

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

JUNE 30, 2005

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Marshalltown Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2004 Election)		
Bob Christensen	President	2005
Wayne Sawtelle	Vice President	2005
Adrienne Macmillen	Board Member	2004
Kent Loney	Board Member	2004
Pam Swarts	Board Member	2006
Richard Russell	Board Member	2006
Anne Bacon	Board Member	2006
Board of Education (After September 2004 Election)		
Bob Christensen	President	2005
Wayne Sawtelle	Vice President	2005
Adrienne Macmillen	Board Member	2007
Kent Loney	Board Member	2007
Pam Swarts	Board Member	2006
Richard Russell	Board Member	2006
Anne Bacon	Board Member	2006
School Officials		
Dr. Harrison E. Cass, Jr.	Superintendent	2005
Dan Gillen	District Secretary/ Director of Finance	2005
Rex J. Ryden	Attorney	2005
Ahlers & Cooney, 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
Marshalltown 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 Marshalltown Community School District, Marshalltown, 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.

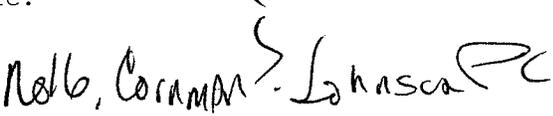
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain 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 that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Marshalltown 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 reports dated November 18, 2005 on our consideration of the Marshalltown Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of those reports 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. Those reports are 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 37 through 39 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 supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Marshalltown Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2004 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 7, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, 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 18, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Marshalltown Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 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 \$36,877,720 in fiscal 2004 to \$37,988,902 in fiscal 2005, while General Fund expenditures increased from \$37,714,157 in fiscal 2004 to \$37,740,162 in fiscal 2005. The District also had other financing sources from the sale of equipment which increased from \$50 in fiscal 2004 to \$60 in fiscal 2005. The overall result was an increase in the District's General Fund balance from a deficit balance of \$1,282,054 in fiscal 2004 to a deficit balance of \$1,033,254 in fiscal 2005, a 19.41% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in local tax and state grant revenue in fiscal 2005. The increase in expenditures was due primarily to an increase in the instruction functional area. The reason the General Fund balance increased is because the increase in expenditures was less than the increase in revenue for fiscal 2005.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

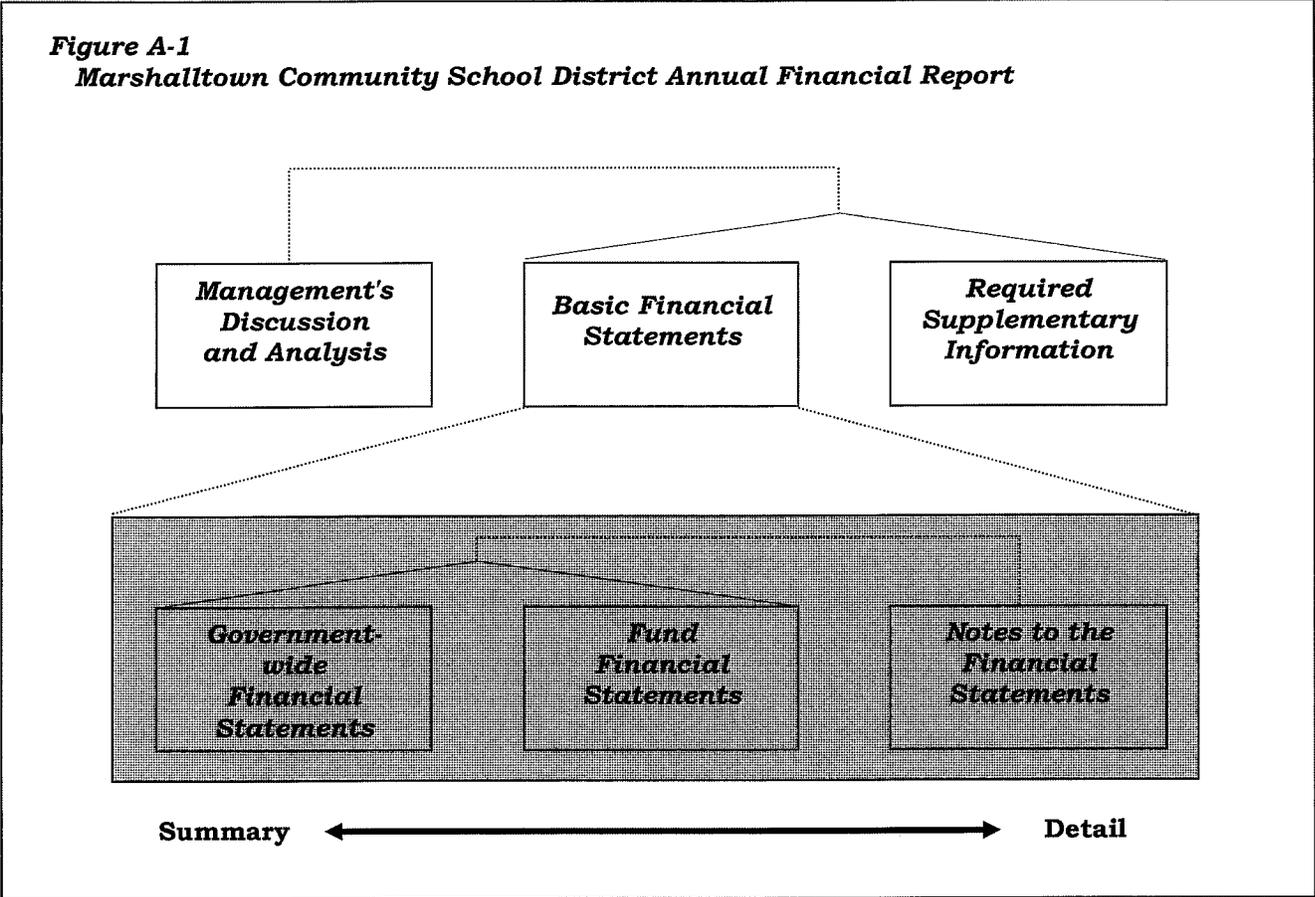


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and the Caring Resale Fund. The District's internal service funds (another type of proprietary fund) are the same as its governmental activities but provide more detail and additional information, such as cash flows. The District has one internal service fund: Self-funded Insurance.

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 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	\$ 46,631,528	26,930,113	524,372	640,213	47,155,900	27,570,326	71.04%
Capital assets	16,690,184	10,422,250	278,147	314,029	16,968,331	10,736,279	58.05%
Total assets	63,321,712	37,352,363	802,519	954,242	64,124,231	38,306,605	67.40%
Long-term obligations	31,558,417	6,307,930	0	0	31,558,417	6,307,930	400.30%
Other liabilities	23,651,145	25,762,820	123,590	244,994	23,774,735	26,007,814	-8.59%
Total liabilities	55,209,562	32,070,750	123,590	244,994	55,333,152	32,315,744	71.23%
Net assets:							
Invested in capital assets, net of related debt	13,098,766	8,155,684	278,147	314,029	13,376,913	8,469,713	57.94%
Restricted	309,687	715,785	0	0	309,687	715,785	-56.73%
Unrestricted	(5,296,303)	(3,589,856)	400,782	395,219	(4,895,521)	(3,194,637)	-53.24%
Total net assets	\$ 8,112,150	5,281,613	678,929	709,248	8,791,079	5,990,861	46.74%

The District's combined net assets increased by 46.74%, or \$2,800,218, 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 decreased \$406,098, or 56.73% over the prior year. The decrease was primarily a result of the decrease in the Special Revenue, Physical Plant and Equipment Levy (PPEL) Fund balance.

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 \$1,700,884, or 53.24%. This decrease in unrestricted net assets was primarily a result of the increase in the Early Retirement and Compensated Absences Liabilities to be paid from the General Fund and Special Revenues, Management Levy Fund.

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	\$ 2,086,931	2,125,590	782,554	838,853	2,869,485	2,964,443	-3.20%
Operating grants and contributions and restricted interest	5,223,233	5,658,636	1,241,093	1,105,253	6,464,326	6,763,889	-4.43%
Capital grants and contributions and restricted interest	787,973	1,200,000	0	0	787,973	1,200,000	-34.34%
General revenues:							
Property tax	12,237,526	11,593,268	0	0	12,237,526	11,593,268	5.56%
Local option sales and services tax	2,722,058	0	0	0	2,722,058	0	100.00%
Unrestricted state grants	21,183,788	19,935,470	0	0	21,183,788	19,935,470	6.26%
Other	494,234	13,950	3,143	1,142	497,377	15,092	3195.63%
Total revenues	44,735,743	40,526,914	2,026,790	1,945,248	46,762,533	42,472,162	10.10%
Program expenses:							
Governmental activities:							
Instructional	27,845,876	25,173,992	0	0	27,845,876	25,173,992	10.61%
Support services	11,243,350	12,736,438	0	0	11,243,350	12,736,438	-11.72%
Non-instructional programs	108,920	87,783	2,055,636	1,996,358	2,164,556	2,084,141	3.86%
Other expenses	3,140,286	2,588,045	0	0	3,140,286	2,588,045	21.34%
Total expenses	42,338,432	40,586,258	2,055,636	1,996,358	44,394,068	42,582,616	4.25%
Changes in net assets before other financing sources(uses)	2,397,311	(59,344)	(28,846)	(51,110)	2,368,465	(110,454)	2244.30%
Other financing sources(uses), net	433,226	50	(1,473)	0	431,753	50	863406.00%
Changes in net assets	2,830,537	(59,294)	(30,319)	(51,110)	2,800,218	(110,404)	-2636.34%
Net assets beginning of year	5,281,613	5,340,907	709,248	760,358	5,990,861	6,101,265	-1.81%
Net assets end of year	\$ 8,112,150	5,281,613	678,929	709,248	8,791,079	5,990,861	46.74%

Property tax, local option sales and services tax and unrestricted state grants account for 77% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 88% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$44,735,743 and expenses were \$42,338,432.

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	\$ 27,845,876	22,220,407
Support services	11,243,350	11,052,475
Non-instructional	108,920	108,920
Other expenses	3,140,286	858,493
Totals	<u>\$ 42,338,432</u>	<u>34,240,295</u>

- The cost financed by users of the District's programs was \$2,086,931.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$6,011,206.
- The net cost of governmental activities was financed with \$12,237,876 in property tax, \$2,722,058 in local option sales and services tax, \$21,183,788 in unrestricted state grants and \$494,234 in net interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$2,026,790 and expenses were \$2,055,636. The District's business-type activities include the School Nutrition and Caring Resale Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$21,311,509, above last year's ending fund balances of a deficit \$1,226,896. However, the primary reason for the increase was the sale of bonds and bond anticipatory notes in the Capital Projects Fund.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. Increase in property tax and state grants resulted in an increase in revenues. The increase in revenues was more than the increase in General Fund expenditures ensuring the financial position of the District to increase.
- The Activity and Expendable Trust Fund combined balance increased from \$124,328 in 2004, to \$141,968 in 2005, due to the increase in revenues in both funds.

-
- The Physical Plant and Equipment Levy (PEEL) and Playground Education Recreation Levy (PERL) combined fund balance decreased from \$557,635 to \$463,774, due to a transfer of funds out of the PEEL Fund to the Debt Service Fund during the year.
 - The Capital Projects fund balance increased during the current year, from a deficit \$266,949 to \$22,465,837. This was a result of an increase due to the sale of bonds and bond anticipatory notes to be used for construction projects occurring in the future year.
 - The Debt Service fund balance increased from \$101,508 to \$141,404. This was a result of normal bond principal and interest payments.

Proprietary Fund Highlights

The Enterprise Funds net assets decreased from \$709,248 at June 30, 2004 to \$678,929 at June 30, 2005, representing a decrease of 4.27%.

BUDGETARY HIGHLIGHTS

Over the course of the year, Marshalltown Community School District amended its annual budget one time to reflect additional expenditures.

The District's revenues were \$412,993 more than budgeted revenues, a variance of less than 1%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget exceeded in the other expenditures 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 \$17.0 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 109.50% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$734,982.

The original cost of the District's capital assets was \$33.0 million. Governmental funds account for \$32.3 million with the remainder of \$.7 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$4,753,347 at June 30, 2005, compared to \$0 reported at June 30, 2004. This increase resulted from projects that are started but completed during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Land	\$ 468,403	279,929	0	0	468,403	279,929	67.33%
Construction in progress	4,753,347	0	0	0	4,753,347	0	100.00%
Buildings	10,960,328	9,635,194	0	0	10,960,328	9,635,194	13.75%
Machinery and equipment	508,106	507,127	278,147	314,029	786,253	821,156	-4.25%
Total	\$ 16,690,184	10,422,250	278,147	314,029	16,968,331	10,736,279	109.50%

Long-Term Debt

At June 30, 2005, the District had long-term debt outstanding of \$31,558,417 in general obligation and other long-term liabilities. This represents an increase of 401.18% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had total outstanding general obligation bonds payable of \$24,930,000 at June 30, 2005.

The District had a capital loan note payable of \$555,000 at June 30, 2005.

The District also had total outstanding early retirement payable of \$5,161,975 from the Special Revenue, Management Fund at June 30, 2005.

The District had compensated absences payable of \$109,442 from the General Fund at June 30, 2005.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2005	2004	
General obligation bonds	\$ 24,930,000	1,000,000	2393.00%
Revenue bans	802,000	0	100.00%
Capital loan notes	555,000	1,090,000	-49.08%
Early retirement	5,161,975	4,122,961	25.20%
Compensated absences	109,442	83,844	30.53%
Total	\$ 31,558,417	6,296,805	401.18%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District has experienced stable enrollment for a few years, the District expects enrollment to remain the same.
- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten-year period beginning in fiscal year 2004.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Dan Gillen, District Board Secretary/Director of Finance, Marshalltown Community School District, 317 Columbus Dr., Marshalltown, Iowa, 50158.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP (Note 5)	\$ 4,214,973	0	4,214,973
Other	26,026,515	461,860	26,488,375
Receivables:			
Property tax:			
Delinquent	226,626	0	226,626
Succeeding year	13,496,999	0	13,496,999
Accounts	1,104,652	0	1,104,652
Accrued ISCAP interest (Note 5)	20,960	0	20,960
Interfund	121,330	0	121,330
Due from other governments	1,346,928	0	1,346,928
Inventories	72,545	62,512	135,057
Capital assets, net of accumulated depreciation (Note 6)	16,690,184	278,147	16,968,331
TOTAL ASSETS	63,321,712	802,519	64,124,231
LIABILITIES			
Interfund payable	0	121,330	121,330
Accounts payable	1,179,768	0	1,179,768
Interest payable	208,351	0	208,351
Salaries and benefits payable	3,735,959	0	3,735,959
Deferred revenue:			
Succeeding year property tax	13,496,999	0	13,496,999
Other	100,993	2,260	103,253
ISCAP warrants payable (Note 5)	4,198,000	0	4,198,000
ISCAP accrued interest payable (Note 5)	22,523	0	22,523
ISCAP unamortized premiums payable	45,152	0	45,152
Incurred but not reported claims	663,400	0	663,400
Long-term liabilities (Note 7):			
Portion due within one year:			
General obligation bonds	200,000	0	200,000
Revenue bonds	802,000	0	802,000
Capital loan notes	555,000	0	555,000
Early retirement	1,173,613	0	1,173,613
Compensated absences	109,442	0	109,442
Portion due after one year:			
General obligation bonds	24,730,000	0	24,730,000
Early retirement	3,988,362	0	3,988,362
TOTAL LIABILITIES	55,209,562	123,590	55,333,152
NET ASSETS			
Investment in capital assets, net of related debt	13,098,766	278,147	13,376,913
Restricted for:			
Salary improvement program	637	0	637
Playground education and equipment levy	167,082	0	167,082
Other special revenue purposes	141,968	0	141,968
Unrestricted	(5,296,303)	400,782	(4,895,521)
TOTAL NET ASSETS	\$ 8,112,150	678,929	8,791,079

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
Functions/Programs							
Governmental activities:							
Instruction:							
Regular instruction	\$ 17,822,254	414,613	3,365,390	0	(14,042,251)	0	(14,042,251)
Special instruction	5,690,154	243,827	289,545	0	(5,156,782)	0	(5,156,782)
Other instruction	4,333,468	1,312,094	0	0	(3,021,374)	0	(3,021,374)
	<u>27,845,876</u>	<u>1,970,534</u>	<u>3,654,935</u>	<u>0</u>	<u>(22,220,407)</u>	<u>0</u>	<u>(22,220,407)</u>
Support services:							
Student services	2,578,403	0	0	0	(2,578,403)	0	(2,578,403)
Instructional staff services	1,658,864	0	0	0	(1,658,864)	0	(1,658,864)
Administration services	3,511,449	0	0	0	(3,511,449)	0	(3,511,449)
Operation and maintenance of plant services	1,920,033	0	0	0	(1,920,033)	0	(1,920,033)
Transportation services	1,066,767	116,397	74,478	0	(875,892)	0	(875,892)
Other support services	507,834	0	0	0	(507,834)	0	(507,834)
	<u>11,243,350</u>	<u>116,397</u>	<u>74,478</u>	<u>0</u>	<u>(11,052,475)</u>	<u>0</u>	<u>(11,052,475)</u>
Non-instruction:							
Community service and other enterprise operations	108,920	0	0	0	(108,920)	0	(108,920)
Other expenditures:							
Facilities acquisitions	0	0	0	787,973	787,973	0	787,973
Long-term debt interest	1,251,634	0	0	0	(1,251,634)	0	(1,251,634)
AEA flowthrough	1,493,820	0	1,493,820	0	0	0	0
Depreciation(unallocated)*	394,832	0	0	0	(394,832)	0	(394,832)
	<u>3,140,286</u>	<u>0</u>	<u>1,493,820</u>	<u>787,973</u>	<u>(858,493)</u>	<u>0</u>	<u>(858,493)</u>
Total governmental activities	<u>42,338,432</u>	<u>2,086,931</u>	<u>5,223,233</u>	<u>787,973</u>	<u>(34,240,295)</u>	<u>0</u>	<u>(34,240,295)</u>
Business-Type activities:							
Non-instructional programs:							
Nutrition services	2,042,608	757,486	1,241,093	0	0	(44,029)	(44,029)
Caring resale	13,028	25,068	0	0	0	12,040	12,040
Total business-type activities	<u>2,055,636</u>	<u>782,554</u>	<u>1,241,093</u>	<u>0</u>	<u>0</u>	<u>(31,989)</u>	<u>(31,989)</u>
Total	<u>\$ 44,394,068</u>	<u>2,869,485</u>	<u>6,464,326</u>	<u>787,973</u>	<u>(34,240,295)</u>	<u>(31,989)</u>	<u>(34,272,284)</u>
General Revenues:							
Property tax levied for:							
General purposes					\$ 11,133,301	0	11,133,301
Debt services					236,158	0	236,158
Capital outlay					868,067	0	868,067
Local option sales and services tax					2,722,058	0	2,722,058
Unrestricted state grants					21,183,788	0	21,183,788
Unrestricted investment earnings					494,234	3,143	497,377
Total general revenues					<u>36,637,606</u>	<u>3,143</u>	<u>36,640,749</u>
Changes in net assets					2,397,311	(28,846)	2,368,465
Other Financing Sources (Uses):							
Loss on disposal of capital assets					0	(1,473)	(1,473)
Cost of issuance					(202,066)	0	(202,066)
Premium on bonds					635,232	0	635,232
Gain on sale of capital assets					60	0	60
Total other financing sources(uses)					<u>433,226</u>	<u>(1,473)</u>	<u>431,753</u>
Changes in net assets					2,830,537	(30,319)	2,800,218
Net assets beginning of year					5,281,613	709,248	5,990,861
Net assets end of year					<u>\$ 8,112,150</u>	<u>678,929</u>	<u>8,791,079</u>

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

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments:				
ISCAP(Note 5)	\$ 4,214,973	0	0	4,214,973
Other	4,811,324	19,176,064	371,621	24,359,009
Receivables:				
Property tax				
Delinquent	190,259	0	36,367	226,626
Succeeding year	11,016,797	0	2,480,202	13,496,999
Interfund	1,977,492	4,800,000	1,589,186	8,366,678
Accounts	231,533	0	0	231,533
Accrued ISCAP interest(Note 5)	20,960	0	0	20,960
Due from other governments	721,533	625,395	0	1,346,928
Inventories	72,545	0	0	72,545
TOTAL ASSETS	\$ 23,257,416	24,601,459	4,477,376	52,336,251
LIABILITIES AND FUND BALANCES				
Liabilities:				
Interfund payable	\$ 4,800,000	1,327,100	2,118,248	8,245,348
Accounts payable	371,246	808,522	0	1,179,768
Salaries and benefits payable	3,735,959	0	0	3,735,959
Deferred revenue:				
Succeeding year property tax	11,016,797	0	2,480,202	13,496,999
Other	100,993	0	0	100,993
ISCAP warrants payable(Note 5)	4,198,000	0	0	4,198,000
ISCAP accrued interest payable(Note 5)	22,523	0	0	22,523
ISCAP unamortized premiums payable	45,152	0	0	45,152
Total liabilities	24,290,670	2,135,622	4,598,450	31,024,742
Fund balances:				
Reserved for:				
Debt service	0	0	141,404	141,404
Salary improvement program	637	0	0	637
Unreserved:				
Undesignated	(1,033,891)	22,465,837	(262,478)	21,169,468
Total fund balances	(1,033,254)	22,465,837	(121,074)	21,311,509
TOTAL LIABILITIES AND FUND BALANCES	\$ 23,257,416	24,601,459	4,477,376	52,336,251

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN 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 (page 16)	\$ 21,311,509
 <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.	16,690,184
Blending of the Internal Service Funds to be reflected on an entity-wide basis.	1,877,225
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(208,351)
Long-term liabilities, including bonds payable, revenue bond anticipatory notes, capital loan notes, early retirement and compensated absences, are not due and payable in the current period and, are not reported as liabilities in the governmental funds.	<u>(31,558,417)</u>
Net assets of governmental activities (page 14)	<u><u>\$ 8,112,150</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN 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
REVENUES:				
Local sources:				
Local tax	\$ 10,344,494	2,722,058	1,893,032	14,959,584
Tuition	658,440	0	0	658,440
Other	580,858	389,834	985,758	1,956,450
State sources	24,173,350	0	1,911	24,175,261
Federal sources	2,231,760	0	754,248	2,986,008
Total revenues	<u>37,988,902</u>	<u>3,111,892</u>	<u>3,634,949</u>	<u>44,735,743</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	15,741,084	0	707,228	16,448,312
Special instruction	5,691,633	0	0	5,691,633
Other instruction	3,429,648	0	903,612	4,333,260
	<u>24,862,365</u>	<u>0</u>	<u>1,610,840</u>	<u>26,473,205</u>
Support services:				
Student services	2,425,533	0	0	2,425,533
Instructional staff services	1,603,247	0	0	1,603,247
Administration services	2,934,487	0	598,590	3,533,077
Operation and maintenance of plant services	2,837,917	0	0	2,837,917
Transportation services	1,044,119	0	0	1,044,119
Other support services	507,834	0	0	507,834
	<u>11,353,137</u>	<u>0</u>	<u>598,590</u>	<u>11,951,727</u>
Non-instructional programs:				
Community service and other enterprise operations	30,840	0	102,360	133,200
Other expenditures:				
Facilities acquisitions	0	4,757,014	964,190	5,721,204
Long-term debt:				
Principal	0	0	735,000	735,000
Interest and fiscal charges	0	0	1,054,408	1,054,408
AEA flowthrough	1,493,820	0	0	1,493,820
	<u>1,493,820</u>	<u>4,757,014</u>	<u>2,753,598</u>	<u>9,004,432</u>
Total expenditures	<u>37,740,162</u>	<u>4,757,014</u>	<u>5,065,388</u>	<u>47,562,564</u>
Excess(deficiency) of revenues over(under) expenditures	248,740	(1,645,122)	(1,430,439)	(2,826,821)
Other financing sources(uses):				
Transfers in	0	0	1,549,708	1,549,708
Transfers out	0	(987,258)	(562,450)	(1,549,708)
Sale of bonds	0	24,130,000	0	24,130,000
Sale of bond anticipatory notes	0	802,000	0	802,000
Premium on bonds	0	635,232	0	635,232
Cost of issuance	0	(202,066)	0	(202,066)
Sale of equipment	60	0	0	60
Total other financing sources(uses)	<u>60</u>	<u>24,377,908</u>	<u>987,258</u>	<u>25,365,226</u>
Net change in fund balances	248,800	22,732,786	(443,181)	22,538,405
Fund balance beginning of year	(1,282,054)	(266,949)	322,107	(1,226,896)
Fund balance end of year	<u>\$ (1,033,254)</u>	<u>22,465,837</u>	<u>(121,074)</u>	<u>21,311,509</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds (page 18)		\$ 22,538,405
Amounts reported for governmental activities in the statement of activities are different because:		
<p>Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlays expenditures exceeded depreciation expense in the current year, as follows:</p>		
Capital expenditures	\$ 6,959,981	
Depreciation expense	<u>(692,047)</u>	6,267,934
<p>Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis.</p>		
		(516,964)
<p>Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded issued, as follows:</p>		
Issued	\$ (24,932,000)	
Repaid	<u>735,000</u>	(24,197,000)
<p>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.</p>		
		(197,226)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.</p>		
Early retirement	\$ (1,039,014)	
Compensated absences	<u>(25,598)</u>	(1,064,612)
Changes in net assets of governmental activities (page 15)		<u>\$ 2,830,537</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

	Business-Type Activities: Enterprise Fund			Governmental Activities: Internal Service Fund
	School Nutrition	Caring Resale	Total	
	ASSETS			
Cash and cash equivalents	\$ 423,427	38,433	461,860	1,667,506
Accounts receivable	0	0	0	873,119
Inventories	62,512	0	62,512	0
Capital assets, net of accumulated depreciation(Note 6)	278,147	0	278,147	0
TOTAL ASSETS	764,086	38,433	802,519	2,540,625
LIABILITIES				
Interfund payable	121,330	0	121,330	0
Incurred but not reported claims	0	0	0	663,400
Deferred revenues:				
Other	2,260	0	2,260	0
TOTAL LIABILITES	123,590	0	123,590	663,400
NET ASSETS				
Investment in capital assets	278,147	0	278,147	0
Unrestricted	362,349	38,433	400,782	1,877,225
TOTAL NET ASSETS	\$ 640,496	38,433	678,929	1,877,225

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

	Business-Type Activities: Enterprise Fund			Governmental Activities: Internal Service Fund
	School Nutrition	Caring Resale	Total	
	OPERATING REVENUE:			
Local sources:				
Charges for services	\$ 757,486	25,068	782,554	4,982,781
TOTAL OPERATING REVENUES	<u>757,486</u>	<u>25,068</u>	<u>782,554</u>	<u>4,982,781</u>
OPERATING EXPENSES:				
Salaries	799,368	0	799,368	0
Benefits	144,963	0	144,963	5,499,745
Services	125,511	0	125,511	0
Supplies	929,831	13,028	942,859	0
Depreciation	42,935	0	42,935	0
TOTAL OPERATING EXPENSES	<u>2,042,608</u>	<u>13,028</u>	<u>2,055,636</u>	<u>5,499,745</u>
OPERATING INCOME (LOSS)	<u>(1,285,122)</u>	<u>12,040</u>	<u>(1,273,082)</u>	<u>(516,964)</u>
NON-OPERATING REVENUES:				
Interest income	2,550	593	3,143	0
State sources	23,007	0	23,007	0
Federal sources	1,218,086	0	1,218,086	0
TOTAL NON-OPERATING REVENUES	<u>1,243,643</u>	<u>593</u>	<u>1,244,236</u>	<u>0</u>
Changes in net assets before other financing uses	(41,479)	12,633	(28,846)	(516,964)
OTHER FINANCING USES:				
Loss on disposal of capital assets	(1,473)	0	(1,473)	0
Changes in net assets	(42,952)	12,633	(30,319)	(516,964)
Net assets at beginning of year	<u>683,448</u>	<u>25,800</u>	<u>709,248</u>	<u>2,394,189</u>
Net assets end of year	<u>\$ 640,496</u>	<u>38,433</u>	<u>678,929</u>	<u>1,877,225</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

	Business-Type Activities: Enterprise Fund			Governmental Activities: Internal Service Fund
	School Nutrition	Caring Resale	Total	
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 755,594	0	755,594	0
Cash received from miscellaneous operating activities	2,291	25,068	27,359	5,209,446
Cash payments to employees for services	(944,331)	0	(944,331)	(5,347,770)
Cash payments to suppliers for goods or services	(954,095)	(13,268)	(967,363)	0
Net cash provided by(used in) operating activities	<u>(1,140,541)</u>	<u>11,800</u>	<u>(1,128,741)</u>	<u>(138,324)</u>
Cash flows from non-capital financing activities:				
Repayment of interfund loan from the General Fund	(111,304)	0	(111,304)	0
State grants received	23,007	0	23,007	0
Federal grants received	1,122,185	0	1,122,185	0
Net cash provided by non-capital financing activities	<u>1,033,888</u>	<u>0</u>	<u>1,033,888</u>	<u>0</u>
Cash flows from investing activities:				
Interest on investments	2,550	593	3,143	0
Net cash provided by investing activities	<u>2,550</u>	<u>593</u>	<u>3,143</u>	<u>0</u>
Cash flows from capital financing activities:				
Purchase of assets	(8,526)	0	(8,526)	0
Net cash used in financing activities	<u>(8,526)</u>	<u>0</u>	<u>(8,526)</u>	<u>0</u>
Net increase(decrease) in cash and cash equivalents	(112,629)	12,393	(100,236)	(138,324)
Cash and cash equivalents at beginning of year	536,056	26,040	562,096	1,805,830
Cash and cash equivalents at end of year	<u>\$ 423,427</u>	<u>38,433</u>	<u>461,860</u>	<u>1,667,506</u>
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:				
Operating income(loss)	\$ (1,285,122)	12,040	(1,273,082)	(516,964)
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:				
Commodities consumed	95,901	0	95,901	0
Depreciation	42,935	0	42,935	0
Decrease in inventories	10,620	0	10,620	0
Decrease in accounts receivable	4,985	0	4,985	226,665
Decrease in accounts payable	(5,274)	(240)	(5,514)	0
Increase in incurred but not reported	0	0	0	151,975
Decrease in deferred revenue	(4,586)	0	(4,586)	0
Net cash provided by(used in) operating activities	<u>\$ (1,140,541)</u>	<u>11,800</u>	<u>(1,128,741)</u>	<u>(138,324)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:				
Current assets:				
Cash and pooled investments	<u>\$ 423,427</u>	<u>38,433</u>	<u>461,860</u>	<u>1,667,506</u>
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:				
During the year ended June 30, 2005, the District received Federal commodities valued at \$95,901.				

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2005

	<u>Private Purpose</u> <u>Trust</u> <u>Scholarship</u>
ASSETS	
Cash and pooled investments	\$ 42,913
LIABILITIES	<u>0</u>
NET ASSETS	
Reserved for scholarships	<u>\$ 42,913</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2005

	Private Purpose Trust
	Scholarship
Additions:	
Local sources:	
Interest on investments	\$ 670
Total additions	670
Deletions:	
Scholarships awarded	500
Total deletions	500
Change in net assets	170
Net assets beginning of year	42,743
Net assets end of year	\$ 42,913

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

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

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

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following proprietary funds:

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Funds are 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, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,000
Buildings	1,000
Land improvements	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

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

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

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

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

recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

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

Compensated absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements 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 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.

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

	Amortized Cost
Diversified Portfolio	\$ 496,213

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

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

(3) Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2005 is as follows:

Receivable Fund	Payable Fund	Amount
General	Nutrition	\$ 121,330
General	Management	1,312,818
General	Capital Projects	300,364
General	Activity	50,000
General	Debt Service	33,375
General	PPEL	159,605
Debt Service	PPEL	562,450
Capital Projects	General	4,800,000
Debt Service	Capital Projects	1,026,736
Total		<u>\$ 8,366,678</u>

(4) Transfers

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

Transfer to	Transfer from	Amount
Debt Service	PPEL	\$ 562,450
Debt Service	Capital Projects	987,258
Total		<u>\$ 1,549,708</u>

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

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 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	\$ 686	0	0	0
2004-05B	1/28/05	1/27/06	1,504,335	20,380	1,500,000	22,006
2005-06A	6/28/05	6/28/06	2,709,952	580	2,698,000	517
Total			<u>\$ 4,214,973</u>	<u>20,960</u>	<u>4,198,000</u>	<u>22,523</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. 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:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2003-04B	\$ 700,000	0	700,000	0
2004-05A	0	3,500,000	3,500,000	0
Total	<u>\$ 700,000</u>	<u>3,500,000</u>	<u>4,200,000</u>	<u>0</u>

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%	3.232%
2005-06A	3.500%	3.903%

(6) 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	\$ 279,929	188,474	0	468,403
Construction in progress	0	4,753,347	0	4,753,347
Total capital assets not being depreciated	<u>279,929</u>	<u>4,941,821</u>	<u>0</u>	<u>5,221,750</u>
Capital assets being depreciated:				
Buildings	19,648,589	1,719,966	0	21,368,555
Land improvements	138,433	0	0	138,433
Machinery and equipment	5,792,015	298,194	489,202	5,601,007
Total capital assets being depreciated	<u>25,579,037</u>	<u>2,018,160</u>	<u>489,202</u>	<u>27,107,995</u>
Less accumulated depreciation for:				
Buildings	10,013,395	394,832	0	10,408,227
Land improvements	138,433	0	0	138,433
Machinery and equipment	5,284,888	297,215	489,202	5,092,901
Total accumulated depreciation	<u>15,436,716</u>	<u>692,047</u>	<u>489,202</u>	<u>15,639,561</u>
Total capital assets being depreciated, net	<u>10,142,321</u>	<u>1,326,113</u>	<u>0</u>	<u>11,468,434</u>
Governmental activities capital assets, net	<u>\$ 10,422,250</u>	<u>6,267,934</u>	<u>0</u>	<u>16,690,184</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 673,486	8,526	2,959	679,053
Less accumulated depreciation	359,457	42,935	1,486	400,906
Business-type activities capital assets, net	<u>\$ 314,029</u>	<u>(34,409)</u>	<u>1,473</u>	<u>278,147</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 126,511
Special		2,179
Other		13,317
Support services:		
Instructional staff services		6,577
Operation and maintenance of plant services		15,366
Transportation		133,265
		<u>297,215</u>
Unallocated depreciation		<u>394,832</u>
		<u>\$ 692,047</u>
Business-type activities:		
Food services		<u>\$ 42,935</u>

(7) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation	\$ 1,000,000	24,130,000	200,000	24,930,000	200,000
Revenue bans	0	802,000	0	802,000	802,000
Capital loan notes	1,090,000	0	535,000	555,000	555,000
Early retirement	4,122,961	1,520,036	481,022	5,161,975	1,173,613
Compensated absences	83,844	109,442	83,844	109,442	109,442
Total	<u>\$ 6,296,805</u>	<u>26,561,478</u>	<u>1,299,866</u>	<u>31,558,417</u>	<u>2,840,055</u>

General Obligation

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

Year Ending June 30,	Bond Issue of May 1, 2002			Bond Issue of July 1, 2004			Total		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
2006	3.75 % \$	200,000	32,500	4.00 % \$	-	1,184,350	\$ 200,000	1,216,850	1,416,850
2007	4.00	200,000	25,000	4.00	700,000	1,184,350	900,000	1,209,350	2,109,350
2008	4.20	200,000	17,000	4.00	740,000	1,156,350	940,000	1,173,350	2,113,350
2009	4.30	200,000	8,600	4.00	775,000	1,126,750	975,000	1,135,350	2,110,350
2010	-	-	-	5.00	1,015,000	1,095,750	1,015,000	1,095,750	2,110,750
2011-2015	-	-	-	5.00	5,890,000	4,664,750	5,890,000	4,664,750	10,554,750
2016-2020	-	-	-	5.00	7,520,000	3,036,500	7,520,000	3,036,500	10,556,500
2021-2024	-	-	-	5.00	7,490,000	959,750	7,490,000	959,750	8,449,750
Total	<u>\$ 800,000</u>	<u>83,100</u>		<u>\$ 24,130,000</u>	<u>14,408,550</u>	<u>\$ 24,930,000</u>	<u>14,491,650</u>	<u>39,421,650</u>	

Revenue Bond Anticipatory Notes Payable

Details of the District's June 30, 2005 revenue bond anticipatory notes indebtedness are as follows:

Year Ending June 30,	Notes issue April 25, 2005			
	Interest Rate	Principal	Interest	Total
2006	2.34 %	\$ 802,000	19,059	821,059

Capital Loan Notes Payable

Details of the District's June 30, 2005 capital loan notes indebtedness are as follows:

Year Ending June 30,	Loans dated June 30, 2004			
	Interest Rate	Principal	Interest	Total
2006	2.50 %	\$ 555,000	13,875	568,875

Early Retirement

The District has in place a retirement incentive plan, that provides a monthly stipend based in a percentage of the employee's last full time contract. This stipend continues until the retiree reaches the age of 65. Early retirement benefits paid during the year ended June 30, 2005, totaled \$481,022. A liability has been recorded in the Government-wide financial statements representing the District's commitment to fund non-current early retirement.

(8) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual 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 \$1,353,188, \$1,455,131 and \$1,310,741 respectively, equal to the required contributions for each year.

(9) Risk Management

The District has a self-funded health insurance plan. The District purchases commercial insurance to provide for aggregate stop-loss coverage for the excess of 125% of estimated claims for the plan year and specific stop-loss reinsurance coverage for the excess of \$50,000 in insured claims for any one covered

individual. Settle claims have not exceeded the commercial coverage in any of the past three years.

Payments are made to the plan based on actuarial estimates of amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses. That balance was a \$1,877,225 at June 30, 2005. The incurred but not recorded and unpaid claims liability of \$663,400 reported in the plan at June 30, 2005 based on the requirements of GASB Statement Number 10, is set up as a liability on the statement of net assets.

In addition, the District is exposed to various risks to 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. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$1,493,820 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.

(11) Deficit Fund Balance

The District has a deficit undesignated fund balances in the General Fund and Special Revenue, Management Fund of \$1,033,891 and \$868,220, respectively.

(12) 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, disbursements in the other expenditures functional program area exceeded the amount budgeted.

(13) Construction Commitment

The District has entered into various contracts totaling \$10,340,063 for Hoglan Elementary and Miller Middle School Projects. As of June 30, 2005, costs of \$4,753,347 had been incurred against the contracts. The balance of \$5,058,237 remaining at June 30, 2005 will be paid as work on the projects progresses.

REQUIRED SUPPLEMENTARY INFORMATION

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF RECEIPTS, DISBURSEMENTS AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
Receipts:						
Local sources	\$ 16,676,941	786,096	17,463,037	17,814,118	17,814,118	(351,081)
State sources	24,167,067	23,007	24,190,074	24,328,019	24,328,019	(137,945)
Federal sources	3,018,933	1,218,086	4,237,019	3,335,000	3,335,000	902,019
Total receipts	<u>43,862,941</u>	<u>2,027,189</u>	<u>45,890,130</u>	<u>45,477,137</u>	<u>45,477,137</u>	<u>412,993</u>
Disbursements:						
Instruction	26,775,364	0	26,775,364	26,266,232	26,901,556	126,192
Support services	12,030,852	0	12,030,852	11,903,989	12,461,801	430,949
Non-instructional programs	109,395	2,016,121	2,125,516	2,087,376	2,330,692	205,176
Other expenditures	8,475,553	0	8,475,553	3,780,267	5,166,217	(3,309,336)
Total disbursements	<u>47,391,164</u>	<u>2,016,121</u>	<u>49,407,285</u>	<u>44,037,864</u>	<u>46,860,266</u>	<u>(2,547,019)</u>
Excess(deficiency) of receipts over(under) disbursements	(3,528,223)	11,068	(3,517,155)	1,439,273	(1,383,129)	(2,134,026)
Other financing sources, net	25,365,226	0	25,365,226	0	0	25,365,226
Excess(deficiency) of receipts and other financing sources over(under) disbursements	21,837,003	11,068	21,848,071	1,439,273	(1,383,129)	23,231,200
Balance beginning of year	<u>2,643,336</u>	<u>329,462</u>	<u>2,972,798</u>	<u>6,478,082</u>	<u>6,478,082</u>	<u>(3,505,284)</u>
Balance end of year	<u>\$ 24,480,339</u>	<u>340,530</u>	<u>24,820,869</u>	<u>7,917,355</u>	<u>5,094,953</u>	<u>19,725,916</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE-
 BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2005

	Governmental Fund Types		
	Cash Basis	Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 43,862,941	872,802	44,735,743
Expenses	47,391,164	171,400	47,562,564
Net	(3,528,223)	701,402	(2,826,821)
Other financing sources, net	25,365,226	0	25,365,226
Beginning fund balances	2,643,336	(3,870,232)	(1,226,896)
Ending fund balances	\$ 24,480,339	(3,168,830)	21,311,509

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Accrual	
Adjust- ments		Accrual Basis	
Revenues	\$ 2,027,189	(399)	2,026,790
Expenses	2,016,121	39,515	2,055,636
Net	11,068	(39,914)	(28,846)
Other financing uses, net	0	(1,473)	(1,473)
Beginning net assets	329,462	379,786	709,248
Ending net assets	\$ 340,530	338,399	678,929

MARSHALLTOWN 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 Private-Purpose Trust and Agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$2,822,402.

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

OTHER SUPPLEMENTARY INFORMATION

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

	Special Revenue Funds						Debt Service	Total Other Nonmajor Governmental Funds
	Management	Student Activity	Physical Plant and Equipment Levy	Playground Education Levy	Recreation Expendable Trust	Total Special Revenue		
ASSETS								
Cash and pooled investments	\$ 426,883	180,846	1,005,062	165,346	11,122	1,789,259	(1,417,638)	371,621
Receivables:								
Property tax:								
Current year delinquent	17,715	0	13,685	1,736	0	33,136	3,231	36,367
Succeeding year	1,600,000	0	780,905	99,297	0	2,480,202	0	2,480,202
Interfund	0	0	0	0	0	0	1,589,186	1,589,186
TOTAL ASSETS	\$ 2,044,598	180,846	1,799,652	266,379	11,122	4,302,597	174,779	4,477,376
LIABILITIES AND FUND EQUITY								
Liabilities:								
Interfund payable	\$ 1,312,818	50,000	722,055	0	0	2,084,873	33,375	2,118,248
Deferred revenue:								
Succeeding year property tax	1,600,000	0	780,905	99,297	0	2,480,202	0	2,480,202
	<u>2,912,818</u>	<u>50,000</u>	<u>1,502,960</u>	<u>99,297</u>	<u>0</u>	<u>4,565,075</u>	<u>33,375</u>	<u>4,598,450</u>
Fund equity:								
Fund balances:								
Reserved for debt service	0	0	0	0	0	0	141,404	141,404
Unreserved:								
Undesignated	(868,220)	130,846	296,692	167,082	11,122	(262,478)	0	(262,478)
Total fund balances	<u>(868,220)</u>	<u>130,846</u>	<u>296,692</u>	<u>167,082</u>	<u>11,122</u>	<u>(262,478)</u>	<u>141,404</u>	<u>(121,074)</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ 2,044,598	180,846	1,799,652	266,379	11,122	4,302,597	174,779	4,477,376

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
 COMBINING 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
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Playground Education Levy	Expendable Trust	Total Special Revenue		
REVENUES:								
Local sources:								
Local tax	\$ 788,807	0	773,345	94,722	0	1,656,874	236,158	1,893,032
Other	7,781	914,467	11,385	2,131	6,785	942,549	43,209	985,758
State sources	835	0	746	101	0	1,682	229	1,911
Federal sources	0	0	754,248	0	0	754,248	0	754,248
TOTAL REVENUES	797,423	914,467	1,539,724	96,954	6,785	3,355,353	279,596	3,634,949
EXPENDITURES:								
Current:								
Instruction:								
Regular instruction	707,228	0	0	0	0	707,228	0	707,228
Other instruction	0	902,112	0	0	1,500	903,612	0	903,612
Support services:								
Administration services	497,051	0	101,539	0	0	598,590	0	598,590
Non-instructional:								
Community service and other enterprise operations	0	0	0	102,360	0	102,360	0	102,360
Other expenditures:								
Facilities acquisition	0	0	937,783	26,407	0	964,190	0	964,190
Long-term debt:								
Principal	0	0	0	0	0	0	735,000	735,000
Interest and fiscal charges	0	0	0	0	0	0	1,054,408	1,054,408
TOTAL EXPENDITURES	1,204,279	902,112	1,039,322	128,767	1,500	3,275,980	1,789,408	5,065,388
Excess (deficiency) of revenue over (under) expenditures	(406,856)	12,355	500,402	(31,813)	5,285	79,373	(1,509,812)	(1,430,439)
Other financing sources (uses):								
Transfers in	0	0	0	0	0	0	1,549,708	1,549,708
Transfers out	0	0	(562,450)	0	0	(562,450)	0	(562,450)
Total other financing sources (uses)	0	0	(562,450)	0	0	(562,450)	1,549,708	987,258
Excess (deficiency) of revenue and other financing sources over (under) expenditures and other financing uses	(406,856)	12,355	(62,048)	(31,813)	5,285	(483,077)	39,896	(443,181)
Fund balance beginning of year	(461,364)	118,491	358,740	198,895	5,837	220,599	101,508	322,107
Fund balance end of year	\$ (868,220)	130,846	296,692	167,082	11,122	(262,478)	141,404	(121,074)

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN 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
Senior High School	\$ 44,134	723,098	676,624	90,608
Anson Middle School	13,030	74,168	78,621	8,577
Miller Middle School	(1,718)	85,161	114,495	(31,052)
Anson Middle School	705	6,481	3,920	3,266
Fisher Elementary School	8,955	8,145	6,724	10,376
Franklin Elementary School	8,738	2,626	7,301	4,063
Hoglan Elementary School	10,708	5,988	9,055	7,641
Rogers Elementary School	1,914	733	1,452	1,195
Woodbury Elementary School	32,025	8,067	3,920	36,172
Total	<u>\$ 118,491</u>	<u>914,467</u>	<u>902,112</u>	<u>130,846</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUND, PRIVATE PURPOSE TRUST ACCOUNTS
 JUNE 30, 2005

	Kiser Memorial	Supinger Memorial	White Memorial	Total
ASSETS				
Cash and pooled investments	\$ 4,721	28,827	9,365	42,913
LIABILITIES				
Liabilities:	0	0	0	0
NET ASSETS				
Reserved for scholarships	\$ 4,721	28,827	9,365	42,913

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND, PRIVATE PURPOSE TRUST ACCOUNTS
 YEAR ENDED JUNE 30, 2005

	Kiser Memorial	Supinger Memorial	White Memorial	Total
Additions:				
Local sources:				
Interest on investments	\$ 39	631	0	670
	39	631	0	670
Deletions				
Scholarships awarded	0	0	500	500
	0	0	500	500
Changes in net assets	39	631	(500)	170
Net assets beginning of year	4,682	28,196	9,865	42,743
Net assets end of year	\$ 4,721	28,827	9,365	42,913

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 14,959,584	11,593,268	11,650,804	11,436,687
Tuition	658,440	610,311	631,562	654,923
Other	1,956,450	1,529,229	1,489,683	1,668,031
Intermediate sources	0	0	0	13,672
State sources	24,175,261	22,767,651	22,639,199	22,670,821
Federal sources	2,986,008	4,026,455	2,628,709	2,299,185
Total	\$ 44,735,743	40,526,914	39,039,957	38,743,319
Expenditures:				
Instruction:				
Regular instruction	\$ 16,448,312	15,701,301	15,915,399	14,742,805
Special instruction	5,691,633	7,219,374	6,659,921	6,550,381
Other instruction	4,333,260	2,874,639	2,877,112	3,016,728
Support services:				
Student services	2,425,533	2,422,512	2,175,732	2,080,534
Instructional staff services	1,603,247	1,645,564	1,684,562	1,553,112
Administration services	3,533,077	3,911,954	3,165,386	3,254,436
Operation and maintenance of plant services	2,837,917	2,934,819	2,881,455	2,768,887
Transportation services	1,044,119	1,042,819	1,013,771	961,862
Central support services	507,834	507,200	453,544	153
Non-instructional programs:				
Community service and other enterprise operations	133,200	87,783	102,501	165,421
Other expenditures:				
Facilities acquisitions	5,721,204	2,561,731	2,480,724	676,584
Long Term Debt:				
Principal	735,000	700,000	170,000	465,000
Interest	1,054,408	102,334	64,751	123,200
AEA flow-through	1,493,820	1,471,610	1,504,345	1,478,762
Total	\$ 47,562,564	43,183,640	41,149,203	37,837,865

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DIRECT:			
DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
21ST CENTURY COMMUNITY LEARNING			
CENTER PROGRAM	84.287	S287A000125-01	\$ 409,267
DEPARTMENT OF EDUCATION:			
FUND FOR THE IMPROVEMENT OF			
EDUCATION(CAROL M. WHITE PHYSICAL			
EDUCATION PROGRAM)	84.215	FY 05	71,878
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION(non-cash)	10.550	FY 05	95,901
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 05	225,404
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 05	858,179
SPECIAL MILK	10.556	FY 05	22,265
FRUIT AND VEGETABLE PILOT PROGRAM	10.555	FY 05	16,337
			<u>1,122,185</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCA-			
TIONAL AGENCIES	84.010	4104-G-04	10,967
TITLE I GRANTS TO LOCAL EDUCA-			
TIONAL AGENCIES	84.010	FY 05	34,347
TITLE I GRANTS TO LOCAL EDUCA-			
TIONAL AGENCIES	84.010	4104-G	554,305
TITLE I GRANTS TO LOCAL EDUCA-			
TIONAL AGENCIES	84.010	4104-M	89,680
TITLE I GRANTS TO LOCAL EDUCA-			
TIONAL AGENCIES	84.010	4104-GC	34,127
			<u>723,426</u>
STATE GRANTS FOR INNOVATIVE PROGRAMS	84.298	FY 04	15,615
STATE GRANTS FOR INNOVATIVE PROGRAMS	84.298	FY 05	8,823
			<u>24,438</u>
SAFE AND DRUG-FREE SCHOOLS AND			
COMMUNITIES - STATE GRANTS	84.186	FY 04	19,693
SAFE AND DRUG-FREE SCHOOLS AND			
COMMUNITIES - STATE GRANTS	84.186	FY 05	15,353
			<u>35,046</u>

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2005

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT (CONTINUED)			
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 04	50,873
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 05	155,854
			<u>206,727</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A)	84.369	FY 05	<u>21,726</u>
BILINGUAL EDUCATION - COMPREHENSIVE SCHOOL GRANTS	84.290	FY 05	<u>199,211</u>
FUND FOR THE IMPROVEMENT OF EDUCATION (BILINGUAL GRANT)	84.215	FY 04	47,202
FUND FOR THE IMPROVEMENT OF EDUCATION (FIRE SAFETY GRANT)	84.215	FY 04	69,556
FUND FOR THE IMPROVEMENT OF EDUCATION (IOWA DEMONSTRATION GRANT)	84.215	FY 04	500,000
			<u>616,758</u>
SCHOOL RENOVATION GRANT PROGRAM	84.352	FY 02	<u>47,036</u>
IOWA PUBLIC TELEVISION: STAR SCHOOLS	84.203	FY 05	<u>24,225</u>
AREA EDUCATION AGENCY: VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 05	<u>64,972</u>
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 05	<u>289,545</u>
TOTAL			<u>\$ 3,952,341</u>

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

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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
Marshalltown 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 Marshalltown 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 18, 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 Marshalltown 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 II of the accompanying Schedule of Findings and Questioned Costs.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marshalltown Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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 IV of the accompanying Schedule of Findings and Questioned Costs.

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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 Marshalltown Community School District and other parties to whom Marshalltown 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 Marshalltown Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

November 18, 2005

NOLTE, CORNMAN & JOHNSON P.C.

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Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Board of Education of
Marshalltown Community School District:

Compliance

We have audited the compliance of Marshalltown Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Marshalltown Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants agreements applicable to each of its major federal programs is the responsibility of Marshalltown Community School District's management. Our responsibility is to express an opinion on Marshalltown Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Marshalltown Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Marshalltown Community School District's compliance with those requirements.

In our opinion, Marshalltown Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

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

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention

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relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Marshalltown Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-A-05 in the accompanying Schedule of Findings and Questioned Costs.

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 non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance 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, we believe item III-A-05 is a material weakness.

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


NOLTE, CORNMAN & JOHNSON, P.C.

November 18, 2005

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - Clustered
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.555 - Fruit and Vegetable Pilot
 - CFDA Number 10.556 - Special Milk
 - Individual
 - CFDA Number 84.010 - Title I grants to Local Educational agencies
 - CFDA Number 84.287 - 21st Century Community Learning Center Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Marshalltown Community School District did not qualify as a low-risk auditee.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

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

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

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

Conclusion - Response accepted.

II-B-05 Parking Rents/Fees - We noted during our audit that the district receives money for use of facilities in the form of parking fees which was recorded in the Activity Fund.

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

Response - We will comply.

Conclusion - Response accepted.

II-C-05 Student Activity Fund - We noted during our audit that the Student Activity fund included an interest account.

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

Response - We will make the necessary changes.

Conclusion - Response accepted.

II-D-05 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year.

Recommendation - The District should research the outstanding checks to determine if they should be reissued, voided or submitted to the Treasurer of Iowa as unclaimed property.

Response - The District has submitted the outstanding checks to the Treasurer of Iowa as unclaimed property.

Conclusion - Response accepted.

II-E-05 Supporting Documents for Payments to Officials - Payments made to officials from the Student Activity fund do not have supporting documentation.

Recommendation - The copy of the contract made for each official should be used as the support for payment.

Response - We will ensure that contracts for officials are retained.

Conclusion - Response accepted.

II-F-05 Supporting Documents for Payments with Credit Cards - Payments made with credit cards do not always have detailed supporting documentation.

Recommendation - The District has a policy in place for credit card usage as part of the credit card policy. The users of the credit cards need to provide detailed receipts for purchases made. The District should review procedures in place to ensure the proper detailed documentation will be available with paid credit card statements.

Response - We shall require that detailed receipts are submitted for payment to be issued.

Conclusion - Response accepted.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 10.553: School Breakfast Program and
CFDA Number 10.555: National School Lunch Program
CFDA Number 10.555: Fruit and Vegetable Pilot
CFDA Number 10.556: Special Milk
Federal Award Year: 2005
U.S. Department of Agriculture
Passed through the Iowa Department of Education

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

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

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

Conclusion - Response accepted.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Part IV: Other Findings Related to Statutory Reporting

IV-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.

IV-B-05 Certified Budget - District disbursements for the year ended June 30, 2005, exceeded the amount budgeted in the other expenditures functional area.

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

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

Conclusion - Response accepted.

IV-C-05 Questionable Disbursements - We noted during our audit that there were clothing items purchased for coaches out of the Activity Fund which may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

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

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

Conclusion - Response accepted.

IV-D-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.

IV-E-05 Business Transactions - No business transactions between the District and District officials were noted.

IV-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.

IV-G-05 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

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

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

Conclusion - Response accepted.

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

IV-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. However, we did note that the District was not receiving the proper interest rate, set by the State Rate Setting Committee, on their Certificate of Deposit.

Recommendation - The District should contact the appropriate bank and rectify the situation.

Response - We will contact the bank and request the appropriate rate.

Conclusion - Response accepted.

IV-J-05 Certified Annual Report - The Certified Annual Report was not filed with the Department of Education timely.

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

Response - The District will file the CAR timely in the future.

Conclusion - Response accepted.

IV-K-05 Financial Condition - During our audit we noted that the District had negative account balances in the Special Revenue, Student Activity Fund, and deficit fund balances in the General Fund of \$1,033,254 and in the Special Revenue, Management Fund of \$868,220.

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

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

Conclusion - Response accepted.