2003, to \$16,451 in fiscal year 2004 and now to \$32,081 in fiscal year 2005.
- Cherokee County passed the one cent local option sales tax for school infrastructure in February 2004. The school started receiving money from that tax in August of 2004. Currently this money is being accumulated in anticipation of a building project to include an on-site kitchen facility at the Marcus campus.
- The District spent \$245,959 less than it received; therefore the General Fund ending fund balance went from \$656,273 to \$902,232.
- The District spent a significant amount of Physical Plant and Equipment Levy money on gymnasium renovations at the High School building in Marcus.

Overview of the Financial Statements

This annual 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 *government-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 Government-wide statements.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short term* as well as what remains for future spending.
- *Proprietary funds* statements offer *short-* and *long-term* financial information about the activities the District operates *like businesses*, such as food services.

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 related to one another.

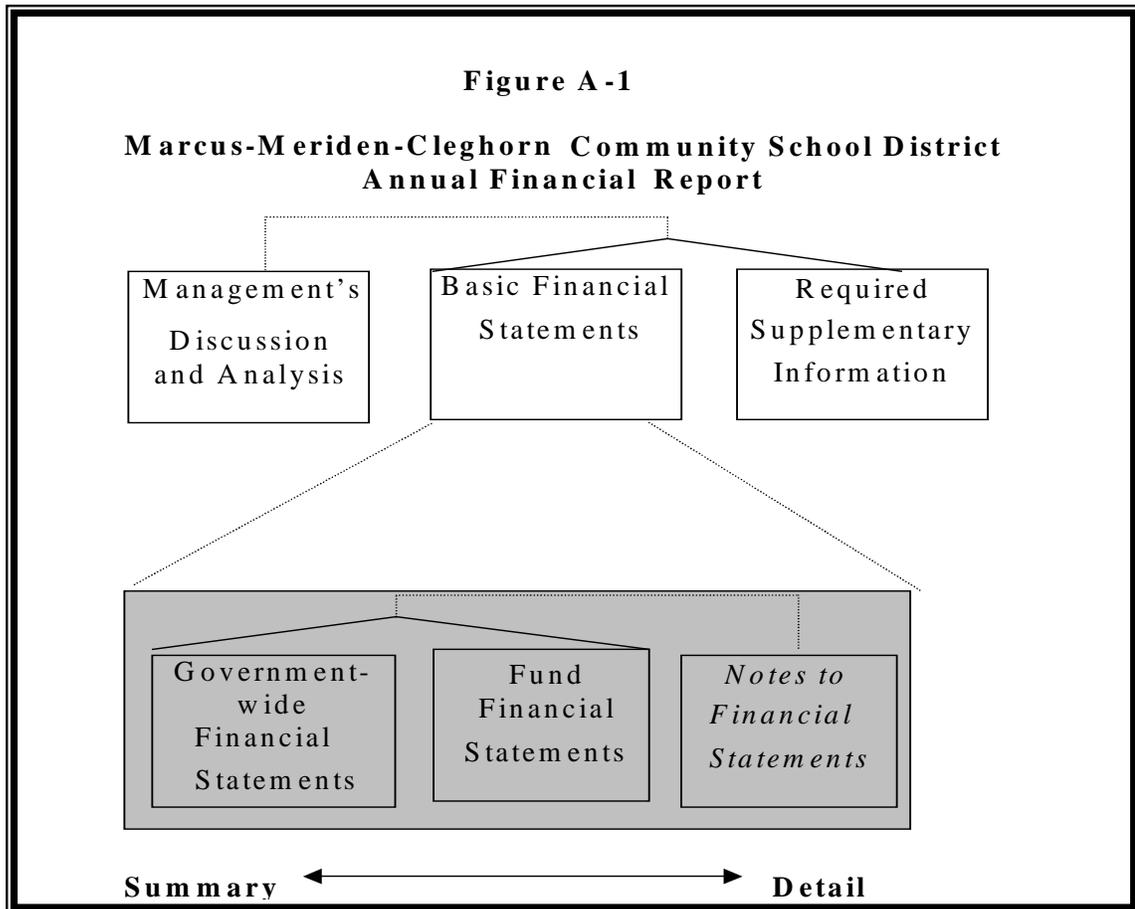


Figure A-2 below summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents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

Figure A-2: Major Features of the Government Wide and Fund Financial Statements

	Government-wide Statements	Fund Financial 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 is included here	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 cash flows • Statement of revenues, expenses and changes in net assets 	<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 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 and payable	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

Government-wide Financial Statements

The Government-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 Government-wide statements report the District's *net assets* and how they have changed. Net assets—the difference between the District's assets and liabilities—is 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 its 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 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 taxes and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help it cover the costs of certain services it provides. The District's food service program would be 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 repaying its long-term debts) or to show that it is properly using certain revenues (such as federal grants).

The District has two 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 funds statements provide a detailed short-term view that helps the reader 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 funds statements explains the relationship (or differences) between them.

- *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 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. *Internal service funds*, (the other kind of proprietary fund) are optional and available to report activities that provide supplies and services for other District programs and activities. The District uses an internal service fund to account for its employee flexible benefit plan.

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 years ended June 30, 2004 and June 30, 2005. As explained in note 9 to the financial statements, the 2004 governmental activities have been restated to include \$10,900 of capital assets that were not included last year.

	Governmental		Business-type		District Total	
	Activities		Activities		District Total	
	2004	2005	2004	2005	2004	2005
	Restated				Restated	
Current and other assets	\$ 4,217,244	\$ 4,384,840	\$ 56,067	\$ 31,144	\$ 4,273,311	\$ 4,415,984
Capital Assets	797,940	942,444	15,305	14,793	813,245	957,237
Total assets	5,015,184	5,327,284	71,372	45,937	5,086,556	5,373,221
Long-term debt outstanding	66,921	98,120	-	-	66,921	98,120
Other liabilities	3,025,171	2,781,993	12,909	14,792	3,038,080	2,796,785
Total liabilities	3,092,092	2,880,113	12,909	14,792	3,105,001	2,894,905
Net Assets:						
Invested in capital assets, net of related debt	797,940	942,444	15,305	14,793	813,245	957,237
Restricted	344,978	513,652	-	-	344,978	513,652
Unrestricted	780,174	991,075	43,158	16,352	823,332	1,007,427
Total net assets	1,923,092	2,447,171	58,463	31,145	1,981,555	2,478,316

The District's total net assets increased by nearly 25%, or approximately \$497,000, over the prior year.

The portion of the District's net assets identifies as invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt increased by \$144,000. This increase is attributable to gymnasium renovations and the purchase of a school bus. The District has no long-term debt issued to finance capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$169,000 or 49% over the prior year. The increase was primarily a

result of sales taxes revenue collected, but not spent. These monies will be used for future capital improvements.

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 – increased approximately \$184,000, or 23%.

The net asset decline in the business-type activities can be attributed to increasing costs of supplies and decreasing federal revenues along with meal prices that have not increased significantly in several years.

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

Figure A-4

Changes in Net Assets from Operating Results for the years ending June 30, 2004 and 2005

	Governmental Activities		Business-type Activities		School District Total	
	2004	2005	2004	2005	2004	2005
Revenues						
Program revenues						
Charges for services	\$ 318,193	\$ 318,120	\$ 89,800	\$ 94,852	\$ 407,993	\$ 412,972
Operating Grants & Contributions	445,785	577,125	84,256	77,595	530,041	654,720
Capital Grants & Contributions	-	-	-	-	-	-
General revenues						
Property and Other Local taxes	2,298,680	2,451,811	-	-	2,298,680	2,451,811
Unrestricted state grants	1,494,761	1,870,474	-	-	1,494,761	1,870,474
Other	183,002	39,793	557	392	183,559	40,185
Total revenue	4,740,421	5,257,323	174,613	172,839	4,915,034	5,430,162
Expenses						
Instruction	3,221,811	3,138,846	-	-	3,221,811	3,138,846
Support Services:						
Administrative & Business	483,283	498,540	-	-	483,283	498,540
Maintenance & Operations	374,059	356,309	-	-	374,059	356,309
Other Support Services	406,966	468,080	-	-	406,966	468,080
Non-Instructional Programs	-	-	179,984	200,157	179,984	200,157
Other Expenditures	305,246	271,469	-	-	305,246	271,469
Total expenses	4,791,365	4,733,244	179,984	200,157	4,971,349	4,933,401
Increase (decrease) in net assets	\$ (50,944)	\$ 524,079	\$ (5,371)	\$ (27,318)	\$ (56,315)	\$ 496,761

Figure A-5

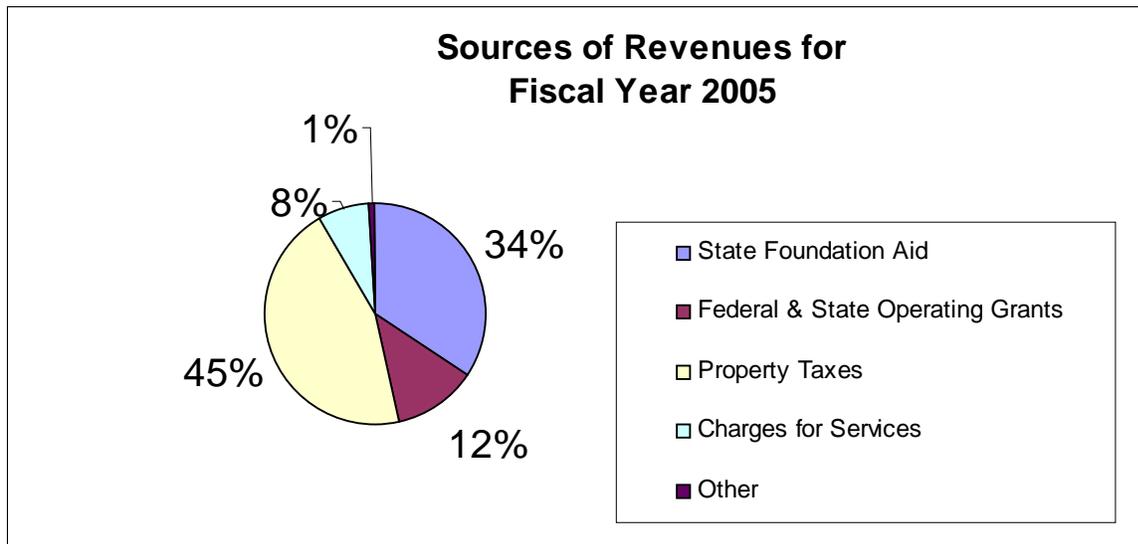
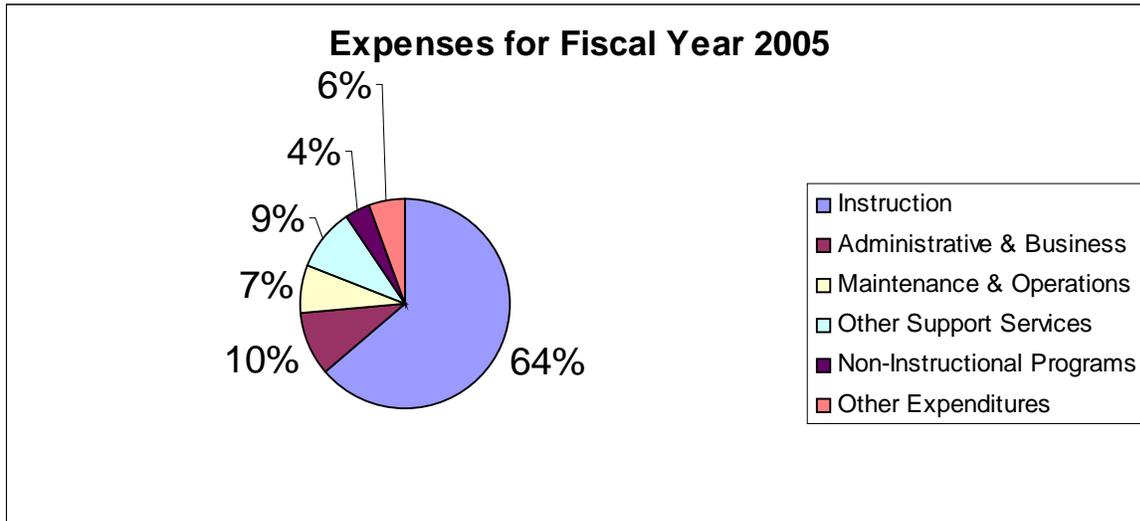


Figure A-6



Governmental Activities

Figure A-7 presents the cost of four major district activities: instruction, support services, administrative and business, maintenance and operations, and other. The table also shows each activity's *net cost* (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

Figure A-7
Net Cost of Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2004	2005	2004	2005
	Instruction	\$ 3,221,811	\$ 3,138,846	\$ 2,633,228
Support Services:				
Administration & Business	483,283	498,540	483,283	498,540
Maintenance & Operations	374,059	356,309	374,059	355,734
Other Support Services	406,966	468,080	402,702	467,757
Other Expenditures	305,246	271,469	134,115	96,882
Total	\$ 4,791,365	\$ 4,733,244	\$ 4,027,387	\$ 3,837,999

- The cost of all governmental activities this year was \$4,733,244.
- \$318,120 of the cost was financed by the users of the District's programs (see Figure A-4)
- The federal and state governments subsidized certain programs with grants and contributions of \$577,125.
- Most of the District's \$3,837,999 of net costs, however were financed by District and state taxpayers.
- This portion of governmental activities was financed with \$2,451,811 in property and other local taxes, \$1,870,474 of unrestricted state grants based on the statewide finance formula, and investment earnings.

Business-Type Activities

Revenues of the District's business-type activities (school food and nutrition services) totaled \$172,839 and expenses totaled \$200,157. (Refer to Figure A-4.) Factors contributing to these results are as follows: Business-type activity expenditures exceeded revenue by \$27,318. This deficit was caused primarily by the school food and nutrition services program continuing to pay several costs of operations rather than the costs being paid from general operating funds as has been done in the past. These included all utilities-phone, water, electric and gas, plus certain repairs and equipment. There was a significant increase in supply costs from \$82,304 in fiscal year 2004 to \$97,922 in fiscal year 2005. This is an increase of 18.98% versus only a 4% increase in all the other expense areas combined. The District is looking at ways to generate more revenue in this area to finance the rising costs of operation.

Financial Analysis of the District's Funds

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

Governmental Funds

The District's General Fund cash position increased significantly due to 4% allowable growth from the state combined with steady enrollment and a continued tightening of the reins on spending. Natural gas costs were significantly below budget again, as were special education costs.

The cash position of the Physical Plant and Equipment Levy decreased from \$286,988 at June 30, 2004 to \$159,111 on June 30, 2005 due to a major renovation of the High School's gymnasium which began in June of 2004. This included a new paint job, a complete refinish of the floor, new bleachers as well as new stage curtains. Other projects financed through PPEL funds were a track resurfacing, epoxy flooring applied in several areas, pipe insulation in the primary building as well as a new bus purchase. After all these projects the fund balance on June 30, 2005 was \$161,458 down from the June 30, 2004 balance of \$267,856.

The Management Levy had a steady cash position after an increased levy. Last year saw a decrease in the cash position due to the amount levied being less than expenditures. The increased levy nearly matched the expenditures in this fund for the fiscal year 2005.

The Capital Projects Fund is new for 2005 and is being used to account for the proceeds from and expenditures of sales tax revenues. There were no expenditures in 2005; the monies are being accumulated for future capital improvements.

Proprietary Funds

The School Nutrition Fund suffered a \$104,825 operating loss due mainly to increased supply costs. This was made worse by a decrease in federal money received which caused the net change in assets to be a negative \$27,318.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following a required public notice and hearing. The budget may be amended during the year utilizing statutorily prescribed procedures. The District's budget is prepared on a cash basis. Over the course of the year, the District did not amend its budget as expenditures were not expected to exceed the certified amounts, however it did in fact do so in the non-instructional programs and the other expenditures function. The other expenditures function budget was exceeded due to year-end reclassification of expenditures without sufficient time to amend the budget. The non-instructional programs function budget was exceeded due to the timing of disbursements paid at year-end without sufficient time to amend the budget.

There was some variance in the District's budget in comparison to actual results. Total actual revenue was 2.79% more than budgeted, while total actual expenditures were 7.76% less than budgeted. The reason for revenues being more than budgeted was the Local Option Sales Tax money coming in way over budget while state revenues were right at budgeted amounts this year. The expenditures were much less than budgeted in the area of Instruction and Support Services. The District will work on getting budgeted expenditures to be closer to actual results. Detail can be found in the supplementary information section of this report.

Capital Asset and Debt Administration

Capital Assets

By the end of 2005, the District had invested \$957,237, net of accumulated depreciation, in a broad range of assets, including school buildings, athletic facilities, computer and audio-visual equipment, transportation equipment and administrative offices. (See Figure A-8) **(More detailed information about capital assets can be found in Note 4 to the financial statements.)** Total depreciation expense for the year was \$105,255.

Figure A-8
Capital Assets, Net of Accumulated Depreciation

	Governmental		Business-type		Total	
	Activities		Activities		School District	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Land	\$ 11,900	\$ 11,900	\$ -	\$ -	\$ 11,900	\$ 11,900
Construction in progress	58,720	-	-	-	58,720	-
Buildings & Improvements	647,943	822,512	-	-	647,943	822,512
Equipment & Furniture	79,377	108,032	15,305	14,793	94,682	122,825
	\$ 797,940	\$ 942,444	\$ 15,305	\$ 14,793	\$ 813,245	\$ 957,237

Long-Term Debt

At year-end, the District had \$0 in general obligation bonds and \$98,120 in other long-term debt outstanding in Figure A-9 below.

Figure A-9		
Outstanding Long-Term Debt		
	Total	
	<u>2004</u>	<u>2005</u>
Early Retirement Benefits Payable	\$ 66,921	\$ 98,120
Total	\$ 66,921	\$ 98,120

Factors Bearing on the District's Future

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

- The national recession that has adversely impacted the State of Iowa's budget has translated into reduced levels of state aid funding for education. Future increases in state aid to schools, (allowable growth) will be predicated upon the condition of the national and state economy. State funding growth for public schools for fiscal year 2006, has been set at 4%.
- District budget enrollment saw a 42 student decrease for 2005 plus a negative 2 student audit adjustment but will hold fairly steady for 2006. Under Iowa's school funding formula, District funding is highly dependant upon District enrollments. Despite the seeming stability of the District's enrollment open enrollment is a factor since open enrollment in for 2006 is down nine and open enrollment out is up eleven. Future enrollment stability is a critical element in maintaining a sound financial foundation.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability of the money it receives. If you have questions about this report or need additional financial information, contact Jodi B. Mongan, Business Manager, Marcus-Meriden-Cleghorn Community School District, 400 E Fenton St, PO Box 667, Marcus, IA 51035.

BASIC FINANCIAL STATEMENTS

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents:			
ISCAP	319,922	-	319,922
Other	1,711,345	26,461	1,737,806
Receivables:			
Property tax:			
Delinquent	30,654	-	30,654
Succeeding year	2,030,724	-	2,030,724
Accounts	421	-	421
Accrued interest:			
ISCAP	4,252	-	4,252
Other	3,508	-	3,508
Due from other governments	284,014	-	284,014
Inventories	-	4,683	4,683
Capital assets, net of accumulated depreciation	942,444	14,793	957,237
	<u>5,327,284</u>	<u>45,937</u>	<u>5,373,221</u>
Total assets			
Liabilities			
Accounts payable	40,262	347	40,609
Salaries and benefits payable	383,228	10,616	393,844
Deferred revenue:			
Succeeding year property tax	2,030,724	-	2,030,724
Other	2,203	3,829	6,032
ISCAP warrants payable	319,000	-	319,000
ISCAP accrued interest payable	4,680	-	4,680
ISCAP premium	1,896	-	1,896
Long-term liabilities:			
Portion due within one year:			
Early retirement	32,018	-	32,018
Portion due after one year:			
Early retirement	66,102	-	66,102
	<u>2,880,113</u>	<u>14,792</u>	<u>2,894,905</u>
Total liabilities			

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Net assets			
Invested in capital assets, net of related debt	942,444	14,793	957,237
Restricted for:			
Physical plant and equipment levy	161,458	-	161,458
Other special revenue purposes	94,365	-	94,365
Local option sales tax capital projects	257,829	-	257,829
Unrestricted	<u>991,075</u>	<u>16,352</u>	<u>1,007,427</u>
Total net assets	<u><u>2,447,171</u></u>	<u><u>31,145</u></u>	<u><u>2,478,316</u></u>

MARCUS-MERIDEN-CLEGHORN 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	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	2,129,033	175,224	281,445	-
Special instruction	469,336	7,146	63,806	-
Other instruction	540,477	135,175	56,964	-
	<u>3,138,846</u>	<u>317,545</u>	<u>402,215</u>	<u>-</u>
Support services:				
Student services	118,025	-	-	-
Instructional staff services	128,593	-	-	-
Administration services	498,540	-	-	-
Operation and maintenance of plant services	356,309	575	-	-
Transportation services	221,462	-	323	-
	<u>1,322,929</u>	<u>575</u>	<u>323</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	36,696	-	-	-
AEA flowthrough	174,587	-	174,587	-
Depreciation (unallocated)*	60,186	-	-	-
	<u>271,469</u>	<u>-</u>	<u>174,587</u>	<u>-</u>
Total governmental activities	4,733,244	318,120	577,125	-
Business type activities:				
Non-instructional programs:				
Food service operations	200,157	94,852	77,595	-
Total	<u>4,933,401</u>	<u>412,972</u>	<u>654,720</u>	<u>-</u>
General Revenues:				
Property taxes 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, as restated

Net assets end of year

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

See notes to financial statements.

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
(1,672,364)	-	(1,672,364)
(398,384)	-	(398,384)
(348,338)	-	(348,338)
<u>(2,419,086)</u>	<u>-</u>	<u>(2,419,086)</u>
(118,025)	-	(118,025)
(128,593)	-	(128,593)
(498,540)	-	(498,540)
(355,734)	-	(355,734)
(221,139)	-	(221,139)
<u>(1,322,031)</u>	<u>-</u>	<u>(1,322,031)</u>
(36,696)	-	(36,696)
-	-	-
(60,186)	-	(60,186)
<u>(96,882)</u>	<u>-</u>	<u>(96,882)</u>
(3,837,999)	-	(3,837,999)
-	(27,710)	(27,710)
<u>(3,837,999)</u>	<u>(27,710)</u>	<u>(3,865,709)</u>
1,890,520	-	1,890,520
158,804	-	158,804
145,825	-	145,825
256,662	-	256,662
1,870,474	-	1,870,474
37,669	392	38,061
2,124	-	2,124
<u>4,362,078</u>	<u>392</u>	<u>4,362,470</u>
524,079	(27,318)	496,761
<u>1,923,092</u>	<u>58,463</u>	<u>1,981,555</u>
<u>2,447,171</u>	<u>31,145</u>	<u>2,478,316</u>

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2005

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
	\$	\$	\$
Assets			
Cash and pooled investments:			
ISCAP	319,922	-	319,922
Other	1,224,178	487,035	1,711,213
Receivables:			
Property tax:			
Delinquent	26,757	3,897	30,654
Succeeding year	1,747,268	283,456	2,030,724
Accounts	421	-	421
Accrued interest - ISCAP	4,252	-	4,252
Accrued interest - other	3,508	-	3,508
Due from other governments	197,216	86,798	284,014
	<u>3,523,522</u>	<u>861,186</u>	<u>4,384,708</u>
Total assets			
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	38,015	2,247	40,262
Salaries and benefits payable	383,228	-	383,228
ISCAP warrants payable	319,000	-	319,000
ISCAP accrued interest payable	4,680	-	4,680
ISCAP premium	1,896	-	1,896
Deferred revenue:			
Succeeding year property tax	1,747,268	283,456	2,030,724
Other	127,203	14,000	141,203
Total liabilities	<u>2,621,290</u>	<u>299,703</u>	<u>2,920,993</u>
Fund balances:			
Unreserved reported in:			
General fund	902,232	-	902,232
Special revenue funds	-	303,654	303,654
Capital projects funds	-	257,829	257,829
Total fund balances	<u>902,232</u>	<u>561,483</u>	<u>1,463,715</u>
	<u>3,523,522</u>	<u>861,186</u>	<u>4,384,708</u>
Total liabilities and fund balances			

MARCUS-MERIDEN-CLEGHORN 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 (Exhibit C)	1,463,715
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	942,444
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	139,000
An internal service fund is used by the District's management to charge the costs of the employee flexible benefit program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	132
Long-term liabilities, including early retirement benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(98,120)</u>
Net assets of governmental activities (Exhibit A)	<u><u>2,447,171</u></u>

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2005

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	1,919,695	533,758	2,453,453
Tuition	151,067	-	151,067
Other	69,937	135,075	205,012
State sources	2,225,626	202	2,225,828
Federal sources	221,771	-	221,771
Total revenues	<u>4,588,096</u>	<u>669,035</u>	<u>5,257,131</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	2,069,347	31,896	2,101,243
Special instruction	469,336	-	469,336
Other instruction	424,194	112,888	537,082
	<u>2,962,877</u>	<u>144,784</u>	<u>3,107,661</u>
Support services:			
Student services	118,025	-	118,025
Instructional staff services	128,593	-	128,593
Administration services	493,963	-	493,963
Operation and maintenance of plant services	282,920	72,628	355,548
Transportation services	182,905	65,031	247,936
	<u>1,206,406</u>	<u>137,659</u>	<u>1,344,065</u>
Other expenditures:			
Facilities acquisition	-	219,509	219,509
AEA flowthrough	174,587	-	174,587
	<u>174,587</u>	<u>219,509</u>	<u>394,096</u>
Total expenditures	<u>4,343,870</u>	<u>501,952</u>	<u>4,845,822</u>
Excess (deficiency) of revenues over (under) expenditures	244,226	167,083	411,309
Other financing sources (uses):			
Sales of equipment and real property	1,733	-	1,733
Net change in fund balances	245,959	167,083	413,042
Fund balances beginning of year	656,273	394,400	1,050,673
Fund balances end of year	<u>902,232</u>	<u>561,483</u>	<u>1,463,715</u>

MARCUS-MERIDEN-CLEGHORN 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 (Exhibit E)		413,042
<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 not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the year as follows:		
Expenditures for capital assets	246,486	
Depreciation expense	<u>(101,982)</u>	144,504
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.		
		(1,541)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Early retirement		(31,199)
An internal service fund is used by the District's management to charge the costs of the employee flexible benefit program to the individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.		
		<u>(727)</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>524,079</u></u>

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2005

	Enterprise Fund	Governmental Activities - Internal Service Fund
	Nonmajor School Nutrition	Fund
	\$	\$
Assets		
Cash and cash equivalents	26,461	132
Inventories	4,683	-
Capital assets, net of accumulated depreciation	14,793	-
	<u>45,937</u>	<u>132</u>
Total assets		
Liabilities		
Accounts payable	347	-
Salaries and benefits payable	10,616	-
Deferred revenue	3,829	-
	<u>14,792</u>	<u>-</u>
Total liabilities		
Net assets		
Invested in capital assets, net of related debt	14,793	-
Unrestricted	16,352	132
	<u>31,145</u>	<u>132</u>
Total net assets		

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds

Year ended June 30, 2005

	Enterprise Fund Nonmajor School Nutrition <u> </u> \$	Governmental Activities - Internal Service Fund <u> </u> \$
Operating revenue:		
Local sources:		
Charges for service	94,852	27,417
Operating expenses:		
Non-instructional programs:		
Salaries	74,473	-
Benefits	14,252	28,144
Purchased services	9,490	-
Supplies	97,922	-
Depreciation	3,273	-
Other	267	-
	<u>199,677</u>	<u>28,144</u>
Operating gain (loss)	<u>(104,825)</u>	<u>(727)</u>
Non-operating revenue (expense):		
Loss on disposal of equipment	(480)	-
State sources	2,871	-
Federal sources	74,724	-
Interest income	392	-
Total non-operating revenue	<u>77,507</u>	<u>-</u>
Change in net assets	(27,318)	(727)
Net assets beginning of year	<u>58,463</u>	<u>859</u>
Net assets end of year	<u><u>31,145</u></u>	<u><u>132</u></u>

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2005

	Enterprise Fund Nonmajor School Nutrition	Governmental Activities - Internal Service Fund
	\$	\$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	95,133	-
Cash received from services provided to other funds	-	27,417
Cash payments to employees for services	(87,226)	(28,144)
Cash payments to suppliers for goods or services	(86,252)	-
Net cash used by operating activities	<u>(78,345)</u>	<u>(727)</u>
Cash flows from non-capital financing activities:		
State grants received	2,871	-
Federal grants received	56,003	-
Net cash provided by non-capital financing activities	<u>58,874</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Sale of capital assets	70	-
Acquisition of capital assets	(3,311)	-
Net cash used by capital and related financing activities	<u>(3,241)</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	392	-
Net increase (decrease) in cash and cash equivalents	(22,320)	(727)
Cash and cash equivalents at beginning of year	48,781	859
Cash and cash equivalents at end of year	<u>26,461</u>	<u>132</u>
Reconciliation of operating gain (loss) to net cash used by operating activities:		
Operating gain (loss)	(104,825)	(727)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	18,721	-
Depreciation	3,273	-
Decrease (increase) in inventories	2,603	-
(Decrease) increase in accounts payable	103	-
(Decrease) increase in salaries and benefits payable	1,499	-
(Decrease) increase in deferred revenue	281	-
Net cash used in operating activities	<u>(78,345)</u>	<u>(727)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received \$18,721 of federal commodities.

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2005

1. Summary of Significant Accounting Policies

Marcus-Meriden-Cleghorn Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Marcus, Meriden and Cleghorn Iowa and the predominately agricultural territory in a portion of Cherokee and Plymouth 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, Marcus-Meriden-Cleghorn 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. The Marcus-Meriden-Cleghorn Community School District has no component units that 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 County Assessor's 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 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, 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 asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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, 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 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 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 nonmajor governmental funds.

The District reports the following major governmental fund:

The General Fund is the general 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 expenditures, including instruction, support and other costs.

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

The District's internal service fund is also reported as a proprietary fund. The internal service fund is used to account for the District's employee flexible benefit plan.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and 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 judgements, 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 the 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, 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 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 became 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.

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 repair 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.

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	-
Buildings	3,500
Improvements other than buildings	3,500
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	3,500

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

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

The District's collection of library books and other similar materials are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to District policy that requires proceeds from the sale of these items, if any, to be used to acquire other collection items.

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

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant

proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds, amounts received in advance for meal sales and succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Employees are not paid for unused vacation and sick leave benefits when employment with the District ends.

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, disbursements in the non-instructional programs and other expenditures functions exceeded the amounts budgeted.

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.

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board statement number 40.

3. **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 as of June 30, 2005, is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
			\$	\$	\$	\$
2004-05A	6/30/04	6/30/05	-	42	-	-
2004-05B	1/28/05	1/27/06	319,922	4,210	319,000	4,680
Total			319,922	4,252	319,000	4,680

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

Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
\$	\$	\$	\$
-	-	-	-

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

4. Capital Assets

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

	Balance Beginning of Year, as Restated	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	58,720	-	58,720	-
Land	11,900	-	-	11,900
Total capital assets not being depr.	70,620	-	58,720	11,900
Capital assets being depreciated:				
Buildings	1,865,031	162,466	-	2,027,497
Improvements other than buildings	265,437	72,289	-	337,726
Furniture and equipment	802,953	70,451	51,681	821,723
Total capital assets being deprec.	2,933,421	305,206	51,681	3,186,946

Less accumulated depreciation for:				
Buildings	1,263,374	49,481	-	1,312,855
Improvements other than buildings	219,151	10,705	-	229,856
Furniture and equipment	<u>723,576</u>	<u>41,796</u>	<u>51,681</u>	<u>713,691</u>
Total accumulated depreciation	<u>2,206,101</u>	<u>101,982</u>	<u>51,681</u>	<u>2,256,402</u>

Total capital assets being				
Depreciated, net	<u>727,320</u>	<u>203,224</u>	<u>-</u>	<u>930,544</u>

Governmental activities capital				
Assets, net	<u>797,940</u>	<u>203,224</u>	<u>58,720</u>	<u>942,444</u>

	Balance			Balance End
	Beginning of			of Year
	Year	Increases	Decreases	
	\$	\$	\$	\$

Business type activities:				
Furniture and equipment	58,207	3,311	1,100	60,418
Less accumulated depreciation	<u>42,902</u>	<u>3,273</u>	<u>550</u>	<u>45,625</u>
Business type activities capital				
Assets, net	<u>15,305</u>	<u>38</u>	<u>550</u>	<u>14,793</u>

Depreciation expense was charged to the following functions: \$

Governmental activities:	
Instruction:	
Regular	1,596
Other	3,395
Support Services:	
Administration services	4,577
Operation and maintenance of plant services	5,647
Transportation	<u>26,581</u>
	41,796
Unallocated depreciation	<u>60,186</u>
Total depreciation expense – governmental activities	<u>101,982</u>
Business type activities:	
Food services	<u>3,273</u>

5. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2005, are summarized as follows:

	Balance			Balance End	Due Within
	Beginning of			of Year	One Year
	Year	Additions	Reductions		
	\$	\$	\$	\$	\$
Early retirement	<u>66,921</u>	<u>59,970</u>	<u>28,771</u>	<u>98,120</u>	<u>32,018</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-seven and must have completed fifteen years of full time service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement expenditures for the year ended June 30, 2005 totaled \$28,771

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 for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$160,442, \$154,956, and \$159,230 respectively, equal to the required contributions for each year.

7. Risk Management

Marcus-Meriden-Cleghorn 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.

8. 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 \$174,587 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.

9. Restatement of Beginning Fund Balance

The beginning net assets on the Statement of Activities was increased by \$10,900 of land that was not included in net assets at the end of the prior year.

The District also made the following reclassifications within the net capital assets account:

	\$
Capital assets being depreciated:	
Buildings	(3,444)
Improvements other than buildings	38,455
Furniture and equipment	<u>(35,011)</u>
Net change	<u><u>-</u></u>
Accumulated depreciation for:	
Buildings	(689)
Improvements other than buildings	35,699
Furniture and equipment	<u>(35,010)</u>
Net change	<u><u>-</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

MARCUS-MERIDEN-CLEGHORN 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 Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Receipts:						
Local sources	2,725,261	95,595	2,820,856	2,750,528	2,750,528	70,328
State sources	2,224,103	2,871	2,226,974	2,217,818	2,217,818	9,156
Federal sources	139,824	74,724	214,548	151,000	151,000	63,548
Total receipts	<u>5,089,188</u>	<u>173,190</u>	<u>5,262,378</u>	<u>5,119,346</u>	<u>5,119,346</u>	<u>143,032</u>
Disbursements:						
Instruction	3,095,736	-	3,095,736	3,333,914	3,333,914	238,178
Support services	1,300,160	-	1,300,160	1,715,132	1,715,132	414,972
Non-instructional programs	-	195,510	195,510	190,000	190,000	(5,510)
Other expenditures	415,605	-	415,605	189,025	189,025	(226,580)
Total disbursements	<u>4,811,501</u>	<u>195,510</u>	<u>5,007,011</u>	<u>5,428,071</u>	<u>5,428,071</u>	<u>421,060</u>
Excess (deficiency) of receipts over (under) disbursements	277,687	(22,320)	255,367	(308,725)	(308,725)	564,092
Other financing sources (uses) net	<u>1,733</u>	<u>-</u>	<u>1,733</u>	<u>-</u>	<u>-</u>	<u>1,733</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements	279,420	(22,320)	257,100	(308,725)	(308,725)	565,825
Balance beginning of year	<u>1,431,793</u>	<u>48,781</u>	<u>1,480,574</u>	<u>1,388,907</u>	<u>1,388,907</u>	<u>91,667</u>
Balance end of year	<u><u>1,711,213</u></u>	<u><u>26,461</u></u>	<u><u>1,737,674</u></u>	<u><u>1,080,182</u></u>	<u><u>1,080,182</u></u>	<u><u>657,492</u></u>

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
	\$	\$	\$
Revenues	5,089,188	167,943	5,257,131
Expenditures	4,811,501	34,321	4,845,822
Net	277,687	133,622	411,309
Other financing sources (uses) net	1,733	-	1,733
Beginning fund balances	1,431,793	(381,120)	1,050,673
Ending fund balances	1,711,213	(247,498)	1,463,715

	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
\$	\$	\$	
Revenues	173,190	(831)	172,359
Expenditures	195,510	4,167	199,677
Net	(22,320)	(4,998)	(27,318)
Beginning fund balances	48,781	9,682	58,463
Ending fund balances	26,461	4,684	31,145

MARCUS-MERIDEN-CLEGHORN 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 Standard 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 Internal Service, 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 the 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. The District did not amend its budget during the year

During the year ended June 30, 2005, disbursements in the non-instructional programs and other expenditures functions exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2005

Assets	Special Revenue Funds				Capital Projects Fund	Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	District Support Trust	Local Option SalesTax	
	\$	\$	\$	\$	\$	
Cash and pooled investments	46,281	93,439	159,111	3,173	185,031	487,035
Receivables:						
Property tax:						
Delinquent	1,550	-	2,347	-	-	3,897
Succeeding year	120,000	-	163,456	-	-	283,456
Due from other governments	-	-	14,000	-	72,798	86,798
Total assets	<u>167,831</u>	<u>93,439</u>	<u>338,914</u>	<u>3,173</u>	<u>257,829</u>	<u>861,186</u>
Liabilities & Fund Balances						
Liabilities:						
Accounts payable	-	2,247	-	-	-	2,247
Deferred revenue:						
Succeeding year property tax	120,000	-	163,456	-	-	283,456
Other	-	-	14,000	-	-	14,000
Total liabilities	<u>120,000</u>	<u>2,247</u>	<u>177,456</u>	<u>-</u>	<u>-</u>	<u>299,703</u>
Fund balances:						
Unreserved reported in:						
Special revenue funds	47,831	91,192	161,458	3,173	-	303,654
Capital projects funds	-	-	-	-	257,829	257,829
Total fund balances	<u>47,831</u>	<u>91,192</u>	<u>161,458</u>	<u>3,173</u>	<u>257,829</u>	<u>561,483</u>
Total liabilities and fund balances	<u>167,831</u>	<u>93,439</u>	<u>338,914</u>	<u>3,173</u>	<u>257,829</u>	<u>861,186</u>

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2005

	Special Revenue Funds				Capital Projects Fund	Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	District Support Trust	Local Option SalesTax	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	103,547	-	173,549	-	256,662	533,758
Other	270	130,260	3,113	265	1,167	135,075
State sources	80	-	122	-	-	202
Total revenues	<u>103,897</u>	<u>130,260</u>	<u>176,784</u>	<u>265</u>	<u>257,829</u>	<u>669,035</u>
Expenditures:						
Current:						
Instruction:						
Regular instruction	26,164	-	5,732	-	-	31,896
Other instruction	-	112,888	-	-	-	112,888
Support services:						
Operation and maintenance of plant services	67,742	-	4,886	-	-	72,628
Transportation services	11,976	-	53,055	-	-	65,031
Other expenditures:						
Facilities acquisition	-	-	219,509	-	-	219,509
Total expenditures	<u>105,882</u>	<u>112,888</u>	<u>283,182</u>	<u>-</u>	<u>-</u>	<u>501,952</u>
Net change in fund balances	(1,985)	17,372	(106,398)	265	257,829	167,083
Fund balances beginning of year	<u>49,816</u>	<u>73,820</u>	<u>267,856</u>	<u>2,908</u>	<u>-</u>	<u>394,400</u>
Fund balances end of year	<u>47,831</u>	<u>91,192</u>	<u>161,458</u>	<u>3,173</u>	<u>257,829</u>	<u>561,483</u>

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

Account	Balance	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
	Beginning of Year				
	\$	\$	\$	\$	\$
Business club	956	1,090	1,169	-	877
Boys basketball	4,533	2,970	1,708	375	6,170
Football	3,910	16,079	18,083	820	2,726
Girls basketball	5,642	3,896	2,202	272	7,608
Baseball	(63)	2,566	3,992	1,400	(89)
Golf	467	-	151	220	536
Boys track	696	2,130	2,358	892	1,360
Girls track	1,495	2,116	2,384	867	2,094
Wrestling	(1,363)	3,425	2,977	1,124	209
Softball	4,339	10,610	5,051	500	10,398
Volleyball	550	2,636	1,793	1,332	2,725
Weight room	90	-	-	-	90
Yearbook	(1,245)	5,905	6,899	2,594	355
Pep/Jazz band	(27)	-	252	720	441
Vocal	244	-	280	1,344	1,308
Student council	4,029	16,743	15,607	(293)	4,872
Leadership club	2,504	388	1,449	-	1,443
PTSA	380	-	11	-	369
TSA	3,318	1,021	1,207	-	3,132
Speech	3,041	1,422	1,494	294	3,263
Cheerleaders	444	402	577	494	763
Cheerleaders uniforms	48	-	-	(48)	-
Art club	92	1,601	891	-	802
Drama club	756	-	-	115	871
Drill team	2,624	1,420	680	-	3,364
Spanish club	2,307	192	6	-	2,493
Library club	153	282	163	-	272
Video club	595	1,000	647	(155)	793
National Honor Society	(50)	557	702	260	65
Home economics	394	612	360	-	646
MMC marketing club	1,769	6,100	6,062	-	1,807
Lettermans club	11,441	11,350	2,288	(16,175)	4,328
Class of 2004	(155)	-	-	155	-
Class of 2005	503	661	1,164	-	-
Class of 2006	1,860	2,383	3,376	270	1,137
Class of 2008	-	840	50	365	1,155
Class of 2007	990	920	-	65	1,975
Character counts club	658	841	418	(6)	1,075
Home economics	242	476	475	-	243
Annual	1,093	641	106	-	1,628
MS vocal	84	-	-	-	84
MS athletics	1,652	4,730	9,319	3,857	920

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
	\$	\$	\$	\$	\$
MS plays	359	-	-	-	359
MS student council	8,729	17,487	11,628	(1,664)	12,924
Family communication	930	40	938	6	38
TSA	582	-	-	-	582
Elementary library club	(276)	1,933	915	-	742
Elementary activities	122	-	-	-	122
Kathy's Kids	3,575	2,795	2,006	-	4,364
Fund balance not spent	300	-	300	-	-
June 30, 2004 accruals	(1,497)	-	(1,497)	-	-
June 30, 2005 accruals	-	-	2,247	-	(2,247)
Totals	<u>73,820</u>	<u>130,260</u>	<u>112,888</u>	<u>-</u>	<u>91,192</u>

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2005	2004	2003	2002
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,453,453	2,440,231	2,274,769	2,106,835
Tuition	151,067	126,867	129,056	150,269
Other	205,012	222,319	27,001	214,959
State sources	2,225,828	1,841,556	1,933,219	1,941,351
Federal sources	221,771	98,990	102,951	113,684
Total revenues	<u>5,257,131</u>	<u>4,729,963</u>	<u>4,466,996</u>	<u>4,527,098</u>
Expenditures:				
Instruction:				
Regular instruction	2,101,243	2,171,633	1,946,359	2,052,483
Special instruction	469,336	642,272	562,312	580,462
Other instruction	537,082	393,645	352,700	365,875
Support services:				
Student services	118,025	118,156	111,926	106,608
Instructional staff services	128,593	85,520	83,426	93,473
Administration services	493,963	479,096	493,327	495,182
Operation and maintenance of plant services	355,548	367,319	349,449	327,085
Transportation services	247,936	184,288	187,609	225,097
Other expenditures:				
Facilities acquisition	219,509	315,644	142,840	64,688
AEA flowthrough	174,587	171,131	182,522	182,973
Total expenditures	<u>4,845,822</u>	<u>4,928,704</u>	<u>4,412,470</u>	<u>4,493,926</u>

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
Marcus-Meriden-Cleghorn 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 Marcus-Meriden-Cleghorn 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 August 24, 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 Marcus-Meriden-Cleghorn 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 items 05-I-A, 05-I-B, 05-I-C, 05-I-D and 05-I-E are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marcus-Meriden-Cleghorn 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 such 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 Marcus-Meriden-Cleghorn Community School District and other parties to whom Marcus-Meriden-Cleghorn Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Marcus-Meriden-Cleghorn 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.

BURTON E. TRACY & CO., P.C.

Certified Public Accountants

August 24, 2005

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

05-I-A Segregation of Duties: The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although we noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

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

District Response: The District is aware of the lack of complete segregation of duties and will make changes as the opportunity arises.

Conclusion: Response accepted.

05-I-B Signature Stamp: We noted that a stamp bearing the signature of the Board President is used to cosign checks. The board secretary, who is the other cosigner of the checks has access to the stamp. This practice negates the internal control procedure established by requiring two signatures on a check

Recommendation: We recommend that this practice cease. The board may designate a person other than the board president to cosign checks. If a stamp is used persons writing or cosigning checks should not have access.

District Response: We will discuss methods to limit access to the signature stamp.

Conclusion: Response accepted.

05-I-C Supporting Documentation: We noted two credit card payments, totaling \$630, that were not supported by detailed invoices or receipts.

Recommendation: The District should receive sufficient documentation for all credit card charges and then reconcile the documentation to the invoices each month.

District Response: We will review our policies and make any necessary adjustments.

Conclusion: Response accepted.

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to Financial Statements (continued):

05-I-D Athletic Gate Admissions: We noted that the District was not using a ticket system to account for the proceeds from school events that charge an admission fee.

Recommendation: A ticket system should be used for all events. The person selling the ticket should issue a pre-numbered ticket. A second individual should collect the ticket from the patron. At the end of the event the cash collected should be reconciled to the number of tickets sold. This reconciliation should be signed by the individuals responsible for counting the cash. This reconciliation should also match the bank deposit slip.

District Response: We will investigate the feasibility of using a ticket system.

Conclusion: Response accepted.

05-I-E Claims for Grant Reimbursements: We noted that several individuals file claims for different grant reimbursements throughout the year. These individuals do not compare their grant expenditure records with those of the school accounting office. The claims for grant reimbursements must match the District's accounting records. This lack of procedures for comparison of records could lead to the situation where grant reimbursements requests may not reconcile to the official accounting records.

Recommendation: All individuals preparing claims for grant reimbursements should reconcile their grant expenditure records with those of the school accounting office before filing the claim. The accounting records should be reclassified for any grant expenditures that were miscoded.

District Response: We will have all persons filing requests for grant reimbursements review expenditures with the accounting office.

Conclusion: Response accepted.

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting:

05-II-A 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.

05-II-B Certified Budget: Disbursements for the year ended June 30, 2005, exceeded the amounts budgeted in the non-instructional programs and other expenditures functions.

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

District Response: We will amend our budget in the future before disbursements exceed the budget.

Conclusion: Response accepted.

05-II-C Questionable Expenditures: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

05-II-D Travel Expenses: 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.

05-II-E 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> \$
Jodi Mongan, District Treasurer/ Business Manager, Spouse is owner Of Mongan Painting	Painting	2,059

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

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

05-II-G Board Minutes: No transactions requiring board approval that had not been approved by the board were noted.

05-II-H Certified Enrollment: The District could not locate a copy of the class lists used to determine the September 2004 certified enrollment. This created the situation where the District had to take student lists from the end of the year and back into the September count for audit purposes. By using this process the District was able to come within three to four students of the total number certified.

Recommendation: The student lists used to determine certified enrollment and supplemental weighting should be kept with a copy of the certification.

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting (continued):

District Response: We will keep copies of the student lists used to determine the certified enrollment.

Conclusion: Response accepted.

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

05-II-J Certified Annual Report (CAR): We reviewed a draft copy of the CAR, and noted no significant deficiencies in the amounts reported.

05-II-K Reclassification of Student Activity Fund Accounts: The Student Activity Fund is to be used to account for the District's extra-curricular student activity program. There are some accounts in the Student Activity Fund that may belong more appropriately in other funds.

Recommendation: We recommend these accounts be reviewed and transferred to the proper fund.

District Response: We are reviewing the accounts and making the necessary adjustments.

Conclusion: Response accepted.

05-II-L Public Hearing: The Code of Iowa requires that schools hold a public hearing for all capital improvements with a cost exceeding \$25,000. We noted that the Board approved track improvements without holding a public hearing.

Recommendation: The District should hold public hearings for all capital projects with cost in excess of \$25,000.

District Response: We will do this in the future.

Conclusion: Response accepted.

05-II-M Home School Assistance Program Expenditures: We reviewed expenditures of State monies received for the home school assistance program. We noted \$1,800 of payments for school supplies made from the District directly to parents of three home schooled families.

Recommendation: The District should not be making payments to parents. The District may purchase education supplies for the home school assistance program directly from the vendors. Any supplies purchased for the home school program must be the type of supplies that the District could purchase for use in the public school.

District Response: We are no longer reimbursing parents for supplies. We will monitor the types of supplies that are purchased for the home school assistance program.

Conclusion: Response accepted.