

**MASON CITY COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2005**

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Board of Education and School District Officials

At June 30, 2005

Name	Title	Term Expires
Board of Education		
Dr. Samuel Hunt	President	September, 2007
Richard Hudson	Vice-President	September, 2006
Mark Young	Member	September, 2005
Janet Isaacson	Member	September, 2007
James Spicer	Member	September, 2005
Timothy Becker	Member	September, 2006
Gary Hoffman	Member	September, 2006
Officials		
Keith Sersland	Superintendent	July, 2005
Ramona Jeffrey	District Secretary/Treasurer	July, 2005

Independent Auditor's Report

Board of Education
Mason City Community School District
Mason City, Iowa

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Mason City Community School District, Mason City, 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 the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Mason City Community School District at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 9, 2005 on our consideration of the Mason City Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on Page 4 through 13 and 36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mason City Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information on Pages 37 through 42, including the Schedule of Expenditures of Federal Awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
September 9, 2005

MASON CITY COMMUNITY SCHOOL DISTRICT
1515 South Pennsylvania Avenue
Mason City, Iowa 50401

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Mason City Community School District provides this discussion and analysis of the District's financial performance and provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$30,732,791 in fiscal 2004 to \$31,819,369 in fiscal 2005, while General Fund expenditures increased from \$31,287,476 in fiscal 2004 to \$31,982,487 in fiscal 2005. This resulted in a decrease of \$163,118 in General Fund balance from \$4,215,578 in fiscal 2004 to \$4,052,460 in fiscal 2005 or a 4% decrease in fund balance.
- The increase in General Fund revenues of \$1,086,578 was attributable to an increase in property taxes, state foundation aid, and Title I received. There was also an increase in tuition-in students; both special education and open enrollment. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits, and the change to private contracting of all student transportation.
- An increase in interest rates resulted in an increase in interest earnings in the General Fund from \$61,634 in 2004 to \$98,204 in 2005.

On March 4, 2003 the taxpayers of Cerro Gordo County voted in favor of a one-cent local option sales tax to be used for school infrastructure. On June 8, 2004 the District sold revenue bonds of \$17,925,000 to Piper Jaffray, the top bidder, for \$18,548,038.96. The difference of \$623,038.96 was a premium on the bonds. Standard & Poor's had assigned a rating of "A" to the bonds. The interest rate on the sale of the revenue bonds was 4.0087%. The proceeds of the bonds will be used to finance school infrastructure projects including the renovation and construction of a new addition to the Roosevelt Elementary School, and the construction of a new middle school. The existing Roosevelt Middle School will be demolished and replaced by the new gymnasium and administrative offices for Roosevelt Elementary School.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

FIGURE A-1

MASON CITY COMMUNITY SCHOOL DISTRICT ANNUAL FINANCIAL REPORT

Sample GASB 34 Community School District Annual Financial Report

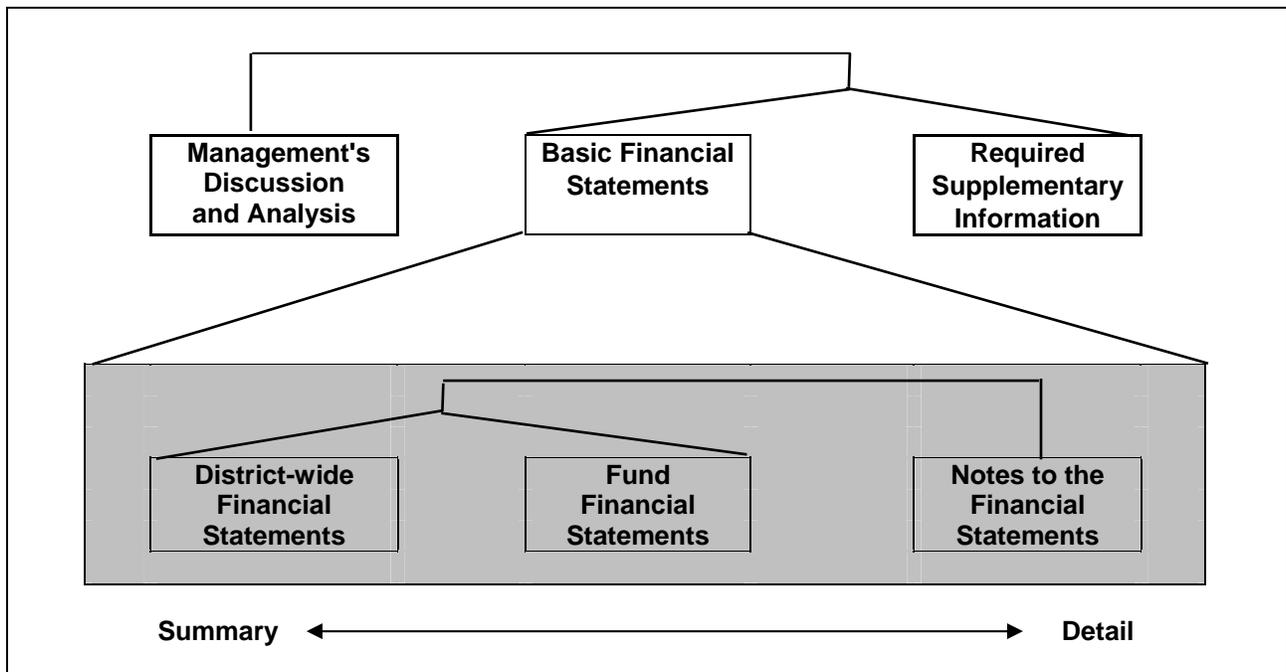


Figure A-2 summarizes the major features of the School District's financial statements, including the portion of the School District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure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

FIGURE A-2				
MAJOR FEATURES OF THE DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS				
	District-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures, and changes in fund balances	* Balance sheet * Statement of revenues, expenses and changes in net assets * Statement of cash flows	* Statement of fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

DISTRICT-WIDE STATEMENTS

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

The two District-wide statements report the School District's *net assets* and how they have changed. Net assets equal the difference between the District's assets and liabilities are one way to measure the District's financial health or position.

- Over time, increase or decreases in the School District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

- *Governmental activities:* Most of the School 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 School District charges fees to help cover the costs of certain services it provides. The School District's school nutrition program is included here.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the School District's funds, focusing on its most significant or "major" funds – not the School District as a whole. Funds are accounting devices the School 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 School 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 School District has three kinds of funds:

Governmental funds: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.

- The School District's governmental funds include the General Fund, Special Revenue Fund, PPEL Fund, Capital Projects Fund, Debt Service Fund, and Debt Service Sinking Fund.

Proprietary funds: Services for which the School District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements.

- The School 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 School District currently has one enterprise fund, the School Nutrition Fund.

Fiduciary Funds: The School District is the trustee, or fiduciary, for assets that belong to others. These funds include one Agency Fund.

- Agency Fund - These are funds for which the School District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The School 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 School District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

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

FIGURE A-3

MASON CITY COMMUNITY SCHOOL DISTRICT CONDENSED STATEMENT OF NET ASSETS

	Governmental Activities June 30,		Business-type Activities June 30,		Total School District June 30,	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 52,875,885	\$ 31,015,170	\$ 705,767	\$ 698,449	\$ 53,581,652	\$ 31,713,619
Capital assets	<u>20,682,027</u>	<u>18,467,406</u>	<u>266,824</u>	<u>225,432</u>	<u>20,948,851</u>	<u>18,692,838</u>
TOTAL ASSETS	<u>\$ 73,557,912</u>	<u>\$ 49,482,576</u>	<u>\$ 972,591</u>	<u>\$ 923,881</u>	<u>\$ 74,530,503</u>	<u>\$ 50,406,457</u>
Long-term obligations	\$ 24,483,332	\$ 6,350,000	\$ 0	\$ 0	\$ 24,483,332	\$ 6,350,000
Other liabilities	<u>21,100,114</u>	<u>19,126,227</u>	<u>122,678</u>	<u>103,296</u>	<u>21,222,792</u>	<u>19,229,523</u>
TOTAL LIABILITIES	<u>\$ 45,583,446</u>	<u>\$ 25,476,227</u>	<u>\$ 122,678</u>	<u>\$ 103,296</u>	<u>\$ 45,706,124</u>	<u>\$ 25,579,523</u>
Net Assets:						
Invested in capital assets, net of related debt	\$ 12,391,720	\$ 12,117,406	\$ 266,824	\$ 225,432	\$ 12,658,544	\$ 12,342,838
Restricted	11,633,720	6,129,501	0	0	11,633,720	6,129,501
Unrestricted	<u>3,949,026</u>	<u>5,759,442</u>	<u>583,089</u>	<u>595,153</u>	<u>4,532,115</u>	<u>6,354,595</u>
TOTAL NET ASSETS	<u>\$ 27,974,466</u>	<u>\$ 24,006,349</u>	<u>\$ 849,913</u>	<u>\$ 820,585</u>	<u>\$ 28,824,379</u>	<u>\$ 24,826,934</u>

Changes in Net Assets - Figure 4-A shows the changes in net assets for the year ended June 30, 2005.

FIGURE A-4

**MASON CITY COMMUNITY SCHOOL DISTRICT
CHANGES IN NET ASSETS**

	Governmental Activities	Business-type Activities	Total School District
REVENUES:			
Program Revenues:			
Charges for service	\$ 2,060,827	\$ 984,022	\$ 3,044,849
Operating grants and contributions	3,642,097	699,655	4,341,752
Capital gains and contributions	66,983	0	66,983
General revenues:			
Property tax	12,388,074	0	12,388,074
Local option sales and services tax	4,518,983	0	4,518,983
Unrestricted state grants	16,823,747	0	16,823,747
Unrestricted investment earnings	691,388	9,408	700,796
Other	88,040	0	88,040
TOTAL REVENUES	<u>\$40,280,139</u>	<u>\$1,693,085</u>	<u>\$41,973,224</u>
PROGRAM EXPENSES:			
Governmental activities:			
Instruction	\$23,624,788	\$ 0	\$23,624,788
Support services	9,687,103	0	9,687,103
Non-instructional programs	286,515	1,663,757	1,950,272
Other expenses	2,659,966	0	2,659,966
Loss on disposal of assets	53,650	0	53,650
TOTAL EXPENSES	<u>\$36,312,022</u>	<u>\$1,663,757</u>	<u>\$37,975,779</u>
CHANGE IN NET ASSETS	<u>\$ 3,968,117</u>	<u>\$ 29,328</u>	<u>\$ 3,997,445</u>

Property tax and unrestricted state grants account for approximately 70% of the total revenue. The School District's expenses primarily relate to instruction and support services which account for approximately 88% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$40,280,139 and expenses were \$36,312,022, which amounted to an increase in net assets of \$3,968,117. The following table presents the total and net cost of the School District's major governmental activities: instruction, support services, non-instructional programs, and other expenses.

FIGURE A-5

**MASON CITY COMMUNITY SCHOOL DISTRICT
TOTAL AND NET COST OF GOVERNMENTAL ACTIVITIES**

	Total Cost of Services	Net Cost of Services
Instruction	\$23,624,788	\$19,791,480
Support services	9,687,103	9,465,635
Non-instructional programs	286,515	(18,518)
Other expenses	<u>2,659,966</u>	<u>1,249,868</u>
TOTALS	<u>\$36,258,372</u>	<u>\$30,488,465</u>

- The cost financed by users of the School District’s programs was \$2,060,827.
- Federal and state governments subsidized certain programs with operating grants and contributions totaling \$3,642,097.
- The net cost of governmental activities was financed with \$16,907,057 in property and other taxes and \$16,823,747 in state foundation aid and \$691,388 in interest income.

Business-Type Activities

Revenues of the School District’s business-type activities were \$1,693,085 and expenses were \$1,663,757. The School District’s business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, and investment income.

During the year ended June 30, 2005, the School District purchased new computers and printers used to run the School Dining Services software program. This software program is web-based and was also purchased new this year. In the near future parents will be able to deposit money into their child’s hot lunch account through Payschools, which is also a web-based program. The price of meals was last increased in school year 2000-2001.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT’S FUNDS

Individual Fund Analysis

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

The financial performance of the School District as a whole is reflected in its governmental funds as well. As the School District completed the year, its governmental funds reported combined fund balances of \$30,841,066, well above last year’s ending fund balances of \$10,441,475. The main reasons for the increase in combined fund balances in 2005 are the addition of the one-cent local option sales tax, which is included in the Capital Projects Fund, and the sale of the revenue bonds for \$18,548,039.

Governmental Fund Highlights

The General Fund expenditures for negotiated salaries increased by \$564,321 from 2004 to 2005; whereas, the benefits increased by \$416,455 from 2004 to 2005. Salaries and benefits make up approximately 83% of the General Fund budget.

On March 4, 2003 the taxpayers of Cerro Gordo County passed a one-cent local option sales tax to be used for school infrastructure. The first priority of the Mason City Community School's Board of Education was to reduce the bonded indebtedness. In order to do this, the interest and principal payments on the Harding/Hoover Construction Project are funded with transfers from the Capital Projects Fund where the one-cent local option sales tax monies are deposited.

The new construction on Roosevelt Middle School started in the spring of 2005 with the completion date set for August 1, 2006. The renovation and new addition to Roosevelt Elementary School was started in the summer of 2005 with a final completion date of August 1, 2007.

The PPEL Fund's balance continues to increase due to the Board of Education's decision to save \$300,000 a year for long-term investments.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$820,585 in 2004 to \$849,913 in 2005, an increase of \$29,328, or approximately 4%. Total revenues in 2005 were \$1,693,085, which is an increase of \$113,608 from \$1,579,477 in 2004. Total expenditures for 2004 were \$1,552,682 and in 2005 they were \$1,663,757 for an increase of \$111,075, or approximately 7%. The increase in expenditures was mainly due to the increase in negotiated salaries and benefits and the increase cost of food and supplies.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except its private-purpose trust and agency funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The School District's budget is prepared on the modified accrual basis. A schedule showing the original and final budget amounts compared to the School District's actual financial activity is included in the required supplementary information section of this report.

Legal Budgetary Highlights

The School District's total actual receipts were \$1,779,381 more than the total budgeted receipts; a variance of 4%. The most significant change resulted in the School District receiving more in various components of state aid, property taxes, and Title I than originally anticipated.

Total expenditures were less than budgeted due primarily to the School District's budget for the General Fund. It is the School District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The School District then manages or controls General Fund spending through its line-item budget. As a result, the School District's certified budget should always exceed the actual expenditures during the year. The School District's total actual expenditures were \$40,092,344 compared to the budget amount of \$45,741,834 or a difference of \$5,649,490, which is a 12% variance. The majority of the variance in expenditures is due to the construction projects at Roosevelt Elementary School and Roosevelt Middle School not being as far along as the District had budgeted for at June 30, 2005.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the School District had invested \$20,948,851, 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). Depreciation expense was \$977,637 for Governmental Activities and \$45,816 for Business-Type Activities.

Governmental Activities account for \$20,682,027 of the School District's capital assets with the remainder of \$266,824 in the Business-Type Activities.

Construction in progress of \$2,765,275 was for the renovation and new addition at Roosevelt Elementary School and the new construction of Roosevelt Middle School.

FIGURE A-6

MASON CITY COMMUNITY SCHOOL DISTRICT CAPITAL ASSETS, NET OF DEPRECIATION

	Governmental Activities June 30,		Business-type Activities June 30,		Total School District June 30,	
	2005	2004	2005	2004	2005	2004
Land	\$ 408,722	\$ 456,341	\$ 0	\$ 0	\$ 408,722	\$ 456,341
Construction in progress	2,765,275	392,238	0	0	2,765,275	392,238
Buildings and improvements	16,625,892	16,523,743	0	0	16,625,892	16,523,743
Furniture and equipment	<u>882,138</u>	<u>1,095,084</u>	<u>266,824</u>	<u>225,432</u>	<u>1,148,962</u>	<u>1,320,516</u>
TOTALS	<u>\$ 20,682,027</u>	<u>\$ 18,467,406</u>	<u>\$ 266,824</u>	<u>\$ 225,432</u>	<u>\$ 20,948,851</u>	<u>\$ 18,692,838</u>

Long-Term Debt

At June 30, 2005, the School District had \$5,775,000 in general obligation bonds outstanding and \$17,925,000 in revenue bonds outstanding. The School District retired debt in the amount of \$575,000 during the year ended June 30, 2005.

FIGURE A-7

MASON CITY COMMUNITY SCHOOL DISTRICT OUTSTANDING LONG-TERM OBLIGATIONS

	TOTAL SCHOOL DISTRICT	TOTAL SCHOOL DISTRICT	DEBT RETIRED
	2005	2004	2005
General obligation bonds	\$ 5,775,000	\$6,350,000	\$575,000
Revenue bonds	<u>17,925,000</u>	<u>0</u>	<u>0</u>
TOTAL BONDS	<u>\$23,700,000</u>	<u>\$6,350,000</u>	<u>\$575,000</u>

FACTORS BEARING ON THE SCHOOL DISTRICT'S FUTURE

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

The School District has experienced declining enrollment for the past eight years. For the first time in school year 2003-2004 the School District levied for the budget guarantee. The School District was not on the budget guarantee in school year 2004-2005 but anticipates being on it in school year 2005-2006.

In school year 2004-2005, the School District received new money of \$64,006. Labor Contract Settlements will have to be funded by cash reserves and this will have an adverse effect on the School District's General Fund budget and related fund balance.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ramona Jeffrey, Board Secretary/Treasurer, Mason City Community School District, 1515 South Pennsylvania Avenue, Mason City, Iowa 50401.

Basic Financial Statements

Statement of Net Assets

At June 30, 2005

	Governmental Activities	Business- Type Activities	Total
Assets			
Cash and investments	\$ 38,057,066	\$ 626,364	\$ 38,683,430
Receivables			
Property Taxes, Net of Allowance			
Current year delinquent.....	140,774	—	140,774
Succeeding year	13,161,413	—	13,161,413
Accrued interest	93,841	—	93,841
Due from other governments	1,357,101	—	1,357,101
Due from other funds	—	943	943
Other	31,058	8,964	40,022
Inventories and prepaid expenses.....	34,632	69,496	104,128
Capital assets, net of accumulated depreciation	<u>20,682,027</u>	<u>266,824</u>	<u>20,948,851</u>
Total Assets	<u>\$ 73,557,912</u>	<u>\$ 972,591</u>	<u>\$ 74,530,503</u>
Liabilities			
Accounts payable	\$ 383,911	\$ 7,827	\$ 391,738
Salaries and benefits payable	5,335,577	114,851	5,450,428
Due to other funds	8,519	—	8,519
Accrued interest payable	423,894	—	423,894
Early retirement payable.....	226,389	—	226,389
Deferred revenue - succeeding year			
property taxes	13,161,413	—	13,161,413
Provision for self-insurance claims	411,289	—	411,289
Construction and retainage payable.....	1,149,122	—	1,149,122
Long-Term Liabilities			
Portion Due Within One Year			
General obligation bonds payable.....	600,000	—	600,000
Revenue bonds payable	1,735,000	—	1,735,000
Unamortized premium on revenue bonds	118,693	—	118,693
Compensated absences	160,293	—	160,293
Portion Due After One Year			
General obligation bonds payable.....	5,175,000	—	5,175,000
Revenue bonds payable	16,190,000	—	16,190,000
Unamortized premium on revenue bonds	504,346	—	504,346
Total Liabilities	<u>45,583,446</u>	<u>122,678</u>	<u>45,706,124</u>
Net Assets			
Invested in capital assets, net of related debt .	12,391,720	266,824	12,658,544
Restricted For			
Phase III	11,099	—	11,099
Medicaid.....	25,436	—	25,436
Nonpublic textbooks.....	7,212	—	7,212
Title V	33,477	—	33,477
Safe and Drug Free	3,331	—	3,331
Debt service	171,074	—	171,074
Debt service sinking.....	3,930,900	—	3,930,900
Management levy.....	49,546	—	49,546
Property, plant and equipment levy	3,917,903	—	3,917,903
Student activities.....	190,404	—	190,404
Capital projects	2,899,705	—	2,899,705
Other purposes	174,251	—	174,251
Other special revenue purposes	219,382	—	219,382
Unrestricted	<u>3,949,026</u>	<u>583,089</u>	<u>4,532,115</u>
Total Net Assets	<u>27,974,466</u>	<u>849,913</u>	<u>28,824,379</u>
Total Liabilities and Net Assets	<u>\$ 73,557,912</u>	<u>\$ 972,591</u>	<u>\$ 74,530,503</u>

See accompanying notes to the financial statements.

Statement of Activities

Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenue			Net (Expenses), Revenue and Changes in Net Assets		
		Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities							
Instruction							
Regular instruction	\$ 13,139,881	\$ 697,818	\$ 1,897,598	\$ —	\$ (10,544,465)	\$ —	\$ (10,544,465)
Special instruction	8,425,701	57,657	261,965	—	(8,106,079)	—	(8,106,079)
Vocational instruction	589,607	—	—	—	(589,607)	—	(589,607)
Co-curricular instruction	1,469,599	918,270	—	—	(551,329)	—	(551,329)
Total Instruction	<u>23,624,788</u>	<u>1,673,745</u>	<u>2,159,563</u>	<u>—</u>	<u>(19,791,480)</u>	<u>—</u>	<u>(19,791,480)</u>
Support Services							
Student services	954,689	—	—	—	(954,689)	—	(954,689)
Instructional staff services	1,923,714	—	—	—	(1,923,714)	—	(1,923,714)
Administration services	2,920,738	30,438	—	—	(2,890,300)	—	(2,890,300)
Operation and maintenance of plant services	2,582,424	—	—	—	(2,582,424)	—	(2,582,424)
Transportation services	814,163	51,611	139,419	—	(623,133)	—	(623,133)
Central services	26,056	—	—	—	(26,056)	—	(26,056)
Community services	29,470	—	—	—	(29,470)	—	(29,470)
Other support services	435,849	—	—	—	(435,849)	—	(435,849)
Total Support Services	<u>9,687,103</u>	<u>82,049</u>	<u>139,419</u>	<u>—</u>	<u>(9,465,635)</u>	<u>—</u>	<u>(9,465,635)</u>
Noninstructional Programs							
Scholarships	31,625	—	—	—	(31,625)	—	(31,625)
Other	254,890	305,033	—	—	50,143	—	50,143
Total Noninstructional Programs	<u>286,515</u>	<u>305,033</u>	<u>—</u>	<u>—</u>	<u>18,518</u>	<u>—</u>	<u>18,518</u>
Other Expenditures							
Facilities acquisition	177,435	—	—	66,983	(110,452)	—	(110,452)
Long-term debt interest	1,077,590	—	—	—	(1,077,590)	—	(1,077,590)
AEA flow through	1,343,115	—	1,343,115	—	—	—	—
Depreciation - unallocated	61,826	—	—	—	(61,826)	—	(61,826)
Total Other Expenditures	<u>2,659,966</u>	<u>—</u>	<u>1,343,115</u>	<u>66,983</u>	<u>(1,249,868)</u>	<u>—</u>	<u>(1,249,868)</u>
Total Governmental Activities	36,258,372	2,060,827	3,642,097	66,983	(30,488,465)	—	(30,488,465)
Business-Type Activities							
Noninstructional Programs							
Nutrition services	<u>1,663,757</u>	<u>984,022</u>	<u>699,655</u>	<u>—</u>	<u>—</u>	<u>19,920</u>	<u>19,920</u>
Total	\$ 37,922,129	\$ 3,044,849	\$ 4,341,752	\$ 66,983	(30,488,465)	19,920	(30,468,545)
General Revenue							
Property Taxes Levied For							
General purposes					10,355,758	—	10,355,758
Management					498,420	—	498,420
PPEL					1,533,896	—	1,533,896
Local option sales and services tax					4,518,983	—	4,518,983
Unrestricted State Grants							
General					16,756,638	—	16,756,638
Other					67,109	—	67,109
Interest and investment earnings					691,388	9,408	700,796
Miscellaneous					88,040	—	88,040
Total General Revenue					34,510,232	9,408	34,519,640
Other Financing Uses							
Loss on disposal of assets					(53,650)	—	(53,650)
Change in Net Assets					3,968,117	29,328	3,997,445
Net Assets - Beginning of Year					24,006,349	820,585	24,826,934
Net Assets - End of Year					\$ 27,974,466	\$ 849,913	\$ 28,824,379

See accompanying notes to the financial statements.

Balance Sheet - Governmental Funds

At June 30, 2005

	General	PPEL	Capital Projects	Debt Service	Debt Service Sinking	Nonmajor Government Funds	Total Governmental Funds
Assets							
Cash and investments	\$ 8,794,825	\$ 3,684,360	\$ 18,872,180	\$ 171,074	\$ 3,930,900	\$ 845,955	\$ 36,299,294
Receivables							
Property Taxes, Net							
Current year delinquent.....	158,425	23,457	—	—	—	7,625	189,507
Succeeding year	10,548,934	1,557,482	—	—	—	1,054,997	13,161,413
Accrued interest	—	—	93,841	—	—	—	93,841
Interfund receivable.....	200,826	219,689	—	—	—	61,937	482,452
Due from other governments	644,092	—	713,009	—	—	—	1,357,101
Other	3,651	—	—	—	—	15,291	18,942
Inventories and prepaid items	34,632	—	—	—	—	—	34,632
Total Assets	\$ 20,385,385	\$ 5,484,988	\$ 19,679,030	\$ 171,074	\$ 3,930,900	\$ 1,985,805	\$ 51,637,182
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 316,078	\$ 3,482	\$ 822	\$ —	\$ —	\$ 63,529	\$ 383,911
Salaries and benefits payable	5,334,217	—	—	—	—	1,360	5,335,577
Interfund payable.....	70,882	—	219,689	—	—	200,400	490,971
Early retirement payable.....	22,159	—	—	—	—	204,230	226,389
Construction and retainage payable.....	—	—	1,149,122	—	—	—	1,149,122
Deferred Revenue							
Succeeding year property taxes.....	10,548,934	1,557,482	—	—	—	1,054,997	13,161,413
Other	40,655	6,121	—	—	—	1,957	48,733
Total Liabilities	16,332,925	1,567,085	1,369,633	—	—	1,526,473	20,796,116
Fund Balances							
Reserved For							
Inventories and prepaid items	34,632	—	—	—	—	—	34,632
Gifted and talented.....	39,619	—	—	—	—	—	39,619
Phase III	11,099	—	—	—	—	—	11,099
Medicaid.....	25,436	—	—	—	—	—	25,436
Nonpublic textbooks.....	7,212	—	—	—	—	—	7,212
Title V	33,477	—	—	—	—	—	33,477
Safe and Drug Free.....	3,331	—	—	—	—	—	3,331
Home Reduction	100,000	—	—	—	—	—	100,000
Debt Service Sinking.....	—	—	—	—	1,792,500	—	1,792,500
Unreserved							
Designated for subsequent year's expenditures over revenue ...	750,000	—	—	—	—	—	750,000
Designated for student activities	168,234	—	—	—	—	—	168,234
Undesignated	2,879,420	3,917,903	18,309,397	171,074	2,138,400	459,332	27,875,526
Total Fund Balances	4,052,460	3,917,903	18,309,397	171,074	3,930,900	459,332	30,841,066
Total Liabilities and Fund Balances	\$ 20,385,385	\$ 5,484,988	\$ 19,679,030	\$ 171,074	\$ 3,930,900	\$ 1,985,805	\$ 51,637,182

See accompanying notes to the financial statements.

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets

At June 30, 2005

Total Fund Balances for Governmental Funds (Page 16)..... **\$ 30,841,066**

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 20,682,027

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. 1,358,599

Long-term liabilities, including bonds payable, accrued interest and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.

Accrued interest payable.....	\$ 423,894	
Bonds payable	23,700,000	
Unamortized premium on bonds payable	623,039	
Compensated absences	<u>160,293</u>	<u>(24,907,226)</u>

Net Assets of Governmental Activities (Page 14) **\$ 27,974,466**

Statement of Revenue, Expenditures and Changes in Fund Balances -

Governmental Funds

Year Ended June 30, 2005

	General	PPEL	Capital Projects	Debt Service	Debt Service Sinking	Nonmajor Government Funds	Total Governmental Funds
Revenue							
Local Sources							
Local tax.....	\$ 10,355,757	\$ 1,533,897	\$ 4,518,983	\$ —	\$ —	\$ 498,420	\$ 16,907,057
Tuition	673,039	—	—	—	—	—	673,039
Other	262,720	45,154	528,986	9,209	—	1,256,843	2,102,912
Intermediate sources.....	21,812	—	—	—	—	—	21,812
State sources.....	19,379,486	1,714	—	—	—	581	19,381,781
Federal sources.....	1,126,555	66,983	—	—	—	—	1,193,538
Total Revenue.....	31,819,369	1,647,748	5,047,969	9,209	—	1,755,844	40,280,139
Expenditures							
Current							
Instruction							
Regular instruction	12,319,855	—	—	—	—	179,787	12,499,642
Special instruction	8,343,099	—	—	—	—	—	8,343,099
Vocational instruction.....	583,875	—	—	—	—	—	583,875
Co-curricular instruction	408,089	—	—	—	—	966,227	1,374,316
Total Instruction.....	21,654,918	—	—	—	—	1,146,014	22,800,932
Support Services							
Student services.....	945,606	—	—	—	—	—	945,606
Instructional staff services.....	1,906,887	—	—	—	—	—	1,906,887
Administration services	2,854,026	—	—	—	—	—	2,854,026
Operation and maintenance of plant services.....	2,517,987	13,793	—	—	—	—	2,531,780
Transportation services.....	729,202	—	—	—	—	—	729,202
Central services	1,290	—	—	—	—	24,443	25,733
Community service.....	29,456	—	—	—	—	—	29,456
Other support services	—	—	—	—	—	427,280	427,280
Total Support Services.....	8,984,454	13,793	—	—	—	451,723	9,449,970
Noninstructional Programs							
Scholarships.....	—	—	—	—	—	31,625	31,625
Other	—	—	—	—	—	254,890	254,890
Total Noninstructional Programs.....	—	—	—	—	—	286,515	286,515
Other Expenditures							
Facilities acquisition	—	732,103	2,564,502	—	—	—	3,296,605
Long-Term Debt							
Principal	—	—	—	575,000	—	—	575,000
Interest and fiscal charges	—	—	—	676,450	—	—	676,450
AEA flowthrough	1,343,115	—	—	—	—	—	1,343,115
Total Other Expenditures	1,343,115	732,103	2,564,502	1,251,450	—	—	5,891,170
Total Expenditures.....	31,982,487	745,896	2,564,502	1,251,450	—	1,884,252	38,428,587
Revenue Over (Under) Expenditures.....	(163,118)	901,852	2,483,467	(1,242,241)	—	(128,408)	1,851,552
Other Financing Sources (Uses)							
Operating transfers in.....	—	—	—	361,600	3,930,900	—	4,292,500
Operating transfers out.....	—	—	(4,292,500)	—	—	—	(4,292,500)
Revenue bonds issued.....	—	—	18,548,039	—	—	—	18,548,039
Total Other Financing Sources (Uses).....	—	—	14,255,539	361,600	3,930,900	—	18,548,039
Net Change in Fund Balance.....	(163,118)	901,852	16,739,006	(880,641)	3,930,900	(128,408)	20,399,591
Fund Balance - Beginning of Year.....	4,215,578	3,016,051	1,570,391	1,051,715	—	587,740	10,441,475
Fund Balance - End of Year.....	\$ 4,052,460	\$ 3,917,903	\$ 18,309,397	\$ 171,074	\$ 3,930,900	\$ 459,332	\$ 30,841,066

See accompanying notes to the financial statements.

Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities —————

Year Ended June 30, 2005

Change in Fund Balances - Total Governmental Funds (Page 18) \$ 20,399,591

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

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

Capital outlays.....	\$ 3,245,909	
Depreciation expense	(977,637)	
Loss on disposal	<u>(53,650)</u>	2,214,622

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. (260,517)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but it increases long-term liabilities in the statement of net assets. Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.

Issued.....	\$ (17,925,000)	
Repaid.....	<u>575,000</u>	(17,350,000)

Premium on bonds payable issued during the year provided current financial resources to governmental funds but it increases liabilities in the statement of net assets (623,039)

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. (401,140)

Compensated absences are not paid from current financial resources and, therefore, were not accrued in the governmental funds. However, compensated absences are a liability on the statement of net assets and have been expensed in the statement of activities. (11,400)

Change in Net Assets of Governmental Activities (Page 15) \$ 3,968,117

Balance Sheet - Proprietary Funds

At June 30, 2005

	Business- Type Activities - Enterprise Fund	Governmental Activities
	School Nutrition	Internal Service Fund
Assets		
Cash and cash equivalents	\$ 626,364	\$ 1,757,772
Receivables		
Accounts	8,964	12,116
Interfund	943	—
Inventories and prepaid expenses.....	69,496	—
Furniture and equipment	824,720	—
Less accumulated depreciation	<u>(557,896)</u>	<u>—</u>
Total Assets	<u>\$ 972,591</u>	<u>\$ 1,769,888</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 7,827	\$ 411,289
Salaries and benefits payable	<u>114,851</u>	<u>—</u>
Total Liabilities	<u>122,678</u>	<u>411,289</u>
Net Assets		
Invested in capital assets, net of related debt	266,824	—
Unrestricted	<u>583,089</u>	<u>1,358,599</u>
Total Net Assets	<u>849,913</u>	<u>1,358,599</u>
Total Liabilities and Net Assets	<u>\$ 972,591</u>	<u>\$ 1,769,888</u>

Statement of Revenue, Expenses and Changes in Net Assets - Proprietary Funds

Year Ended June 30, 2005

	Business- Type Activities - Enterprise Fund	Governmental Activities Internal Service Fund
	<u>School Nutrition</u>	<u>Internal Service Fund</u>
Operating Revenue		
Local Sources		
Charges for service	\$ 973,428	\$ —
Other receipts	10,594	—
Self-insurance contributions	<u>—</u>	<u>3,698,041</u>
Total Operating Revenue	<u>984,022</u>	<u>3,698,041</u>
Operating Expenses		
Noninstructional Programs		
Food Service Operations		
Salaries and benefits	851,745	—
Purchased services	689,795	—
Other	76,401	—
Depreciation	45,816	—
Self-insurance claims and fees	<u>—</u>	<u>3,958,558</u>
Total Operating Expenses	<u>1,663,757</u>	<u>3,958,558</u>
Loss From Operations	<u>(679,735)</u>	<u>(260,517)</u>
Nonoperating Revenue		
State sources	19,413	—
Federal sources	680,242	—
Interest on investments	<u>9,408</u>	<u>—</u>
Total Nonoperating Revenue	<u>709,063</u>	<u>—</u>
Change in Net Assets	29,328	(260,517)
Net Assets - Beginning of Year	<u>820,585</u>	<u>1,619,116</u>
Net Assets - End of Year	<u>\$ 849,913</u>	<u>\$ 1,358,599</u>

See accompanying notes to the financial statements.

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2005

	Business- Type Activities - Enterprise Fund	Governmental Activities
	School Nutrition	Internal Service Fund
Cash Flows From Operating Activities		
Cash received from sale of lunches and breakfasts.....	\$ 976,179	\$ —
Cash received from assessments made to other funds	—	3,815,076
Cash payments to employees for services.....	(837,677)	—
Cash payments for insurance claims.....	—	(3,905,667)
Cash payments to suppliers for goods and services	(647,505)	—
Net Cash Used in Operating Activities	<u>(509,003)</u>	<u>(90,591)</u>
Cash Flows Provided by Noncapital Financing Activities		
State grants received.....	19,413	—
Federal grants received.....	567,628	—
Net Cash Provided by Noncapital Financing Activities	<u>587,041</u>	<u>—</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets	<u>(87,208)</u>	<u>—</u>
Cash Flows From Investing Activities		
Interest on investments	<u>9,743</u>	<u>—</u>
Net Increase (Decrease) in Cash and Cash Equivalents	573	(90,591)
Cash and Cash Equivalents at Beginning of Year.....	<u>625,791</u>	<u>1,848,363</u>
Cash and Cash Equivalents at End of Year	<u>\$ 626,364</u>	<u>\$ 1,757,772</u>
Reconciliation of Loss From Operations to Net Cash Used in Operating Activities		
Loss from operations	\$ (679,735)	\$ (260,517)
Adjustments to Reconcile Loss From Operations to Net Cash Used in Operating Activities		
Commodities used.....	111,742	—
Depreciation.....	45,816	—
Changes in Assets and Liabilities		
(Increase) decrease in accounts receivable.....	(7,843)	117,035
Decrease in inventories and prepaid items	1,635	—
Increase in accounts payable and provision for self-insurance claims.....	5,314	52,891
Increase in salaries and benefits payable	<u>14,068</u>	<u>—</u>
Net Cash Used in Operating Activities	<u>\$ (509,003)</u>	<u>\$ (90,591)</u>

Noncash Investing, Capital and Financing Activities

During the year ended June 30, 2005, the District received \$112,614 of federal commodities.

See accompanying notes to the financial statements.

Statement of Fiduciary Net Assets - Fiduciary Fund ---

At June 30, 2005

	Agency
Assets	
Cash and investments	\$ 31,786
Due from other funds	8,402
Other	<u>12,064</u>
Total Assets	<u>\$ 52,252</u>
 Liabilities	
Accounts payable	\$ 19,572
Due to others	31,854
Due to other funds	<u>826</u>
Total Liabilities	<u>\$ 52,252</u>

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

The Mason City 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. The geographic area served includes the City of Mason City, Iowa, and the surrounding predominate agricultural territory in Cerro Gordo County. The District is governed by a Board of Education whose members are elected on a nonpartisan basis.

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

Reporting Entity

For financial reporting purposes, the Mason City 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 Mason City Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

District-Wide Financial Statements

The statement of net assets and the statement of activities report information on all 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 revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

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

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

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

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (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 revenue are reported instead as general revenue.

(1) Summary of Significant Accounting Policies

Fund Financial Statements

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

The District had the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenue 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 PPEL Fund (Physical Plant and Equipment Levy) is used to account for all revenue derived from a specific levy which is required by law to be accounted for in a separate fund.

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

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general obligation long-term debt.

The Debt Service Sinking Fund is utilized to account for money set aside for future payment of interest and principal on the District's revenue bonds.

The District's proprietary funds are the Enterprise - School Nutrition Fund and the Internal Service Fund. The Internal Service Fund is used to account for the self-funded health insurance plan operated by 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 Agency Fund used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities and does not involve measurement of results of operations.

Measurement Focus and Basis of Accounting

The District-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenue is 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. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within 60 days after year end.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Property tax, intergovernmental revenue (shared revenue, 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 revenue. 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 revenue.

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 revenue and expenses from nonoperating items. Operating revenue 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 revenue 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 revenue and expenses not meeting this definition are reported as nonoperating revenue 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.

Assets, Liabilities and Fund Equity

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

Cash, Investments and Cash Equivalents

The cash balances of most District funds are invested. The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of one year or less from the date of acquisition.

Investments are stated at fair value which approximates cost.

Property Taxes Receivable

Property taxes in the governmental funds are accounted for using the modified accrual basis of accounting.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Property taxes receivable are 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 taxes receivable represent unpaid taxes for the current and prior years. The succeeding year property taxes 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 taxes receivable have been recorded, the related revenue is deferred in both the District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1-1/2% monthly 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 revenue, grants and reimbursements from other governments.

Food and Supplies Inventories

Inventories are valued at cost using the first-in, first-out (FIFO) method for purchased items and contributed value for government commodities. At June 30, 2005, government commodities valued at \$43,121 were on hand. General fund supplies inventory is accounted for under the consumption method. Expenditures are recognized when the inventory is used.

Capital Assets

Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business-type activities columns in the District-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset useful 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.

Land	\$2,000
Buildings.....	2,000
Improvements other than buildings	2,000
Furniture and Equipment	
School Nutrition Fund equipment.....	500
Other furniture and equipment	2,000
Vehicles.....	2,000

Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings.....	50 Years
Improvements other than buildings	25 Years
Technology equipment.....	5 Years
Other furniture and equipment	10 Years
Vehicles.....	8 Years

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Salaries and Benefits Payable

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

Deferred Revenue

Although certain revenue is measurable, it is 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 represents the amount of asset 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 taxes receivable and other receivables not collected within 60 days after year end.

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

Compensated Absences

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

Long-Term Obligations

In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances

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

Restricted Net Assets

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

Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements in the support services functional area exceeded the amounts budgeted.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Notes to the Financial Statements

(2) Cash and Investments

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

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

The District's investments at June 30, 2005 were as follows:

Type	Amortized Cost
Iowa Schools Joint Investment Trust	<u>\$ 855,225</u>

The District's investment in the Iowa Schools Joint Investment Trust is valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement Number 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

The District did not participate in the Iowa Schools Cash Anticipation Program (ISCAP) during the year ended June 30, 2005.

(3) Interfund Receivables and Payables

Individual interfund receivable and payable balances at June 30, 2005 are as follows:

Receivable Fund	Payable Fund	Amount
Agency	General	\$ 8,402
Student Activity	General	61,537
General	Management	200,000
Capital Projects	PPEL	219,689
General	Agency	826
Expendable Trust	Student Activity	400
School Nutrition	General	943
		<u>\$ 491,797</u>

Notes to the Financial Statements

(4) Interfund Transfers

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

Transfer to	Transfer From	Amount
Debt Service	Capital Projects	<u>\$ 361,600</u>
Debt Service Sinking	Capital Projects	<u>\$ 3,930,900</u>

(5) Capital Assets

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

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 456,341	\$ —	\$ 47,619	\$ 408,722
Construction in progress	<u>392,238</u>	<u>3,119,170</u>	<u>746,133</u>	<u>2,765,275</u>
Total Capital Assets Not Being Depreciated.....	<u>848,579</u>	<u>3,119,170</u>	<u>793,752</u>	<u>3,173,997</u>
Capital Assets Being Depreciated				
Buildings and improvements	29,634,186	746,133	—	30,380,319
Furniture and equipment	<u>3,424,074</u>	<u>126,739</u>	<u>156,420</u>	<u>3,394,393</u>
Total Capital Assets Being Depreciated.....	<u>33,058,260</u>	<u>872,872</u>	<u>156,420</u>	<u>33,774,712</u>
Less Accumulated Depreciation For				
Buildings and improvements	13,110,443	643,984	—	13,754,427
Furniture and equipment	<u>2,328,990</u>	<u>333,653</u>	<u>150,388</u>	<u>2,512,255</u>
Total Accumulated Depreciation	<u>15,439,433</u>	<u>977,637</u>	<u>150,388</u>	<u>16,266,682</u>
Net Total Capital Assets Being Depreciated.....	<u>17,618,827</u>	<u>(104,765)</u>	<u>6,032</u>	<u>17,508,030</u>
Net Governmental Activities				
Capital Assets	<u>\$ 18,467,406</u>	<u>\$ 3,014,405</u>	<u>\$ 799,784</u>	<u>\$ 20,682,027</u>

Notes to the Financial Statements

(5) Capital Assets

	Balance - Beginning of Year	Increases	Balance - End of Year
Business-Type Activities			
Furniture and equipment	\$ 737,512	\$ 87,208	\$ 824,720
Less accumulated depreciation	<u>512,080</u>	<u>45,816</u>	<u>557,896</u>
Net Business-Type Activities			
Capital Assets	<u>\$ 225,432</u>	<u>\$ 41,392</u>	<u>\$ 266,824</u>

Depreciation expense was charged as follows:

Governmental Activities

Instruction			
Regular			\$ 653,042
Special			17,059
Other			91,629
Support Services			
Administration			38,161
Operation and maintenance of plant			34,469
Transportation			<u>81,451</u>
			915,811
Unallocated depreciation			<u>61,826</u>
Total Governmental Activities Depreciation Expense			<u>\$ 977,637</u>

Business-Type Activities

School Nutrition			<u>\$ 45,816</u>
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(6) Long-Term Liabilities

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

	General Obligation Bonds	Revenue Bonds
Balance - Beginning of Year	\$ 6,350,000	\$ —
Additions	—	17,925,000
Amount retired	<u>575,000</u>	<u>—</u>
Balance - End of Year	<u>\$ 5,775,000</u>	<u>\$ 17,925,000</u>
Due Within One Year	<u>\$ 600,000</u>	<u>\$ 1,735,000</u>

The revenue bonds were issued at a premium of \$623,039 resulting in total proceeds from revenue bonds issued of \$18,548,039.

Notes to the Financial Statements

(6) Long-Term Liabilities

General Obligation Bonds Payable

At June 30, 2005, the District's general obligation bond indebtedness was as follows:

Year Ending June 30,	Bonds Issued February 1, 1998			
	Interest Rates	Principal	Interest	Total
2006.....	4.30%	\$ 600,000	\$ 248,325	\$ 848,325
2007.....	4.30	625,000	222,525	847,525
2008.....	4.30	675,000	195,650	870,650
2009.....	4.30	700,000	166,625	866,625
2010.....	4.30	725,000	136,525	861,525
2011-2014	4.30	<u>2,450,000</u>	<u>213,925</u>	<u>2,663,925</u>
Total		<u>\$ 5,775,000</u>	<u>\$ 1,183,575</u>	<u>\$ 6,958,575</u>

Revenue Bonds Payable

At June 30, 2005, the District's local option sales and service tax revenue bonded indebtedness was as follows:

Year Ending June 30,	Bonds Issued July 1, 2004			
	Interest Rates	Principal	Interest	Total
2006.....	3.00%	\$ 1,735,000	\$ 780,375	\$ 2,515,375
2007.....	4.00	1,785,000	718,650	2,503,650
2008.....	4.00	1,835,000	646,250	2,481,250
2009.....	4.00	1,895,000	571,650	2,466,650
2010.....	5.00	1,965,000	484,625	2,449,625
2011-2014	5.00	<u>8,710,000</u>	<u>894,750</u>	<u>9,604,750</u>
Total		<u>\$ 17,925,000</u>	<u>\$ 4,096,300</u>	<u>\$ 22,021,300</u>

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenue received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

1. All proceeds from the local option sales and services tax shall be placed in a revenue fund.
2. Monies in the revenue fund shall be disbursed to make deposits into a sinking fund to pay the principal and interest requirements of the revenue bonds for the fiscal year.
3. Monies in the revenue fund shall next be disbursed to a reserve fund. The required amount is 25% of the amount required to be deposited in the sinking fund.
4. Any monies remaining in the revenue fund after the required transfers to the sinking fund and the reserve fund may be transferred to the project fund and expended for the purposes of issuance.

The District was in compliance with all of the provisions for the year ended June 30, 2005.

Notes to the Financial Statements

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 3.7% of their annual salary and the District is required to contribute 5.75% of annual payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$1,152,705, \$1,105,004 and \$1,077,716, respectively, equal to the required contributions for each year.

(8) Contingent Liability for Sick Leave Time

District employees accumulate sick leave hours for subsequent use. These accumulations do not vest and therefore are not recognized as liabilities of the District until used by employees. The District's contingent liability for employee sick leave at June 30, 2005 was approximately \$8,800,000.

(9) Risk Management

The Mason City 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 Support

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$1,343,115 for the year ended June 30, 2005, and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(11) Employee Health Care Plan

The District currently sponsors a self-funded health care plan. Under this plan, employees contribute a portion of their compensation, and COBRA participants and retirees contribute the total cost, towards the cost of maintaining the plan. The District contracts with an insurance company to administer the plan.

Notes to the Financial Statements

(11) Employee Health Care Plan

Claim costs are limited to \$50,000 per covered individual. Any amount in excess of \$50,000 is covered by a reinsurance policy. Additionally, the reinsurance policy covers claim costs in excess of 120% of the group aggregated total claims exposure, which was approximately \$4,000,000 for the year ended June 30, 2005.

The District has included \$411,289 in its June 30, 2005 liabilities for the estimated costs of incurred but unsubmitted claims at that date.

The District has established an Internal Service Fund to account for these activities to facilitate accountability and management control.

The following is a summary of the claims activity for the year ended June 30, 2005:

Estimated cost incurred but not claimed - June 30, 2004.....	\$ 358,398
Claims incurred and claimed and estimated costs incurred but Claimed for the year ended June 30, 2005	3,958,558
Claims paid during the year ended June 30, 2005	<u>(3,905,667)</u>
Estimated Costs Incurred But Not Claimed - June 30, 2005	<u>\$ 411,289</u>

(12) Early Retirement Plan

The District offers an additional early retirement incentive to its employees that are at least age 55 and have at least ten years of service with the District. The additional incentive has two parts. The first part for teachers offsets their IPERS' benefits and the remaining staff receive a benefit up to 25% of their base salary. The second part of the early retirement incentive for each eligible employee is equal to a fixed amount for each year of service with the District. The fixed amount per year of service at June 30, 2005 was as follows:

Administrators.....	\$ 900
Teachers/Nurse	325
Custodian	225
Secretary	200
Para-Professional/Food Service Workers	150

Early retirement benefits available from the combination of both parts of the incentive plan cannot exceed 50% of the employee's base salary using the current year regular salary schedule.

Early retirement benefits expense for the year ended June 30, 2005 totaled \$226,389. All costs of early retirement are expected to be liquidated currently and are recorded as liabilities in the General and Special Revenue Funds.

Notes to the Financial Statements

(13) Construction Commitments

The District has entered into various contracts, with approximately \$9,500,000 and \$8,300,000 remaining at June 30, 2005, for construction on Roosevelt Middle School and Roosevelt Elementary School projects, respectively.

(14) Deficit Fund Balance

The Special Revenue Fund - Student Activities had the following deficit balances at June 30, 2005 which resulted because transfers had not been made. The deficits are expected to be eliminated with monies transferred in from the General Fund.

High School Athletics	\$ 309
Foreign Language	573
Model U.N.	453
National Honor Society	540
Jefferson Elementary	1,060
High School Trapshooting.....	233

Required Supplementary Information

Schedule of Budgetary Comparison of Revenue, Expenditures and Changes in Balances - Budget to Actual - All Governmental Funds and Proprietary Fund

Year Ended June 30, 2005

	Actual		Total	Original and Final Budget	Over (Under) Budget
	Governmental Fund Types Actual	Proprietary Fund Type Actual			
Revenue					
Local sources	\$ 19,683,008	\$ 993,430	\$ 20,676,438	\$ 18,904,558	\$ 1,771,880
Intermediate sources	21,812	—	21,812	—	21,812
State sources	19,381,781	19,413	19,401,194	19,547,285	(146,091)
Federal sources	1,193,538	680,242	1,873,780	1,742,000	131,780
Total Revenue	<u>40,280,139</u>	<u>1,693,085</u>	<u>41,973,224</u>	<u>40,193,843</u>	<u>1,779,381</u>
Expenditures					
Instruction	22,800,932	—	22,800,932	23,795,000	(994,068)
Support services	9,449,970	—	9,449,970	9,302,000	147,970
Noninstructional programs	286,515	1,663,757	1,950,272	2,340,000	(389,728)
Other expenditures	5,891,170	—	5,891,170	10,304,834	(4,413,664)
Total Expenditures	<u>38,428,587</u>	<u>1,663,757</u>	<u>40,092,344</u>	<u>45,741,834</u>	<u>(5,649,490)</u>
Revenue Over (Under) Expenditures	1,851,552	29,328	1,880,880	(5,547,991)	7,428,871
Other Financing Sources (Net)	<u>18,548,039</u>	<u>—</u>	<u>18,548,039</u>	<u>—</u>	<u>18,548,039</u>
Revenue Over (Under) Expenditures and Other Financing Sources	20,399,591	29,328	20,428,919	(5,547,991)	25,976,910
Balance - Beginning of Year	10,441,475	820,585	11,262,060	11,315,818	(53,758)
Balance - End of Year	<u>\$ 30,841,066</u>	<u>\$ 849,913</u>	<u>\$ 31,690,979</u>	<u>\$ 5,767,827</u>	<u>\$ 25,923,152</u>

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 and statutorily prescribed procedures. The District's budget is prepared on the modified accrual basis.

Encumbrances pertain to commitments related to unperformed contracts for goods or services. Used in budgeting, encumbrances are not expenditures or liabilities. Encumbrances represent the estimated amount of expenditures which may result if the unperformed contracts in process are completed. The District is not required to use encumbrance accounting, and accordingly, commitments related to unperformed contracts for goods or services have not been recorded by the District.

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, noninstructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2005, disbursements in the support services function exceeded the amount budgeted.

Other Supplementary Information

Combining Balance Sheet - Nonmajor Governmental Funds

At June 30, 2005

	Special Revenue Funds					Total
	Management Account	Student Activities	Flex Benefits Plan	Dental Insurance Trust	Expendable Trust	
Assets						
Cash and investments	\$ 449,357	\$ 177,616	\$ 8,828	\$ 43,626	\$ 166,528	\$ 845,955
Receivables						
Property Taxes, Net						
Current year delinquent	7,625	—	—	—	—	7,625
Succeeding year	1,054,997	—	—	—	—	1,054,997
Due from other funds.....	—	61,537	—	—	400	61,937
Other.....	—	15,291	—	—	—	15,291
Total Assets.....	<u>\$ 1,511,979</u>	<u>\$ 254,444</u>	<u>\$ 8,828</u>	<u>\$ 43,626</u>	<u>\$ 166,928</u>	<u>\$ 1,985,805</u>
Liabilities and Equities						
Liabilities						
Accounts payable.....	\$ 1,249	\$ 62,280	\$ —	\$ —	\$ —	\$ 63,529
Salaries and benefits payable.	—	1,360	—	—	—	1,360
Interfund payable	200,000	400	—	—	—	200,400
Early retirement payable	204,230	—	—	—	—	204,230
Deferred Revenue						
Succeeding year property taxes	1,054,997	—	—	—	—	1,054,997
Other.....	1,957	—	—	—	—	1,957
Total Liabilities.....	<u>1,462,433</u>	<u>64,040</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,526,473</u>
Equities						
Unreserved and undesignated fund balance.....	<u>49,546</u>	<u>190,404</u>	<u>8,828</u>	<u>43,626</u>	<u>166,928</u>	<u>459,332</u>
Total Liabilities and Equities	<u>\$ 1,511,979</u>	<u>\$ 254,444</u>	<u>\$ 8,828</u>	<u>\$ 43,626</u>	<u>\$ 166,928</u>	<u>\$ 1,985,805</u>

Combining Schedule of Revenue, Expenditures and Changes in Fund Balance - Nonmajor Governmental Funds

Year Ended June 30, 2005

	<u>Special Revenue Funds</u>					Total
	Management Account	Student Activities	Flex Benefits Plan	Dental Insurance Trust	Expendable Trust	
Revenue						
Local Sources						
Property taxes	\$ 497,785	\$ —	\$ —	\$ —	\$ —	\$ 497,785
Mobile home taxes	635	—	—	—	—	635
	<u>498,420</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>498,420</u>
Other Local Sources						
Interest on investments.....	3,906	3,552	—	—	2,355	9,813
Student activities.....	—	914,351	—	—	—	914,351
Other revenue.....	2,985	3,919	116,118	188,915	20,742	332,679
Total Other Local Sources	<u>6,891</u>	<u>921,822</u>	<u>116,118</u>	<u>188,915</u>	<u>23,097</u>	<u>1,256,843</u>
Total Local Sources	<u>505,311</u>	<u>921,822</u>	<u>116,118</u>	<u>188,915</u>	<u>23,097</u>	<u>1,755,263</u>
State Sources						
Revenue in lieu of taxes - military credit.....	581	—	—	—	—	581
Total Revenue.....	<u>505,892</u>	<u>921,822</u>	<u>116,118</u>	<u>188,915</u>	<u>23,097</u>	<u>1,755,844</u>
Expenditures						
Instruction						
Regular instruction	179,787	—	—	—	—	179,787
Co-curricular instruction	—	966,227	—	—	—	966,227
Total Instruction.....	<u>179,787</u>	<u>966,227</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,146,014</u>
Support Services						
Central services.....	24,443	—	—	—	—	24,443
Other support services	427,280	—	—	—	—	427,280
Total Support Services.....	<u>451,723</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>451,723</u>
Noninstructional Programs						
Scholarships.....	—	—	—	—	31,625	31,625
Other.....	—	—	107,290	145,289	2,311	254,890
Total Noninstructional Programs.....	<u>—</u>	<u>—</u>	<u>107,290</u>	<u>145,289</u>	<u>33,936</u>	<u>286,515</u>
Total Expenditures.....	<u>631,510</u>	<u>966,227</u>	<u>107,290</u>	<u>145,289</u>	<u>33,936</u>	<u>1,884,252</u>
Net Change in Fund Balances	(125,618)	(44,405)	8,828	43,626	(10,839)	(128,408)
Fund Balance - Beginning of Year	175,164	234,809	—	—	177,767	587,740
Fund Balance - End of Year	<u>\$ 49,546</u>	<u>\$ 190,404</u>	<u>\$ 8,828</u>	<u>\$ 43,626</u>	<u>\$ 166,928</u>	<u>\$ 459,332</u>

Schedule of Changes in Individual Student Activity Accounts

Year Ended June 30, 2005

Account	Balance - Beginning of Year	Revenue	Expenditures	Balance - End of Year
Administration.....	\$ 26,516	\$ 32,262	\$ 22,848	\$ 35,930
Special Olympics.....	823	216	700	339
Talent Development.....	100	900	—	1,000
High School Speech and Drama.....	12,100	1,650	4,786	8,964
High School Vocal Music.....	19,404	155,313	146,308	28,409
High School Instrumental Music.....	11,499	42,673	43,165	11,007
High School Athletics.....	35,481	375,357	411,147	(309)
Dance Team.....	12,239	16,746	22,876	6,109
Cheerleading.....	12,462	45,542	45,232	12,772
Concession Stand.....	3,736	61,411	64,642	505
Tournaments.....	—	28,057	24,507	3,550
National Art Honor Society.....	1,244	344	418	1,170
Foreign Language.....	353	—	926	(573)
AFS International Club.....	1,397	1,724	1,451	1,670
Model U.N.....	—	1,500	1,953	(453)
Literary Club.....	283	—	10	273
Math Club.....	1,901	1,675	2,056	1,520
Science Club.....	1,554	—	951	603
Home Economics.....	243	—	—	243
Adult Living.....	449	—	—	449
Industrial Tech - Special Project.....	563	—	—	563
Prom.....	1,286	3,836	4,662	460
Student Council.....	1,265	5,663	5,121	1,807
Mohawk Press.....	—	3,493	2,750	743
Yearbook.....	1,946	49,636	48,375	3,207
Ambassadors.....	877	354	285	946
National Honor Society.....	18	—	558	(540)
Alternative School.....	1,189	2,806	2,603	1,392
Middle School Athletics.....	(279)	11,293	11,014	—
John Adams Middle School.....	22,585	14,514	27,702	9,397
Roosevelt Middle School.....	51,457	38,033	49,358	40,132
Harding Elementary.....	3,456	8,573	2,457	9,572
Hoover Elementary.....	(195)	2,331	2,102	34
Jefferson Elementary.....	2,628	1,850	5,538	(1,060)
Madison Elementary.....	1,310	6,597	5,787	2,120
Roosevelt Elementary.....	1,373	2,739	2,637	1,475
Student Parking.....	1,778	726	38	2,466
MCHS JEL.....	1,751	2,900	82	4,569
MCHS Sod House.....	17	—	—	17
MCHS Trapshooting.....	—	950	1,183	(233)
MCHS Best Buddies.....	—	159	—	159
	<u>\$ 234,809</u>	<u>\$ 921,823</u>	<u>\$ 966,228</u>	<u>\$ 190,404</u>

Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund ▬

Year Ended June 30, 2005

	Balance - Beginning of Year	Additions	Deductions	Balance - End of Year
Assets				
Cash and investments	\$ 29,837	\$ 219,543	\$ 217,594	\$ 31,786
Due from other governments.....	46,712	—	46,712	—
Due from other funds.....	269	8,402	269	8,402
Other.....	<u>41</u>	<u>12,064</u>	<u>41</u>	<u>12,064</u>
Total Assets	<u>\$ 76,859</u>	<u>\$ 240,009</u>	<u>\$ 264,616</u>	<u>\$ 52,252</u>
Liabilities				
Accounts payable	\$ 35,381	\$ 19,572	\$ 35,381	\$ 19,572
Due to others	33,507	219,611	221,264	31,854
Due to other funds	<u>7,971</u>	<u>826</u>	<u>7,971</u>	<u>826</u>
Total Liabilities	<u>\$ 76,859</u>	<u>\$ 240,009</u>	<u>\$ 264,616</u>	<u>\$ 52,252</u>

Schedule of Revenue By Source and Expenditures By Function - All Governmental Fund Types (Modified Accrual Basis)

Years Ended June 30, 2005, 2004, 2003 and 2002

	2005	2004	2003	2002
Revenue				
Local Sources				
Property taxes.....	\$ 16,907,057	\$ 15,233,474	\$ 12,978,548	\$ 12,221,369
Tuition	673,039	587,095	568,980	553,071
Other	2,102,912	1,324,786	1,541,293	1,581,319
Intermediate sources.....	21,812	—	—	—
State sources.....	19,381,781	18,956,646	18,954,174	17,815,730
Federal sources.....	<u>1,193,538</u>	<u>1,250,640</u>	<u>895,238</u>	<u>703,233</u>
Total	<u>\$ 40,280,139</u>	<u>\$ 37,352,641</u>	<u>\$ 34,938,233</u>	<u>\$ 32,874,722</u>
Expenditures				
Instruction				
Regular instruction	\$ 12,499,642	\$ 12,867,538	\$ 12,580,788	\$ 12,946,298
Special instruction.....	8,343,099	8,948,307	8,090,177	5,802,878
Vocational instruction.....	583,875	419,619	397,634	409,424
Co-curricular instruction	1,374,316	1,386,706	1,495,486	1,463,748
Other instruction.....	—	—	—	1,249,819
Support Services				
Student services	945,606	893,804	897,688	944,005
Instructional staff services.....	1,906,887	1,037,506	1,040,758	1,025,978
Administration services.....	2,854,026	2,243,707	2,191,715	2,208,921
Operation and maintenance of plant services	2,531,780	2,474,640	2,431,820	2,295,120
Transportation services.....	729,202	544,964	635,345	578,785
Central support services	25,733	216,516	216,645	243,636
Community services.....	29,456	16,764	25,582	32,074
Other support services.....	427,280	362,371	270,042	194,706
Noninstructional programs.....	286,515	35,141	31,300	36,946
Other Expenditures				
Facilities acquisition	3,296,605	1,385,571	974,171	808,401
Long-Term Debt				
Principal.....	575,000	550,000	525,000	500,000
Interest and other charges	676,450	304,605	319,012	340,263
AEA flowthrough.....	<u>1,343,115</u>	<u>1,357,515</u>	<u>1,425,447</u>	<u>1,373,373</u>
Total	<u>\$ 38,428,587</u>	<u>\$ 35,045,274</u>	<u>\$ 33,548,610</u>	<u>\$ 32,454,375</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2005

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass- Through Number	Federal Expenditures
U.S. Department of Agriculture			
Pass-Through From Iowa Department of Education			
Food Donation (noncash)	10.550	FY 05	<u>\$ 112,614</u>
Child Nutrition Cluster			
School Breakfast Program	10.553	FY 05	89,195
National School Lunch Program.....	10.555	FY 05	<u>478,433</u>
Total Cash Expenditures.....			<u>567,628</u>
Total U.S. Department of Agriculture			<u>680,242</u>
U.S. Department of Education			
Pass-Through From Iowa Department of Education			
Title I Grants to Local Education Agencies	84.010	FY 05	<u>602,975</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 05	<u>26,262</u>
Fund for the Improvement of Education.....	84.215	FY 05	<u>66,983</u>
State Grants for Innovative Programs.....	84.298	FY 05	<u>17,624</u>
Teacher Quality Enhancement Grants.....	84.336	FY 05	<u>195,167</u>
Grants for State Assessments and Related Activities.....	84.369	FY 05	<u>25,314</u>
Total Pass-Through From Iowa Department of Education			<u>934,325</u>
Pass-Through From Area Education Agency 267			
Special Education - Grants to States	84.027	FY 05	<u>235,703</u>
Total U.S. Department of Education			<u>1,170,028</u>
Total			<u>\$ 1,850,270</u>

Basis of Presentation

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

Subrecipients

The Mason City Community School District provided no federal awards to subrecipients.

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting

Board of Education
Mason City Community School District
Mason City, Iowa

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Mason City 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 September 9, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Mason City 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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The following 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 Mason City Community School 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.

Official Depositories - Official depositories have been approved by the Board. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

Certified Budget

Finding - Disbursements for the year ended June 30, 2005 exceeded the certified budget amounts in the support services function.

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

District's Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Auditor's Conclusion - Response accepted.

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

Travel Expense - No disbursements 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.

Business Transactions - No business transactions between the District and District officials or employees were noted.

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 ensure that coverage is adequate for current operations.

Board Minutes

Finding - No transactions were found that we believe should have been included in the Board minutes but were not. However, we noted certain minutes that were not published within 15 days as required by Chapter 279.35 of the Code of Iowa.

Auditor's Recommendation - We recommend that the District publish minutes within 15 days as required by Chapter 279.35 of the Code of Iowa.

District's Response - We will publish minutes as required by the Code of Iowa.

Auditor's Conclusion - Response accepted.

Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.

Deposits and Investments

Finding - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy. However, we noted two certificates of deposit that were invested at a rate below the minimum statutory rates established by the State Treasurer.

Auditor's Recommendation - The District should verify certificate of deposit rates are in accordance with statutory rates established by the State prior to purchasing a certificate of deposit.

District's Response - We will verify the appropriateness of certificate of deposit rates prior to purchase.

Auditor's Conclusion - Response accepted.

Certified Annual Report - The certified annual report was filed with the Iowa Department of Education timely, and we noted no significant deficiencies in the amounts reported.

Financial Condition

Finding - The funds listed below had the following deficit fund balances at June 30, 2005:

Special Revenue Fund	
High School Athletics	\$ 309
Jefferson Elementary	1,060
Foreign Language	573
Model U.N.	453
National Honor Society	540
Trapshooting	233

Auditor's Recommendation - The District should eliminate these deficits in order to return the funds to a sound financial position.

District's Response - These fund deficits were subsequently eliminated by a transfer from the General Fund.

Auditor's Conclusion - Response accepted.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Mason City 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 assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Mason City Community School District, and other parties to whom the 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

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
September 9, 2005

Independent Auditor's Report on Compliance With Requirement Applicable to Each Major Program and on Internal Control Over Compliance

Board of Education
Mason City Community School District
Mason City, Iowa

Compliance

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

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

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

Internal Control Over Compliance

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

Our consideration of internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Mason City Community School District and other parties to whom the Mason City 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.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
September 9, 2005

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Part I: Summary of the Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness identified? yes no

Reportable condition identified not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

Material weakness identified? yes no

Reportable condition identified not considered to be material weakness? yes none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes no

Identification of major programs:

CFDA Numbers

10.553
10.555

Name of Federal Program or Cluster

Clustered Programs
School Breakfast Program
National School Lunch Program

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

yes no

Part II: Findings Related to the Financial Statements

Instances of Noncompliance - There were no current year reported instances of noncompliance.

Reportable Conditions - There were no current year matters reported.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Part III: Findings and Questioned Costs for Federal Awards

Instances of Noncompliance

There were no current year reported instances of noncompliance.

Reportable Conditions

There were no current year matters reported.