

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

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Martensdale-St. Marys Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2004 election)		
Merle Allen	President	2006
Dean Gavin	Vice President	2006
Holly Estell	Board Member	2005
Larry Henson	Board Member	2004
Patrick Connor	Board Member	2005
Board of Education (After September 2004 election)		
Merle Allen	President	2006
Patrick Connor	Vice President	2005
Holly Estell	Board Member	2005
Dean Gavin	Board Member	2006
Jim Weaver	Board Member	2007
School Officials		
Peggy Huisman	Superintendent	2005
Jane Cassady	Business Manager	2005
Brick, Gentry, Bowers, Swartz Stoltze, Schuling & Levis, 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
Martensdale-St. Marys 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 Martensdale-St. Marys Community School District, Martensdale, 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.

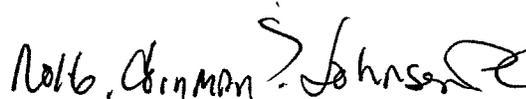
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain 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 Martensdale-St. Marys Community School District at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 27, 2005 on our consideration of the Martensdale-St. Marys Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 37 through 40 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 Martensdale-St. Marys Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

October 27, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$3,927,587 in fiscal 2004 to \$3,880,368 in fiscal 2005, while General Fund expenditures increased from \$3,674,474 in fiscal 2004 to \$3,954,406 in fiscal 2005. The District's General Fund balance was \$415,623 in fiscal 2004 and \$341,585 in fiscal 2005, a 17.81% decrease from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in property tax, federal sources and tuition revenues in fiscal 2005. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.
- An increase in interest rates during the past fiscal year, combined with more cash available to be invested, resulted in interest earnings in the General Fund alone to increase from \$1,417 in fiscal year 2004 to \$36,275 in fiscal year 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 Martensdale-St. Marys Community School District as a whole and present an overall view of the District's finances.

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

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

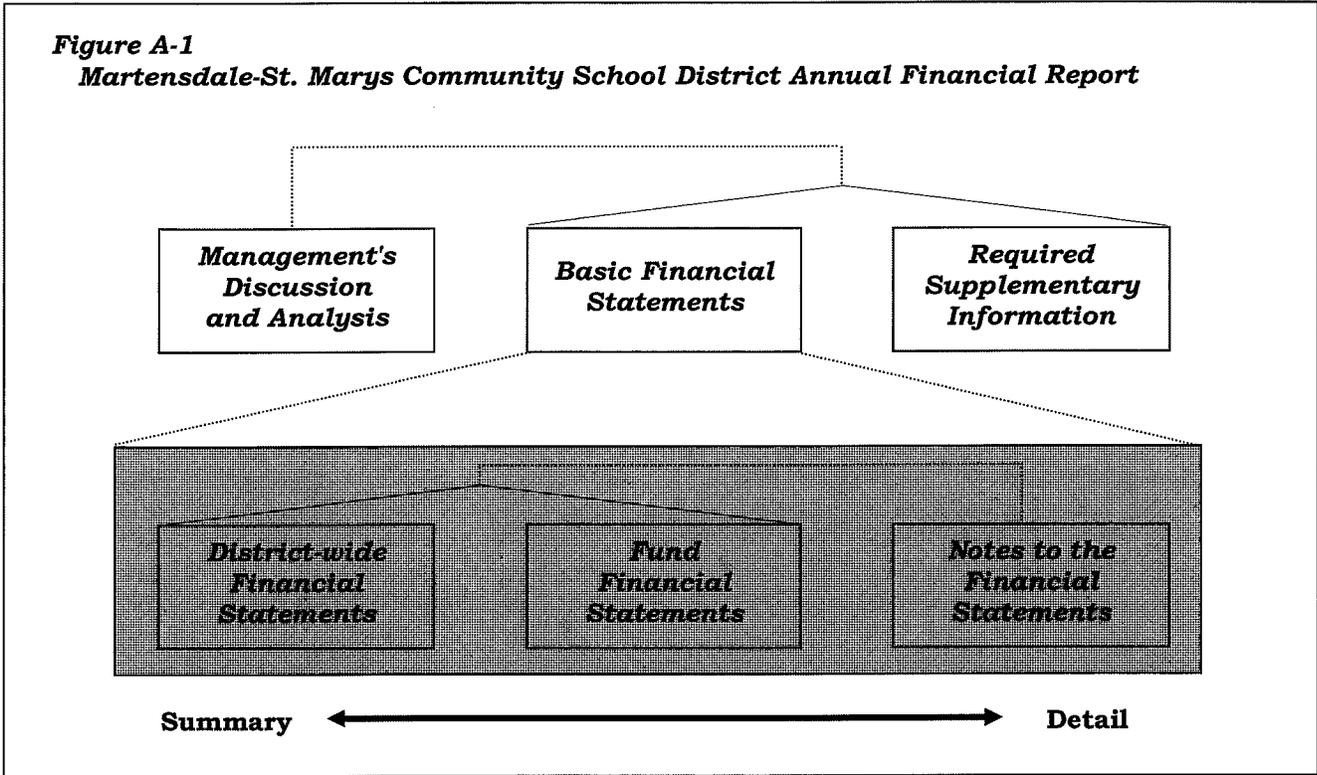


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 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	\$ 3,933,091	6,156,623	18,718	28,469	3,951,809	6,185,092	-36.11%
Capital assets	3,965,594	1,450,269	13,140	9,018	3,978,734	1,459,287	172.65%
Total assets	7,898,685	7,606,892	31,858	37,487	7,930,543	7,644,379	3.74%
Long-term obligations	2,707,312	2,758,945	4,352	0	2,711,664	2,758,945	-1.71%
Other liabilities	2,822,667	2,974,893	3,063	9,377	2,825,730	2,984,270	-5.31%
Total liabilities	5,529,979	5,733,838	7,415	9,377	5,537,394	5,743,215	-3.58%
Net assets:							
Invested in capital assets, net of related debt	1,784,926	1,259,548	13,140	9,018	1,798,066	1,268,566	41.74%
Restricted	128,233	91,011	0	0	128,233	91,011	40.90%
Unrestricted	455,547	522,495	11,303	19,092	466,850	541,587	-13.80%
Total net assets	\$ 2,368,706	1,873,054	24,443	28,110	2,393,149	1,901,164	25.88%

The District's combined net assets increased by 25.88%, or \$491,985, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$37,222 or 40.90% over the prior year. The increase was primarily a result of increased fund balance in the Special Revenue, Physical Plant and Equipment Levy Fund.

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 \$74,737 or 13.80%. This decrease in unrestricted net assets was a result of the District decreased revenues and increased expenditures in the General 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	\$ 400,735	429,132	160,855	147,251	561,590	576,383	-2.57%
Operating grants and contributions and restricted interest	415,797	448,810	58,090	66,708	473,887	515,518	-8.08%
Operating grants and contributions and restricted interest	222,695	77,985	0	0	222,695	77,985	185.56%
General revenues:							
Property tax	1,559,171	1,496,600	0	0	1,559,171	1,496,600	4.18%
Local option sales and services tax	219,888	0	0	0	219,888	0	100.00%
Unrestricted state grants	1,944,175	1,856,295	0	0	1,944,175	1,856,295	4.73%
Unrestricted investment earnings	66,641	36,159	0	210	66,641	36,369	83.24%
Total revenues	4,829,102	4,344,981	218,945	214,169	5,048,047	4,559,150	10.72%
Program expenses:							
Governmental activities:							
Instructional	2,753,117	2,675,611	0	0	2,753,117	2,675,611	2.90%
Support services	1,221,699	1,170,933	0	0	1,221,699	1,170,933	4.34%
Non-instructional programs	0	0	222,612	202,904	222,612	202,904	9.71%
Other expenses	358,634	227,794	0	0	358,634	227,794	57.44%
Total expenses	4,333,450	4,074,338	222,612	202,904	4,556,062	4,277,242	6.52%
Changes in net assets	495,652	270,643	(3,667)	11,265	491,985	281,908	74.52%
Beginning net assets	1,873,054	1,602,411	28,110	16,845	1,901,164	1,619,256	17.41%
Ending net assets	\$ 2,368,706	1,873,054	24,443	28,110	2,393,149	1,901,164	25.88%

Property tax, local option sales and services tax and unrestricted state grants account for 74% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 87% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$4,829,102 and expenses were \$4,333,450.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 2,753,117	2,080,677
Support services	1,221,699	1,218,486
Other expenses	358,634	(4,940)
Totals	<u>\$ 4,333,450</u>	<u>3,294,223</u>

- The cost financed by users of the District's programs was \$400,735.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$638,492.
- The net cost of governmental activities was financed with \$1,559,171 in property tax, \$219,888 in local option sales and services tax, \$1,944,175 in state foundation aid and \$66,641 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$218,945 and expenses were \$222,612. The District's business-type activities include the School Nutrition Fund and Day Care Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$962,011, below last year's ending fund balances of a \$3,044,429. However, the primary reason for the decrease in combined fund balances in fiscal 2005 is due to the revenue of \$2.7 million in general obligations bonds recorded in the previous year was spent in fiscal 2005 on capital improvements.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position from \$415,623 to \$341,585 is the product of many factors:
 - A decrease in tax levy during the year, less tuition and less federal grant sources resulted in decreased revenues.
 - The increase in negotiated salary and benefits settlement, as well as existing expenditure commitments of the District, resulted in an increase in expenditures.
- The Capital Projects Fund balance decreased from \$2,525,866 in fiscal 2004 to \$474,420 in fiscal 2005. In 2004, the District issued \$2.7 million in general obligation bonds to construct new classrooms and other various projects. The expenditures from this fund make up the construction in progress balance. These various projects will be capitalized and depreciated upon completion of the capital improvements.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$28,068 at June 30, 2004 to \$19,536 at June 30, 2005, representing a decrease of 30.40%. The Day Care Fund net assets increased from \$42 at June 30, 2004 to \$4,907 at June 30, 2005, representing a substantial increase.

BUDGETARY HIGHLIGHTS

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

The District's revenues were \$48,307 less than budgeted revenues, a variance of .96%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional programs functional area due to the timing of disbursements paid.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$4.0 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) More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$95,713.

The original cost of the District's capital assets was \$5.84 million. Governmental funds account for \$5.79 million with the remainder of \$0.05 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$2,693,114 at June 30, 2005, compared to \$205,122 reported at June 30, 2004. This increase resulted from the increase in how much the District paid so far on construction projects in progress.

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	\$ 110,000	110,000	0	0	110,000	110,000	0.00%
Construction in progress	2,693,114	205,122	0	0	2,693,114	205,122	1212.93%
Buildings and improvements	1,023,040	1,063,590	0	0	1,023,040	1,063,590	-3.81%
Machinery and equipment	139,440	71,557	13,140	9,018	152,580	80,575	89.36%
Total	\$ 3,965,594	1,450,269	13,140	9,018	3,978,734	1,459,287	172.65%

Long-Term Debt

At June 30, 2005, the District had \$2,707,312 in general obligation and other long-term debt outstanding. This represents a decrease of 1.9% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had total outstanding General Obligation Bonds payable of \$2,665,000 at June 30, 2005.

The District had total outstanding Post Employment Benefits payable from the General Fund of \$37,960 at June 30, 2005.

The District had total outstanding Capital Lease payable from the Enterprise – School Nutrition Fund of \$4,352 at June 30, 2005.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2005	2004	
General Obligation Bonds	\$ 2,665,000	2,700,000	-1.3%
Post Employment Benefit	37,960	45,960	-17.4%
Bus Loan	0	12,985	-100.0%
Capital Lease	4,352	0	100.0%
Totals	<u>\$ 2,707,312</u>	<u>2,758,945</u>	<u>-1.9%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The state's economy is showing limited signs of economic recovery. A weaker economy adversely impacts the amount of new general fund money available to the District.
- Historically, the District has entered into annual contracts with its collective bargaining units. The District will negotiate new agreements during fiscal 2005. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance. Corresponding cost reductions will be made to offset the cost of negotiated settlements and other cost increases.
- The voters of Warren and Madison County passed the Local Option Sales and Services Tax for School Infrastructure (SILO). This 1 cent tax on sales and services will greatly benefit the District in maintaining their buildings and purchasing equipment. The funding began in September 2004 and will continue for ten years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jane Cassidy, Business Manager, Martensdale-St. Marys Community School District, Martensdale, Iowa, 50160.

BASIC FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP(Note 5)	\$ 980,692	14,050	994,742
Other	1,170,327	0	1,170,327
Receivables:			
Property tax:			
Delinquent	25,608	0	25,608
Succeeding year	1,407,396	0	1,407,396
Income surtax	153,665	0	153,665
Accounts	20,764	378	21,142
Accrued ISCAP interest(Note 5)	6,783	0	6,783
Due from other governments	167,856	0	167,856
Inventories	0	4,290	4,290
Capital assets, net of accumulated depreciation(Note 6)	3,965,594	13,140	3,978,734
TOTAL ASSETS	7,898,685	31,858	7,930,543
LIABILITIES			
Accounts payable	137,865	845	138,710
Salaries and benefits payable	278,377	0	278,377
ISCAP warrants payable(Note 5)	977,000	0	977,000
ISCAP interest payable(Note 5)	7,369	0	7,369
ISCAP unamortized premium	9,408	0	9,408
Interest payable	9,604	0	9,604
Deferred revenue:			
Succeeding year property tax	1,407,396	0	1,407,396
Other	0	2,218	2,218
Long-term liabilities(Note 7):			
Portion due within one year:			
General obligation bonds payable	100,000	0	100,000
Post employment benefit payable	9,600	0	9,600
Capital lease payable	0	4,352	4,352
Portion due after one year:			
General obligation bonds payable	2,565,000	0	2,565,000
Post employment benefit payable	28,360	0	28,360
TOTAL LIABILITIES	5,529,979	7,415	5,537,394
NET ASSETS			
Investment in capital assets, net of related debt	1,784,926	13,140	1,798,066
Restricted for:			
Phase III	942	0	942
Salary improvement program	801	0	801
Management levy	9,718	0	9,718
Physical plant and equipment levy	56,941	0	56,941
Other special revenue purposes	59,831	0	59,831
Unrestricted	455,547	11,303	466,850
TOTAL NET ASSETS	\$ 2,368,706	24,443	2,393,149

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	\$ 1,791,244	144,088	248,193	0
Special instruction	596,350	49,027	23,512	0
Other instruction	365,523	207,620	0	0
	<u>2,753,117</u>	<u>400,735</u>	<u>271,705</u>	<u>0</u>
Support services:				
Student services	93,793	0	0	0
Instructional staff services	59,560	0	0	0
Administration services	421,015	0	0	0
Operation and maintenance of plant services	423,429	0	0	0
Transportation services	223,902	0	3,213	0
	<u>1,221,699</u>	<u>0</u>	<u>3,213</u>	<u>0</u>
Other expenditures:				
Facilities acquisitions	10,637	0	0	222,695
Long-term debt:				
Interest and fiscal charges	166,568	0	0	0
AEA flowthrough	140,879	0	140,879	0
Depreciation(unallocated)*	40,550	0	0	0
	<u>358,634</u>	<u>0</u>	<u>140,879</u>	<u>222,695</u>
Total governmental activities	4,333,450	400,735	415,797	222,695
Business-Type activities:				
Non-instructional programs:				
Nutrition services	181,973	115,351	58,090	0
Day care services	40,639	45,504	0	0
Total business-type activities	<u>222,612</u>	<u>160,855</u>	<u>58,090</u>	<u>0</u>
Total	<u>\$ 4,556,062</u>	<u>561,590</u>	<u>473,887</u>	<u>222,695</u>

General Revenues:

Property tax levied for:
 General purposes
 Debt service
 Capital projects
Local option sales and services tax
Unrestricted state grants
Unrestricted investment earnings

Total general revenues

Changes in net assets

Net assets beginning of year

Net assets end of year

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

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(1,398,963)	0	(1,398,963)
(523,811)	0	(523,811)
(157,903)	0	(157,903)
<u>(2,080,677)</u>	<u>0</u>	<u>(2,080,677)</u>
(93,793)	0	(93,793)
(59,560)	0	(59,560)
(421,015)	0	(421,015)
(423,429)	0	(423,429)
(220,689)	0	(220,689)
<u>(1,218,486)</u>	<u>0</u>	<u>(1,218,486)</u>
212,058	0	212,058
(166,568)	0	(166,568)
0	0	0
(40,550)	0	(40,550)
<u>4,940</u>	<u>0</u>	<u>4,940</u>
(3,294,223)	0	(3,294,223)
0	(8,532)	(8,532)
0	4,865	4,865
<u>0</u>	<u>(3,667)</u>	<u>(3,667)</u>
<u>(3,294,223)</u>	<u>(3,667)</u>	<u>(3,297,890)</u>
\$ 1,278,071	0	1,278,071
192,984	0	192,984
88,116	0	88,116
219,888	0	219,888
1,944,175	0	1,944,175
66,641	0	66,641
<u>3,789,875</u>	<u>0</u>	<u>3,789,875</u>
495,652	(3,667)	491,985
1,873,054	28,110	1,901,164
<u>\$ 2,368,706</u>	<u>24,443</u>	<u>2,393,149</u>

MARTENSDALE-ST. MARYS 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)	\$ 980,692	0	0	980,692
Other	544,181	501,753	124,393	1,170,327
Receivables:				
Property tax:				
Delinquent	19,439	0	6,169	25,608
Succeeding year	1,064,969	0	342,427	1,407,396
Income surtax	153,665	0	0	153,665
Interfund	0	0	16,503	16,503
Accounts	20,764	0	0	20,764
Accrued ISCAP interest (Note 5)	6,783	0	0	6,783
Due from other governments	58,949	108,907	0	167,856
TOTAL ASSETS	\$ 2,849,442	610,660	489,492	3,949,594
LIABILITIES AND FUND BALANCES				
Liabilities:				
Interfund payable	\$ 0	16,503	0	16,503
Accounts payable	17,069	119,737	1,059	137,865
Salaries and benefits payable	278,377	0	0	278,377
ISCAP warrants payable (Note 5)	977,000	0	0	977,000
ISCAP interest payable (Note 5)	7,369	0	0	7,369
ISCAP unamortized premium	9,408	0	0	9,408
Deferred revenue:				
Succeeding year property tax	1,064,969	0	342,427	1,407,396
Income surtax	153,665	0	0	153,665
Total liabilities	<u>2,507,857</u>	<u>136,240</u>	<u>343,486</u>	<u>2,987,583</u>
Fund balances:				
Reserved for:				
Debt Service	0	0	19,516	19,516
Phase III	942	0	0	942
Salary improvement program	801	0	0	801
Unreserved:				
Undesignated:				
General	339,842	0	0	339,842
Capital projects	0	474,420	0	474,420
Management levy	0	0	9,718	9,718
Physical plant and equipment levy	0	0	56,941	56,941
Other special revenue purposes	0	0	59,831	59,831
Total fund balances	<u>341,585</u>	<u>474,420</u>	<u>146,006</u>	<u>962,011</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,849,442	610,660	489,492	3,949,594

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS 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) \$ 962,011

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds. 3,965,594

Accounts receivable income surtax, are not yet available to finance expenditures of the current period. 153,665

Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, are deferred in the governmental funds. (9,604)

Long-term liabilities, including general obligation bonds, and post employment benefit payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. (2,702,960)

Net assets of governmental activites (page 13) \$ 2,368,706

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS 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	\$ 1,230,604	219,888	331,717	1,782,209
Tuition	193,115	0	0	193,115
Other	96,985	30,366	146,910	274,261
State sources	2,278,124	0	308	2,278,432
Federal sources	81,540	220,745	1,950	304,235
Total revenues	<u>3,880,368</u>	<u>470,999</u>	<u>480,885</u>	<u>4,832,252</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	1,800,790	0	2,000	1,802,790
Special instruction	645,026	0	0	645,026
Other instruction	211,886	0	146,185	358,071
	<u>2,657,702</u>	<u>0</u>	<u>148,185</u>	<u>2,805,887</u>
Support services:				
Student services	93,793	0	0	93,793
Instructional staff services	60,109	0	0	60,109
Administration services	443,866	0	18,093	461,959
Operation and maintenance of plant services	357,152	0	60,908	418,060
Transportation services	200,905	0	7,301	208,206
	<u>1,155,825</u>	<u>0</u>	<u>86,302</u>	<u>1,242,127</u>
Other expenditures:				
Facilities acquisitions	0	2,488,191	13,123	2,501,314
Long-term debt:				
Principal	0	0	47,985	47,985
Interest and fiscal charges	0	0	176,478	176,478
AEA flowthrough	140,879	0	0	140,879
	<u>140,879</u>	<u>2,488,191</u>	<u>237,586</u>	<u>2,866,656</u>
Total expenditures	<u>3,954,406</u>	<u>2,488,191</u>	<u>472,073</u>	<u>6,914,670</u>
Excess(deficiency) of revenues over(under) expenditures	(74,038)	(2,017,192)	8,812	(2,082,418)
Other financing sources(uses):				
Transfer in	0	0	47,889	47,889
Transfer out	0	(34,254)	(13,635)	(47,889)
Total other financing sources(uses)	<u>0</u>	<u>(34,254)</u>	<u>34,254</u>	<u>0</u>
Net change in fund balances	(74,038)	(2,051,446)	43,066	(2,082,418)
Fund balance beginning of year	415,623	2,525,866	102,940	3,044,429
Fund balance end of year	<u>\$ 341,585</u>	<u>474,420</u>	<u>146,006</u>	<u>962,011</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds (page 18) \$ (2,082,418)

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

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

Expenditures for capital assets	\$ 2,607,981	
Depreciation expense	(92,656)	2,515,325

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.	47,985
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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.	9,910
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Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds.	(3,150)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. Post Employment Benefit	8,000
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Changes in net assets of governmental activities (page 15)	\$ 495,652
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SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

	School Nutrition	Day Care	Total
ASSETS			
Current assets:			
Cash and pooled investments	\$ 8,676	5,374	14,050
Receivables:			
Accounts	0	378	378
Inventories	4,290	0	4,290
Capital assets, net of accumulated depreciation(Note 6)	13,140	0	13,140
TOTAL ASSETS	26,106	5,752	31,858
LIABILITIES			
Accounts payable	0	845	845
Capital lease payable	4,352	0	4,352
Deferred revenue:			
Other	2,218	0	2,218
TOTAL LIABILITIES	6,570	845	7,415
NET ASSETS			
Investment in capital assets, net of related debt	13,140	0	13,140
Unrestricted	6,396	4,907	11,303
Total net assets	\$ 19,536	4,907	24,443

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2005

	School Nutrition	Day Care	Total
OPERATING REVENUE:			
Local sources:			
Charges for service	\$ 115,351	45,504	160,855
OPERATING EXPENSES:			
Non-instructional programs:			
Salaries	71,833	29,277	101,110
Benefits	9,679	3,857	13,536
Services	978	565	1,543
Supplies	96,426	6,856	103,282
Depreciation	3,057	0	3,057
Other	0	84	84
TOTAL OPERATING EXPENSES	181,973	40,639	222,612
OPERATING INCOME (LOSS)	(66,622)	4,865	(61,757)
NON-OPERATING REVENUES:			
State sources	2,364	0	2,364
Federal sources	55,726	0	55,726
TOTAL NON-OPERATING REVENUES	58,090	0	58,090
Changes in net assets	(8,532)	4,865	(3,667)
Net assets beginning of year	28,068	42	28,110
Net assets end of year	\$ 19,536	4,907	24,443

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2005

	School Nutrition	Day Care	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 117,569	0	117,569
Cash received from miscellaneous operating activities	0	45,830	45,830
Cash payments to employees for services	(81,512)	(33,134)	(114,646)
Cash payments to suppliers for goods or services	(87,143)	(7,146)	(94,289)
Net cash provided by(used in) operating activities	<u>(51,086)</u>	<u>5,550</u>	<u>(45,536)</u>
Cash flows from non-capital financing activities:			
State grants received	2,364	0	2,364
Federal grants received	45,465	0	45,465
Net cash provided by non-capital financing activities	<u>47,829</u>	<u>0</u>	<u>47,829</u>
Cash flows from capital and other financing activities:			
Acquisition of assets	(7,179)	0	(7,179)
Capital lease payments	(4,363)	0	(4,363)
Net cash used in capital and other financing activities	<u>(11,542)</u>	<u>0</u>	<u>(11,542)</u>
Net increase(decrease) in cash and cash equivalents	(14,799)	5,550	(9,249)
Cash and cash equivalents at beginning of year	23,475	(176)	23,299
Cash and cash equivalents at end of year	<u>\$ 8,676</u>	<u>5,374</u>	<u>14,050</u>
Reconciliation of operating income(loss) to net cash used in operating activities:			
Operating income(loss)	\$ (66,622)	4,865	(61,757)
Adjustments to reconcile operating income(loss) to net cash used in operating activities:			
Commodities consumed	10,261	0	10,261
Depreciation	3,057	0	3,057
Decrease in accounts receivable	0	326	326
Increase in accounts payable	0	359	359
Increase in deferred revenue	2,218	0	2,218
Net cash used in operating activities	<u>\$ (51,086)</u>	<u>5,550</u>	<u>(45,536)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and investments	<u>\$ 8,676</u>	<u>5,374</u>	<u>14,050</u>
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			

During the year ended June 30, 2005, the District received Federal commodities valued at \$10,261.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
ASSETS	
Cash and pooled investments	\$ 78,271
TOTAL ASSETS	<u>78,271</u>
LIABILITIES	<u>0</u>
NET ASSETS	
Reserved for scholarships	<u>\$ 78,271</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2005

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
Additions:	
Local sources:	
Interest on investments	\$ 3,334
Total additions	<u>3,334</u>
Deductions:	
Non-instructional programs:	
Scholarships awarded	<u>3,000</u>
Total deductions	<u>3,000</u>
Change in net assets	334
Net assets beginning of year	<u>77,937</u>
Net assets end of year	<u>\$ 78,271</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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

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

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District reports the following proprietary funds:

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

operations of the District. The Day Care Fund is used to account for the day care service operations of the District.

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

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

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

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

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

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements

issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a

1½% per month penalty for delinquent payments; is based on January 1, 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	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

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

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

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

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

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

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

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005 expenditures in the non-instructional programs 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	<u>\$ 698,426</u>

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.

The District had investments in certificates of deposit that are stated at a fair value of \$76,000 and are classified as risk category 1, which are investments that are insured and registered and held by the District or its agent in the District's name.

(3) Interfund Receivables and Payables

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

Receivable Fund	Payable Fund	Amount
Debt Service	Capital Projects	<u>\$ 16,503</u>

(4) Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 34,254
Debt Service	Special Revenue, Physical Plant and Equipment Levy	<u>13,635</u>
Total		<u>\$ 47,889</u>

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

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. NA is the trustee for the program. A summary of the

District's participation in ISCAP as of June 30, 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	\$ 128	0	0	0
2004-05B	1/28/05	1/27/06	497,433	6,680	496,000	7,277
2005-06A	6/28/05	6/28/06	483,131	103	481,000	92
Total			<u>\$ 980,692</u>	<u>6,783</u>	<u>977,000</u>	<u>7,369</u>

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

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2004-05A	\$ 0	100,000	100,000	0
2004-05B	0	205,000	205,000	0
2005-06A	0	75,000	75,000	0
Total	<u>\$ 0</u>	<u>380,000</u>	<u>380,000</u>	<u>0</u>

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
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	\$ 110,000	0	0	110,000
Construction in progress	205,122	2,487,992	0	2,693,114
Total capital assets not being depreciated	315,122	2,487,992	0	2,803,114
Capital assets being depreciated:				
Buildings and improvements	2,163,450	0	0	2,163,450
Machinery and equipment	701,525	119,989	0	821,514
Total capital assets being depreciated	2,864,975	119,989	0	2,984,964
Less accumulated depreciation for:				
Buildings and improvements	1,099,860	40,550	0	1,140,410
Machinery and equipment	629,968	52,106	0	682,074
Total accumulated depreciation	1,729,828	92,656	0	1,822,484
Total capital assets being depreciated, net	1,135,147	27,333	0	1,162,480
Governmental activities capital assets, net	\$ 1,450,269	2,515,325	0	3,965,594
Business-type activities:				
Machinery and equipment	\$ 49,684	7,179	0	56,863
Less accumulated depreciation	40,666	3,057	0	43,723
Business-type activities capital assets, net	\$ 9,018	4,122	0	13,140

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 17,216
Special		6,236
Other		7,452
Support services:		
Instructional staff		137
Operation and maintenance of plant		5,369
Transportation		15,696
		52,106
Unallocated depreciation		40,550
Total governmental activities depreciation expense		\$ 92,656
Business-type activities:		
Food services		\$ 3,057
Total business-type activities depreciation expense		\$ 3,057

(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 Bonds	\$ 2,700,000	0	35,000	2,665,000	100,000
Post Employment Benefit	45,960	0	8,000	37,960	9,600
Bus Loan	12,985	0	12,985	0	0
Capital Lease	0	8,715	4,363	4,352	4,352
Total	\$ 2,758,945	8,715	60,348	2,707,312	113,952

General Obligation Bonds Payable

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

Year Ending June 30,	Bond Issue of December 31, 2003			
	Interest Rates	Principal	Interest	Total
2006	5.25 % \$	100,000	115,247	215,247
2007	4.50	105,000	109,997	214,997
2008	4.50	110,000	105,273	215,273
2009	4.25	115,000	100,323	215,323
2010	4.00	120,000	95,435	215,435
2011	3.25	125,000	90,635	215,635
2012	3.50	130,000	86,573	216,573
2013	3.75	135,000	82,022	217,022
2014	4.00	140,000	76,960	216,960
2015	4.10	150,000	71,360	221,360
2016	4.20	155,000	65,210	220,210
2017	4.30	160,000	58,700	218,700
2018	4.40	165,000	51,820	216,820
2019	4.50	175,000	44,560	219,560
2020	4.60	180,000	36,685	216,685
2021	4.70	190,000	28,405	218,405
2022	4.75	200,000	19,475	219,475
2023	4.75	210,000	9,975	219,975
Total		\$ 2,665,000	1,248,655	3,913,655

Post Employment Benefit Payable

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

Capital Lease Payable

The District signed a lease agreement with Wells Fargo for an ice cream machine. A liability has been recorded in the Enterprise, School Nutrition fund representing the District's commitment to fund the liability.

(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 \$118,514, \$118,426 and \$119,110 respectively, equal to the required contributions for each year.

(9) Risk Management

Martensdale-St. Marys Community School District is a member in the Iowa School Employees Benefits Association, and Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: dental, life and long-term disability.

Each member's contributions to ISEBA funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a GAAP basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2005 were \$17,911.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2005, no liability has been recorded in the District's financial statements. As of June 30, 2005, settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

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

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$140,879 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) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed the certified budget amounts. During the year ended June 30, 2005 disbursements in the non-instructional programs functional area exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

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

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 2,265,002	163,399
State sources	2,141,148	2,364
Federal sources	337,628	55,726
Total receipts	4,743,778	221,489
Disbursements:		
Instruction	2,826,405	0
Support services	1,240,764	0
Non-instructional programs	0	230,738
Other expenditures	2,840,263	0
Total disbursements	6,907,432	230,738
Deficiency of receipts under disbursements	(2,163,654)	(9,249)
Balance beginning of year	3,333,981	23,299
Balance end of year	\$ 1,170,327	14,050

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
2,428,401	2,362,941	2,362,941	65,460
2,143,512	2,568,078	2,568,078	(424,566)
393,354	82,555	82,555	310,799
<u>4,965,267</u>	<u>5,013,574</u>	<u>5,013,574</u>	<u>(48,307)</u>
2,826,405	2,598,387	2,900,000	73,595
1,240,764	1,369,129	1,400,000	159,236
230,738	200,500	220,500	(10,238)
<u>2,840,263</u>	<u>2,319,299</u>	<u>3,532,598</u>	<u>692,335</u>
<u>7,138,170</u>	<u>6,487,315</u>	<u>8,053,098</u>	<u>914,928</u>
(2,172,903)	(1,473,741)	(3,039,524)	866,621
<u>3,357,280</u>	<u>3,285,435</u>	<u>3,285,435</u>	<u>71,845</u>
<u>1,184,377</u>	<u>1,811,694</u>	<u>245,911</u>	<u>938,466</u>

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

Governmental Fund Types			
Accrual			
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 4,743,778	88,474	4,832,252
Expenses	6,907,432	7,238	6,914,670
Net	(2,163,654)	81,236	(2,082,418)
Beginning fund balances	3,333,981	(289,552)	3,044,429
Ending fund balances	\$ 1,170,327	(208,316)	962,011

Proprietary Fund Type			
Enterprise			
Accrual			
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 221,489	(2,544)	218,945
Expenses	230,738	(8,126)	222,612
Net	(9,249)	5,582	(3,667)
Beginning retained earnings	23,299	4,811	28,110
Ending retained earnings	\$ 14,050	10,393	24,443

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2005

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the 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 \$1,565,783.

During the year ended June 30, 2005, disbursements in the non-instructional programs functional area exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2005

	Special Revenue Funds					Total Other Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	
ASSETS						
Cash and pooled investments	\$ 8,777	59,831	56,361	124,969	(576)	124,393
Receivables:						
Property tax:						
Current year delinquent	941	0	1,639	2,580	3,589	6,169
Succeeding year	57,000	0	90,179	147,179	195,248	342,427
Interfund	0	0	0	0	16,503	16,503
TOTAL ASSETS	\$ 66,718	59,831	148,179	274,728	214,764	489,492
LIABILITIES AND FUND EQUITY						
Liabilities:						
Accounts payable	\$ 0	0	1,059	1,059	0	1,059
Deferred revenue:						
Succeeding year property tax	57,000	0	90,179	147,179	195,248	342,427
	57,000	0	91,238	148,238	195,248	343,486
Fund equity:						
Fund balances:						
Reserved for debt service	0	0	0	0	19,516	19,516
Unreserved:						
Undesignated	9,718	59,831	56,941	126,490	0	126,490
Total fund balances	9,718	59,831	56,941	126,490	19,516	146,006
TOTAL LIABILITIES AND FUND EQUITY	\$ 66,718	59,831	148,179	274,728	214,764	489,492

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2005

	Special Revenue Funds					Total Other Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	
REVENUES:						
Local sources:						
Local tax	\$ 50,617	0	88,116	138,733	192,984	331,717
Other	460	146,450	0	146,910	0	146,910
State sources	47	0	82	129	179	308
Federal sources	0	0	1,950	1,950	0	1,950
TOTAL REVENUES	51,124	146,450	90,148	287,722	193,163	480,885
EXPENDITURES:						
Current:						
Instruction:						
Regular	0	0	2,000	2,000	0	2,000
Other	0	146,185	0	146,185	0	146,185
Support services:						
Administration services	3,405	0	14,688	18,093	0	18,093
Operation and maintenance of plant services	43,384	0	17,524	60,908	0	60,908
Student transportation	7,301	0	0	7,301	0	7,301
Other expenditures:						
Facilities acquisitions	0	0	13,123	13,123	0	13,123
Long-term debt:						
Principal	0	0	0	0	47,985	47,985
Interest and fiscal charges	0	0	0	0	176,478	176,478
TOTAL EXPENDITURES	54,090	146,185	47,335	247,610	224,463	472,073
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	(2,966)	265	42,813	40,112	(31,300)	8,812
OTHER FINANCING SOURCES(USES):						
Transfer in	0	0	0	0	47,889	47,889
Transfer out	0	0	(13,635)	(13,635)	0	(13,635)
	0	0	(13,635)	(13,635)	47,889	34,254
EXCESS(DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES AND OTHER FINANCING USES	(2,966)	265	29,178	26,477	16,589	43,066
FUND BALANCE BEGINNING OF YEAR	12,684	59,566	27,763	100,013	2,927	102,940
FUND BALANCE END OF YEAR	\$ 9,718	59,831	56,941	126,490	19,516	146,006

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2005

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 1,910	2,963	2,566	2,307
Vocal Music	122	2,634	1,785	971
Instrumental Music	3,863	1,092	4,054	901
Music Resale	510	3,130	3,323	317
Band	46	288	0	334
Boys Basketball	2,686	5,637	4,565	3,758
Athletic Resale	185	0	0	185
Athletics	4,933	38,264	35,709	7,488
Golf	1,166	2,325	2,625	866
Girls Basketball	4,509	1,915	6,334	90
Elementary Student Council	2,055	2,631	2,585	2,101
Volleyball	1,124	2,262	1,515	1,871
Boys Track	0	201	197	4
Football	3,407	5,850	3,954	5,303
Cross Country	0	235	205	30
Baseball	2,794	11,041	9,525	4,310
Girls Track	19	1,980	1,976	23
Wrestling	99	6	102	3
Softball	1,609	4,637	3,709	2,537
Pop	1,058	2,415	1,102	2,371
Student Council	981	2,563	1,863	1,681
Shop	(749)	749	0	0
Pictures	2,641	496	59	3,078
Pictures Interest	46	0	0	46
Activity Center	11,692	415	12,107	0
Textbook	113	0	113	0
National Honor Society	427	0	125	302
Dance	49	2,924	1,616	1,357
Lockers	607	0	0	607
Math Resale	0	195	0	195
Class of 2002	229	0	200	29
Class of 2004	1,168	0	0	1,168
Class of 2005	1,907	442	1,157	1,192
Class of 2006	1,422	3,266	3,701	987
Class of 2007	2,132	(263)	191	1,678
Class of 2008	467	1,441	0	1,908
Class of 2009	1,501	(702)	1	798
Class of 2010	0	3,130	1,803	1,327
Annual	661	11,594	7,495	4,760
Wrestling Cheerleaders	596	1,575	1,364	807
FB/BB Cheerleaders	687	2,028	1,812	903
General Activities	836	27,091	26,747	1,180
Adult Ed	58	0	0	58
Total	\$ 59,566	146,450	146,185	59,831

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 1,782,209	1,468,089	1,428,984	1,229,364
Tuition	193,115	237,180	192,862	154,127
Other	274,261	228,111	208,732	214,546
State sources	2,278,432	2,197,005	2,226,813	2,209,880
Federal sources	304,235	186,085	174,344	45,586
Total	\$ 4,832,252	4,316,470	4,231,735	3,853,503
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 1,802,790	1,824,800	1,794,876	1,758,426
Special instruction	645,026	422,627	438,066	443,354
Other instruction	358,071	367,606	358,869	412,283
Support services:				
Student services	93,793	89,627	95,202	101,868
Instructional staff services	60,109	57,935	60,048	118,948
Administration services	461,959	519,924	466,576	406,041
Operation and maintenance of plant services	418,060	348,965	306,520	309,842
Transportation services	208,206	197,403	208,827	201,417
Other support services	0	4,883	7,840	624
Non-instructional programs	0	0	0	4,860
Other expenditures:				
Facilities acquisitions	2,501,314	231,636	10,750	8,391
Long-term debt:				
Principal	47,985	12,360	31,782	32,894
Interest and fiscal charges	176,478	1,274	2,803	2,600
AEA flow-through	140,879	139,942	148,583	148,315
Total	\$ 6,914,670	4,218,982	3,930,742	3,949,863

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

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

To the Board of Education of the
Martensdale-St Marys 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 Martensdale-St Marys 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 October 27, 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 Martensdale-St Marys Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

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

Compliance and Other Matters

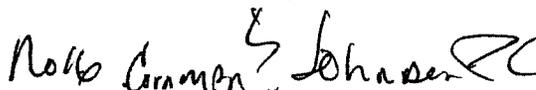
As part of obtaining reasonable assurance about whether Martensdale-St Marys Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which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

However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Martensdale-St Marys Community School District and other parties to whom Martensdale-St Marys 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 Martensdale-St Marys Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

October 27, 2005

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part I: Findings Related to the Basic Financial Statements:

REPORTABLE CONDITIONS:

- I-A-05 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

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

Conclusion - Response accepted.

- I-B-05 Grants - We noted during our audit, that when expenditures for specific projects were posted; it appeared that the expenses were not always properly posted to those projects.

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

Response - We are working on this.

Conclusion - Response accepted.

- I-C-05 Student Activity Fund - We noted during our audit that the Student Activity fund included pictures and locker accounts. We also noted during our audit old class accounts in the Student Activity fund.

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

Response - We will make the necessary changes.

Conclusion - Response accepted.

- I-D-05 Bank Reconciliations - We noted during our audit that the District does not reconcile the bank statements to the general ledger. The reconciliations are being done; however, the balances are not being adjusted to balance and are not being done on the software system.

Recommendation - The District should reconcile bank statement balances to financial statement bank balances. Adjustments should be made timely to balance the statements. The District should utilize the software system to reconcile the balances.

Response - We are working on this.

Conclusion - Response accepted.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS
 YEAR ENDED JUNE 30, 2005

Part II: Other Findings Related to Statutory Reporting

II-A-05 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

II-B-05 Certified Budget - District disbursements for the year ended June 30, 2005 exceeded the amount budgeted in the non-instructional programs 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 amend the budget if necessary in the future.

Conclusion - Response accepted.

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

II-D-05 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-E-05 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Jim Weaver, Board Member	Coaching/Driver	\$2,632

In accordance with Chapter 279.7A of the code of Iowa, the above transactions with the board member appear to represent a conflict of interest.

Recommendation - The District should seek legal counsel.

Response - We will review assigned duties and determine if reallocation of duties will keep payment below the \$2,500 limit.

Conclusion - Response accepted.

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

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

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

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

Conclusion - Response accepted.

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

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

II-J-05 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.