

**MESERVEY-THORNTON COMMUNITY SCHOOL DISTRICT
THORNTON, IOWA**

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

YEAR ENDED JUNE 30, 2005

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Meservey-Thornton Community School District
Thornton, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**Board of Education
(Before September 2004 Election)**

Kent Pals	President	2006
Bret Lage	Vice President	2004
Christy Engebretson	Board Member	2004
Richard Miller	Board Member	2005
Ron Payton	Board Member	2005
Betty Jensen	Board Member	2006
Dawn Brosdahl	Board Member	2006

**Board of Education
(After September 2004 Election)**

Kent Pals	President	2006
Christy Engebretson	Vice President	2007
Richard Miller	Board Member	2005
Ron Payton	Board Member	2005
Betty Jensen	Board Member	2006
Dawn Brosdahl	Board Member	2006 (Resigned)
Bret Lage	Board Member	2007
Tonya Uhde	Board Member	2006 (Appointed)

School Officials

Eldon Pyle	Superintendent	2005
Connie Stadlander	District Secretary/Treasurer and Business Manager	2005
Rick Engel	Attorney	2005

Independent Auditor's Report

To the Board of Education of
Meservey-Thornton Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Meservey-Thornton Community School District, Thornton, Iowa, 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. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Meservey-Thornton 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 U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 20, 2005 on our consideration of Meservey-Thornton Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 14 and 43 through 45 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Meservey-Thornton 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 two years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, 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.

Cornwell, Frideres, Maher & Associates, P.C.
Certified Public Accountants

September 20, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$1,543,075 in fiscal 2004 to \$1,634,206 in fiscal 2005, while General Fund expenditures increased from \$1,531,761 in fiscal 2004 to \$1,545,240 in fiscal 2005. The District's General Fund balance increased from \$235,212 in fiscal 2004 to \$321,355 in fiscal 2005, a 37% increase.
- The increase in General Fund revenues was attributable to an increase in property tax and state and federal grant revenue in fiscal 2005. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds.

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

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Assets
(Expressed in Thousands)

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
Current and other assets	\$ 1,518	1,431	\$ 8	7	\$ 1,526	1,438	6.1%
Capital assets	<u>590</u>	<u>625</u>	<u>1</u>	<u>2</u>	<u>591</u>	<u>627</u>	<u>-5.7%</u>
Total assets	<u>2,108</u>	<u>2,056</u>	<u>9</u>	<u>9</u>	<u>2,117</u>	<u>2,065</u>	<u>2.5%</u>
Long-term liabilities	211	269	---	---	211	269	-21.6%
Other liabilities	<u>762</u>	<u>910</u>	<u>1</u>	<u>1</u>	<u>763</u>	<u>911</u>	<u>-16.2%</u>
Total liabilities	<u>973</u>	<u>1,179</u>	<u>1</u>	<u>1</u>	<u>974</u>	<u>1,180</u>	<u>-17.5%</u>
Net assets:							
Invested in capital assets, net of related debt	405	385	1	2	406	387	4.9%
Restricted	179	143	---	---	179	143	25.2%
Unrestricted	<u>551</u>	<u>349</u>	<u>7</u>	<u>6</u>	<u>558</u>	<u>355</u>	<u>57.2%</u>
Total net assets	\$ <u>1,135</u>	<u>877</u>	\$ <u>8</u>	<u>8</u>	\$ <u>1,143</u>	<u>885</u>	<u>29.2%</u>

The District's combined net assets increased by nearly 30% or approximately \$258,000, over the prior year.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$36,000, or 25.2% over the prior year. The increase was primarily a result of decreased expenditures in the Physical Plant and Equipment Levy Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$203,000, or 57%. This increase in unrestricted net assets was a result of the imposition of the school local option sales tax.

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

Figure A-4
Changes in Net Assets
(Expressed in Thousands)

	Governmental Activities		Business type Activities		Total District	
	June 30,		June 30,		June 30,	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 227	270	44	40	271	310
Operating grants, contributions and restricted interest	217	213	29	32	246	245
General revenues:						
Property tax	693	639	---	---	693	639
Local option sales and service tax	181	133	---	---	181	133
Income surtax	51	124	---	---	51	124
Unrestricted state grants	557	483	---	---	557	483
Unrestricted investment earnings	7	11	---	---	7	11
Other	5	2	---	---	5	2
Transfer	(3)	(5)	3	5	---	---
Total revenues	<u>1,935</u>	<u>1,870</u>	<u>76</u>	<u>77</u>	<u>2,011</u>	<u>1,947</u>
Program expenses:						
Governmental activities:						
Instruction	1,117	1,099	---	---	1,117	1,099
Support services	479	480	---	---	479	480
Non-instructional programs	---	---	76	82	76	82
Other expenses	82	84	---	---	82	84
Total expenses	<u>1,678</u>	<u>1,663</u>	<u>76</u>	<u>82</u>	<u>1,754</u>	<u>1,745</u>
Change in net assets	\$ 257	207	---	(5)	257	202
	=====	=====	=====	=====	=====	=====

Property tax and unrestricted state grants account for 65% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 95% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$1,937,523 and expenses were \$1,677,349. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5
Total and Net Cost of Governmental Activities
(Expressed in Thousands)

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 1,117	735
Support services	479	472
Other expenses	<u>82</u>	<u>26</u>
Totals	\$ 1,678	1,233
	=====	=====

- The cost financed by users of the District’s programs was \$226,722.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$217,211.
- The net cost of governmental activities was financed with \$925, 562 in property and other taxes and \$556,776 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$72,987 and expenses were \$75,727. The District’s business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$708,683, well above last year’s ending fund balances of \$471,969. The primary reason for the increase in combined fund balances in fiscal 2005 is due to the approximate fund balance in the Capital Projects Fund of \$183,283. This is local option sales and service tax revenue. The general fund balance also increased \$86,143.

Governmental Fund Highlights

- The General Fund balance increased from \$235,212 to \$321,355.
- The Physical Plant and Equipment Levy (PEEL) Fund balance increased from \$94,075 in fiscal 2004 to \$128,691 in fiscal 2005.
- The Capital Projects Fund increased from \$68,827 in fiscal 2004 to \$183,283 in fiscal 2005.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$8,645 at June 30, 2004 to \$8,728 at June 30, 2005, representing an increase of approximately 0.1%. For fiscal 2005, the District transferred \$2,823 from the General Fund to the School Nutrition Fund to help cover employee benefits.

BUDGETARY HIGHLIGHTS

The District's receipts were \$37,292 more than budgeted receipts, a variance of 1.9%.

Total expenditures were less than budgeted by \$155,102, due primarily to the District's budget for the General Fund.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$591,000, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 5.7% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$56,726.

The original cost of the District's capital assets was \$1.4 million. Governmental funds accounted for the majority of this.

Figure A-6
Capital Assets, net of Depreciation
(Expressed in Thousands)

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
Land	\$ 4	4	---	---	4	4	0%
Buildings	436	432	---	---	436	432	.9%
Improvements other than buildings	9	10	---	---	9	10	-10.0%
Furniture and equipment	<u>141</u>	<u>179</u>	<u>1</u>	<u>2</u>	<u>142</u>	<u>181</u>	<u>-21.5%</u>
Totals	<u>590</u>	<u>625</u>	<u>1</u>	<u>2</u>	<u>591</u>	<u>627</u>	<u>-5.7%</u>
	=====	=====	=====	=====	=====	=====	=====

Long-Term Debt

At June 30, 2005 the District had \$210,540 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 20% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations
(Expressed in Thousands)

	Total District		Total Change
	June 30,		June 30,
	2005	2004	2004-2005
General obligation bonds	\$ 185	\$ 240	-22.9%
Early retirement	<u>26</u>	<u>29</u>	<u>-10.3%</u>
Totals	<u>\$ 211</u>	<u>\$ 269</u>	<u>-21.5%</u>
	=====	=====	=====

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District is looking at consolidation in the near future. Joint board meetings are being held to discuss the future of our District.
- The District is looking at combining K-4 classes with Sheffield-Chapin Community School. The Sheffield-Chapin District will send their 5-8 students to Meservey-Thornton. This result may decrease both districts' expenditures. There is a possibility this would begin next year.
- The District is experiencing declining enrollment for this year and the District expects the enrollment to decline again next year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Connie Stadlander, District Secretary/Treasurer, Meservey-Thornton Community School District, 100 Fifth Street North, Thornton, Iowa 50479.

Basic Financial Statements

Meservey-Thornton Community School District
 Thornton, Iowa

Exhibit A

Statement of Net Assets

June 30, 2005

	Governmental <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents:			
ISCAP	\$ 17	-	17
Other	652,280	5,404	657,684
Receivables:			
Property tax:			
Delinquent	7,885	-	7,885
Succeeding year	749,000	-	749,000
Accounts	-	245	245
Due from other governments	83,530	-	83,530
Prepaid expenses	25,350	-	25,350
Inventories	-	2,279	2,279
Capital assets, net of accumulated depreciation	<u>589,862</u>	<u>1,262</u>	<u>591,124</u>
Total assets	<u>2,107,924</u>	<u>9,190</u>	<u>2,117,114</u>
Liabilities			
Accounts payable	10,194	462	10,656
Salaries and benefits payable	2,185	-	2,185
Accrued interest payable	1,479	-	1,479
Deferred revenue - succeeding year property tax	749,000	-	749,000
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	60,000	-	60,000
Early retirement payable	3,649	-	3,649
Portion due after one year:			
General obligation bonds payable	125,000	-	125,000
Early retirement payable	<u>21,891</u>	<u>-</u>	<u>21,891</u>
Total liabilities	<u>973,398</u>	<u>462</u>	<u>973,860</u>

Meservey-Thornton Community School District
 Thornton, Iowa

Exhibit A

Statement of Net Assets

June 30, 2005

	Governmental <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>
Net assets			
Invested in capital assets, net of related debt	404,862	1,262	406,124
Restricted for:			
Management levy	22,073	-	22,073
Physical plant and equipment levy	128,691	-	128,691
Other special revenue purposes	28,217	-	28,217
Unrestricted	550,683	7,466	558,149
Total net assets	<u>\$ 1,134,526</u>	<u>8,728</u>	<u>1,143,254</u>

See notes to financial statements.

Meservey-Thornton Community School District
Thornton, Iowa
Statement of Activities
Year ended June 30, 2005

		Program Revenues		
Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
Functions/Programs				
Governmental activities:				
Instruction:				
Regular instruction	\$ 816,936	65,870	125,207	-
Special instruction	202,625	129,790	10,341	-
Other instruction	97,413	31,112	19,252	-
	1,116,974	226,772	154,800	-
Support services:				
Student services	14,930	-	6,500	-
Instructional staff services	36,344	-	-	-
Administration services	210,797	-	-	-
Operation and maintenance of plant services	126,413	-	-	-
Transportation services	90,299	-	-	-
	478,783	-	6,500	-
Other expenditures:				
Long-term debt interest	11,287	-	-	-
AEA flowthrough	55,911	-	55,911	-
Depreciation (unallocated)*	14,394	-	-	-
	81,592	-	55,911	-
Total governmental activities	1,677,349	226,772	217,211	-
Business type activities:				
Non-instructional programs:				
Food service operations	75,727	44,235	28,747	-
Total	\$ 1,753,076	271,007	245,958	-

General Revenues:

Property tax levied for:
 General purposes
 Capital outlay
Local option sales and services tax
Income surtax
Unrestricted state grants
Unrestricted investment earnings
Other
Transfer
Total general revenues and transfers
Change in net assets
Net assets beginning of year
Net assets end of year

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

See notes to financial statements.

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
(625,859)	-	(625,859)
(62,494)	-	(62,494)
(47,049)	-	(47,049)
<u>(735,402)</u>	<u>-</u>	<u>(735,402)</u>
(8,430)	-	(8,430)
(36,344)	-	(36,344)
(210,797)	-	(210,797)
(126,413)	-	(126,413)
(90,299)	-	(90,299)
<u>(472,283)</u>	<u>-</u>	<u>(472,283)</u>
(11,287)	-	(11,287)
-	-	-
(14,394)	-	(14,394)
<u>(25,681)</u>	<u>-</u>	<u>(25,681)</u>
(1,233,366)	-	(1,233,366)
<u>-</u>	<u>(2,745)</u>	<u>(2,745)</u>
<u>(1,233,366)</u>	<u>(2,745)</u>	<u>(1,236,111)</u>
\$ 629,476	-	629,476
63,878	-	63,878
180,802	-	180,802
51,406	-	51,406
556,776	-	556,776
5,433	5	5,438
5,769	-	5,769
(2,823)	2,823	-
<u>1,490,717</u>	<u>2,828</u>	<u>1,493,545</u>
257,351	83	257,434
877,175	8,645	885,820
<u>\$ 1,134,526</u>	<u>8,728</u>	<u>1,143,254</u>

Meservey-Thornton Community School District
Thornton, Iowa

Balance Sheet
Governmental Funds

June 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Special Revenue Physical Plant and Equipment Levy</u>
Assets				
Cash and pooled investments:				
ISCAP	\$ 17	-	-	-
Other	291,586	25,064	152,106	133,576
Receivables:				
Property tax:				
Delinquent	6,817	-	-	726
Succeeding year	655,000	-	-	64,000
Due from other governments	52,353	-	31,177	-
Prepaid expenses	25,350	-	-	-
Total assets	<u>\$ 1,031,123</u>	<u>25,064</u>	<u>183,283</u>	<u>198,302</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 4,583	-	-	5,611
Salaries and benefits payable	2,185	-	-	-
Deferred revenue:				
Succeeding year property tax	655,000	-	-	64,000
Other	48,000	-	-	-
Total liabilities	<u>709,768</u>	<u>-</u>	<u>-</u>	<u>69,611</u>
Fund balances:				
Reserved for prepaid expenses	25,350	-	-	-
Reserved for teacher salary improvement	9,589	-	-	-
Reserved for debt service	-	25,064	-	-
Unreserved	286,416	-	183,283	128,691
Total fund balances	<u>321,355</u>	<u>25,064</u>	<u>183,283</u>	<u>128,691</u>
Total liabilities and fund balances	<u>\$ 1,031,123</u>	<u>25,064</u>	<u>183,283</u>	<u>198,302</u>

See notes to financial statements.

Exhibit C

Nonmajor Special <u>Revenue</u>	<u>Total</u>
-	17
49,948	652,280
342	7,885
30,000	749,000
-	83,530
-	25,350
<u>80,290</u>	<u>1,518,062</u>
-	10,194
-	2,185
30,000	749,000
-	48,000
<u>30,000</u>	<u>809,379</u>
-	25,350
-	9,589
-	25,064
<u>50,290</u>	<u>648,680</u>
<u>50,290</u>	<u>708,683</u>
<u>80,290</u>	<u>1,518,062</u>

Meservey-Thornton Community School District
Thornton, Iowa

Exhibit D

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

June 30, 2005

Total fund balances of governmental funds (page 20)	\$ 708,683
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	589,862
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	48,000
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(1,479)
Long-term liabilities, including bonds payable and early retirement, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(210,540)</u>
Net assets of governmental activities (page 16)	<u><u>\$ 1,134,526</u></u>

See notes to financial statements.

Meservey-Thornton Community School District
Thornton, Iowa
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year ended June 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Special Revenue Physical Plant and Equipment Levy</u>
Revenues:				
Local sources:				
Local tax	\$ 654,263	-	180,802	63,878
Tuition	190,458	-	-	-
Other	15,573	25	364	358
State sources	708,847	-	-	51
Federal sources	<u>65,065</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>1,634,206</u>	<u>25</u>	<u>181,166</u>	<u>64,287</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	811,575	-	-	-
Special instruction	202,625	-	-	-
Other instruction	<u>57,710</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>1,071,910</u>	<u>-</u>	<u>-</u>	<u>-</u>
Support services:				
Student services	14,930	-	-	-
Instructional staff services	35,010	-	-	-
Administration services	201,767	-	-	5,526
Operation and maintenance of plant services	107,933	-	-	24,145
Transportation services	<u>57,779</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>417,419</u>	<u>-</u>	<u>-</u>	<u>29,671</u>
Other expenditures:				
Long-term debt:				
Principal	-	55,000	-	-
Interest and fiscal charges	-	11,710	-	-
AEA flowthrough	<u>55,911</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>55,911</u>	<u>66,710</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>1,545,240</u>	<u>66,710</u>	<u>-</u>	<u>29,671</u>
Excess (deficiency) of revenues over (under) expenditures	<u>88,966</u>	<u>(66,685)</u>	<u>181,166</u>	<u>34,616</u>
Other financing sources (uses):				
Operating transfers in	-	66,710	-	-
Operating transfers out	<u>(2,823)</u>	<u>-</u>	<u>(66,710)</u>	<u>-</u>
Total other financing sources (uses)	<u>(2,823)</u>	<u>66,710</u>	<u>(66,710)</u>	<u>-</u>
Net change in fund balances	86,143	25	114,456	34,616
Fund balances beginning of year	<u>235,212</u>	<u>25,039</u>	<u>68,827</u>	<u>94,075</u>
Fund balances end of year	<u>\$ 321,355</u>	<u>25,064</u>	<u>183,283</u>	<u>128,691</u>

See notes to financial statements.

Exhibit E

Nonmajor Special <u>Revenue</u>	<u>Total</u>
30,019	928,962
-	190,458
31,196	47,516
24	708,922
-	65,065
61,239	1,940,923
-	811,575
-	202,625
39,703	97,413
39,703	1,111,613
-	14,930
-	35,010
6,392	213,685
9,916	141,994
3,754	61,533
20,062	467,152
-	55,000
-	11,710
-	55,911
-	122,621
59,765	1,701,386
1,474	239,537
-	66,710
-	(69,533)
-	(2,823)
1,474	236,714
48,816	471,969
50,290	708,683

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

Year ended June 30, 2005

Net change in fund balances - total governmental funds (page 23) \$ 236,714

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the current year, as follows:

Expenditures for capital assets	\$ 20,949	
Depreciation expense	<u>(55,984)</u>	(35,035)

Income surtax not collected for several months after year end is not considered available revenue and is deferred in the governmental funds. (3,400)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments are as follows:

Repaid		55,000
--------	--	--------

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 423

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement		<u>3,649</u>
------------------	--	--------------

Change in net assets of governmental activities (page 18) \$ 257,351

See notes to financial statements.

Meservey-Thornton Community School District
Thornton, Iowa

Exhibit G

Statement of Net Assets
Proprietary Fund

June 30, 2005

	<u>School Nutrition</u>
Assets	
Cash and cash equivalents	\$ 5,404
Accounts receivable	245
Inventories	2,279
Capital assets, net of accumulated depreciation	<u>1,262</u>
Total assets	<u>9,190</u>
Liabilities	
Accounts payable	<u>462</u>
Total liabilities	<u>462</u>
Net Assets	
Invested in capital assets, net of related debt	1,262
Unrestricted	<u>7,466</u>
Total net assets	<u>\$ 8,728</u>

See notes to financial statements.

Meservey-Thornton Community School District
Thornton, Iowa

Exhibit H

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

Year ended June 30, 2005

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for service	\$ <u>44,235</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries and benefits	34,352
Benefits	9,467
Purchased services	214
Supplies	30,952
Depreciation	<u>742</u>
Total operating expenses	<u>75,727</u>
Operating loss	<u>(31,492)</u>
Non-operating revenues:	
State sources	968
Federal sources	27,779
Interest income	<u>5</u>
Total non-operating revenues	<u>28,752</u>
Net loss	(2,740)
Other financing sources:	
Transfers in	<u>2,823</u>
Change in net assets	83
Net assets beginning of year	<u>8,645</u>
Net assets end of year	<u><u>\$ 8,728</u></u>

See notes to financial statements.

Meservey-Thornton Community School District
Thornton, Iowa

Exhibit I

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2005

School
Nutrition

Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 43,994
Cash received from miscellaneous operating activities	157
Cash paid to employees for services	(43,819)
Cash paid to suppliers for goods or services	<u>(25,741)</u>
Net cash used by operating activities	<u>(25,409)</u>
Cash flows from non-capital financing activities:	
State grants received	968
Federal grants received	22,397
Transfers from General Fund	<u>2,823</u>
Net cash provided by non-capital financing activities	<u>26,188</u>
Cash flows from investing activities:	
Interest on investments	<u>5</u>
Net increase in cash and cash equivalents	784
Cash and cash equivalents beginning of year	<u>4,620</u>
Cash and cash equivalents end of year	<u>\$ 5,404</u>

Meservey-Thornton Community School District
Thornton, Iowa

Exhibit I

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2005

School
Nutrition

**Reconciliation of operating loss to net cash used by
operating activities:**

Operating loss	\$ (31,492)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	5,382
Depreciation	742
Decrease in inventories	319
(Increase) in accounts receivable	(84)
(Decrease) in accounts payable	<u>(276)</u>
Net cash used by operating activities	<u>\$ (25,409)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received \$5,382 of federal commodities.

See notes to financial statements.

Meservey-Thornton Community School District
Thornton, Iowa

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

Meservey-Thornton Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the cities of Meservey and Thornton, Iowa, and the predominate agricultural territory in Cerro Gordo, Hancock, Franklin and Wright counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

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

Jointly Governed Organization – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Franklin County Assessor's Conference Board.

Meservey-Thornton Community School District
Thornton, Iowa

Notes to Financial Statements

June 30, 2005

B. Basis of Presentation

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

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

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable 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 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 revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Meservey-Thornton Community School District
Thornton, Iowa

Notes to Financial Statements

June 30, 2005

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

The District reports the following major governmental funds:

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

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

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

The Special Revenue, Physical Plant and Equipment Levy Fund is used to account for revenues which can be spent for construction and remodeling of schoolhouses and for purchases of equipment in accordance with Iowa Code Chapter 298.3.

The District reports the following major proprietary fund:

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

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

The Agency Fund is 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.

Meservey-Thornton Community School District
Thornton, Iowa

Notes to Financial Statements

June 30, 2005

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

Meservey-Thornton Community School District
Thornton, Iowa

Notes to Financial Statements

June 30, 2005

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

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

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

D. Assets, Liabilities and Fund Equity

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

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Non-negotiable certificates of deposit are stated at cost.

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

Meservey-Thornton Community School District
Thornton, Iowa

Notes to Financial Statements

June 30, 2005

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost.

Meservey-Thornton Community School District
 Thornton, Iowa

Notes to Financial Statements

June 30, 2005

Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 500
Buildings	500
Improvements other than buildings	500
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	500

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-20 years

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

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

Meservey-Thornton Community School District
Thornton, Iowa

Notes to Financial Statements

June 30, 2005

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

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

Compensated Absences – District employees do not accumulate earned but unused vacation. District employees accumulate a limited amount of earned but unused sick leave benefits. An accrual for earned but unused sick leave is not recorded in these financial statements because sick leave can only be used for time off for illness.

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

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

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

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements did not exceed the amounts budgeted.

Meservey-Thornton Community School District
Thornton, Iowa

Notes to Financial Statements

June 30, 2005

(2) Cash and Pooled Investments

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

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

The District had no investments during the year or at June 30, 2005. The District deposited its excess funds in money market checking, savings accounts and certificates of deposit during the year ended June 30, 2005.

Interest rate risk. The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

(3) Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
School Nutrition	General	\$ 2,823
Debt Service	Capital Projects	<u>66,710</u>
Total		\$ 69,533 =====

Meservey-Thornton Community School District
 Thornton, Iowa

Notes to Financial Statements

June 30, 2005

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

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2005 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2004-05A	6-30-04	6-30-05	\$ 17	---	---	---
			=====	=====	=====	=====

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no ISACAP advance activity for the year ended June 30, 2005.

Meservey-Thornton Community School District
Thornton, Iowa

Notes to Financial Statements

June 30, 2005

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

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2004-05A	3.000%	2.463%

(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	\$ <u>4,049</u>	---	---	<u>4,049</u>
Capital assets being depreciated:				
Buildings	744,813	16,376	---	761,189
Improvements other than buildings	56,306	---	---	56,306
Furniture and equipment	<u>592,877</u>	<u>4,573</u>	<u>(5,479)</u>	<u>591,971</u>
Total capital assets being depreciated	<u>1,393,996</u>	<u>20,949</u>	<u>(5,479)</u>	<u>1,409,466</u>
Less accumulated depreciation for:				
Buildings	312,636	12,550	---	325,186
Improvements other than buildings	46,206	772	---	46,978
Furniture and equipment	<u>414,306</u>	<u>42,662</u>	<u>(5,479)</u>	<u>451,489</u>
Total accumulated depreciation	<u>773,148</u>	<u>55,984</u>	<u>(5,479)</u>	<u>823,653</u>
Total capital assets being depreciated, net	<u>620,848</u>	<u>(35,035)</u>	---	<u>585,813</u>
Governmental activities capital assets, net	\$ 624,897 =====	(35,035) =====	--- ====	589,862 =====

Meservey-Thornton Community School District
Thornton, Iowa

Notes to Financial Statements

June 30, 2005

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Furniture and equipment	\$ 20,840	---	(11,933)	8,907
Less accumulated depreciation	<u>18,836</u>	<u>742</u>	<u>(11,933)</u>	<u>7,645</u>
Business type activities capital assets, net	\$ 2,004	(742)	---	1,262
	=====	====	=====	=====

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction:

Regular

\$ 9,757

Support services:

Instructional staff

1,334

Administration

938

Operation and maintenance of plant

795

Transportation

28,766

41,590

Unallocated

14,394

Total depreciation expense – governmental activities

\$ 55,984

=====

Business type activities:

Food service operations

\$ 742

=====

(6) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 240,000	---	55,000	185,000	60,000
Early retirement	<u>29,189</u>	<u>---</u>	<u>3,649</u>	<u>25,540</u>	<u>3,649</u>
Total	\$ 269,189	---	58,649	210,540	63,649
	=====	=====	=====	=====	=====

Meservey-Thornton Community School District
 Thornton, Iowa

Notes to Financial Statements

June 30, 2005

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to a percentage based on age at time of retirement of the employee's base salary calculated by using the current year regular salary schedule, less any other additional pay. Early retirement expenditures for the year ended June 30, 2005, totaled \$3,649.

General Obligation Bonds Payable

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

Year Ending June 30,	Interest Rates	<u>Bond Issue of December 1, 1997</u>		
		Principal	Interest	Total
2006	4.700%	\$ 60,000	8,853	68,853
2007	4.800	60,000	6,032	66,032
2008	4.850	<u>65,000</u>	<u>3,153</u>	<u>68,153</u>
Total		\$ 185,000	18,038	203,038
		=====	=====	=====

(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.

Meservey-Thornton Community School District
Thornton, Iowa

Notes to Financial Statements

June 30, 2005

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$48,900, \$47,805 and \$46,773, respectively, equal to the required contributions for each year.

(8) Risk Management

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

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$55,911 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Required Supplementary Information

Meservey-Thornton Community School District
Thornton, Iowa

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances/Net Assets -
Budget and Actual (Modified Accrual Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds <u>Actual</u>	Proprietary Fund <u>Actual</u>
Revenues:		
Local sources	\$ 1,166,936	44,240
State sources	708,922	968
Federal sources	<u>65,065</u>	<u>27,779</u>
Total revenues	<u>1,940,923</u>	<u>72,987</u>
Expenditures:		
Instruction	1,111,613	-
Support services	467,152	-
Non-instructional programs	-	75,727
Other expenditures	<u>122,621</u>	<u>-</u>
Total expenditures	<u>1,701,386</u>	<u>75,727</u>
Excess (deficiency) of revenues over (under) expenditures	239,537	(2,740)
Other financing sources, net	<u>(2,823)</u>	<u>2,823</u>
Excess of revenues and other financing sources over expenditures and other financing uses	236,714	83
Balances beginning of year	<u>471,969</u>	<u>8,645</u>
Balances end of year	<u>\$ 708,683</u>	<u>8,728</u>

See accompanying independent auditor's report.

<u>Total Actual</u>	<u>Budgeted Amounts</u>		<u>Final to Actual Variance</u>
	<u>Original</u>	<u>Final</u>	
1,211,176	1,187,629	1,187,629	23,547
709,890	704,189	704,189	5,701
92,844	84,800	84,800	8,044
<u>2,013,910</u>	<u>1,976,618</u>	<u>1,976,618</u>	<u>37,292</u>
1,111,613	1,185,000	1,185,000	73,387
467,152	499,500	499,500	32,348
75,727	90,000	90,000	14,273
122,621	157,715	157,715	35,094
<u>1,777,113</u>	<u>1,932,215</u>	<u>1,932,215</u>	<u>155,102</u>
236,797	44,403	44,403	192,394
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
236,797	44,403	44,403	192,394
<u>480,614</u>	<u>355,960</u>	<u>355,960</u>	<u>124,654</u>
<u><u>717,411</u></u>	<u><u>400,363</u></u>	<u><u>400,363</u></u>	<u><u>317,048</u></u>

Meservey-Thornton Community School District
Thornton, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2005

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides 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 did not exceed the amounts budgeted.

Other Supplementary Information

Meservey-Thornton Community School District
 Thornton, Iowa

Schedule 1

Combining Balance Sheet
 Nonmajor Special Revenue Funds

June 30, 2005

	Manage- ment <u>Levy</u>	Student <u>Activity</u>	<u>Total</u>
Assets			
Cash and pooled investments	\$ 21,731	28,217	49,948
Receivables:			
Property tax:			
Delinquent	342	-	342
Succeeding year	<u>30,000</u>	<u>-</u>	<u>30,000</u>
Total assets	<u>\$ 52,073</u>	<u>28,217</u>	<u>80,290</u>
Liabilities and Fund Equity			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	<u>\$ 30,000</u>	<u>-</u>	<u>30,000</u>
Total liabilities	<u>30,000</u>	<u>-</u>	<u>30,000</u>
Fund equity:			
Unreserved fund balances	<u>22,073</u>	<u>28,217</u>	<u>50,290</u>
Total liabilities and fund equity	<u>\$ 52,073</u>	<u>28,217</u>	<u>80,290</u>

See accompanying independent auditor's report.

Meservey-Thornton Community School District
 Thornton, Iowa

Schedule 2

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

Year ended June 30, 2005

	Manage- ment <u>Levy</u>	Student <u>Activity</u>	<u>Total</u>
Revenues:			
Local sources:			
Local tax	\$ 30,019	-	30,019
Other	-	31,196	31,196
State sources	<u>24</u>	-	<u>24</u>
Total revenues	<u>30,043</u>	<u>31,196</u>	<u>61,239</u>
Expenditures:			
Current:			
Instruction:			
Other instruction	-	39,703	39,703
Support services:			
Administration services	6,392	-	6,392
Operation and maintenance of plant services	9,916	-	9,916
Transportation services	<u>3,754</u>	-	<u>3,754</u>
Total expenditures	<u>20,062</u>	<u>39,703</u>	<u>59,765</u>
Excess (deficiency) of revenues over (under) expenditures	9,981	(8,507)	1,474
Fund balances beginning of year	<u>12,092</u>	<u>36,724</u>	<u>48,816</u>
Fund balances end of year	<u>\$ 22,073</u>	<u>28,217</u>	<u>50,290</u>

See accompanying independent auditor's report.

Meservey-Thornton Community School District
 Thornton, Iowa

Schedule 3

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues and Interfund Transfers</u>	<u>Expenditures</u>	<u>Intra- Fund Transfers</u>	<u>Balance End of Year</u>
Music Fundraiser	\$ 4,448	4,508	3,972	-	4,984
Athletics	7	354	3,022	-	(2,661)
Student Council	5,087	6,332	8,914	-	2,505
Fundraiser	4,793	7,949	7,660	-	5,082
Class of 2008	5,309	-	5,309	-	-
Class of 2009	5,916	-	25	-	5,891
Class of 2010	649	1,989	1,194	-	1,444
Class of 2011	-	3,787	2,420	-	1,367
Interest	-	84	84	-	-
Field Trips and Assemblies	<u>10,515</u>	<u>6,193</u>	<u>7,103</u>	<u>-</u>	<u>9,605</u>
Total	<u>\$ 36,724</u>	<u>31,196</u>	<u>39,703</u>	<u>-</u>	<u>28,217</u>

See accompanying independent auditor's report.

Meservey-Thornton Community School District
 Thornton, Iowa

Schedule 4

Schedule of Changes in Fiduciary Assets and Liabilities -
 Agency Fund

Year ended June 30, 2005

	Balance Beginning <u>of Year</u>	<u>Additions</u>	<u>Deductions</u>	Balance End <u>of Year</u>
Assets				
Cash	\$ 928	-	928	-
Total assets	<u>\$ 928</u>	<u>-</u>	<u>928</u>	<u>-</u>
Liabilities				
Other payables	\$ 928	-	928	-
Total liabilities	<u>\$ 928</u>	<u>-</u>	<u>928</u>	<u>-</u>

See accompanying independent auditor's report.

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

For the Last Three Years

	Modified Accrual Basis		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenues:			
Local sources:			
Local tax	\$ 928,962	843,035	705,514
Tuition	190,458	215,342	210,610
Other	47,516	68,510	62,526
State sources	708,922	631,148	630,244
Federal sources	<u>65,065</u>	<u>64,822</u>	<u>85,617</u>
Total	<u><u>1,940,923</u></u>	<u><u>1,822,857</u></u>	<u><u>1,694,511</u></u>
Expenditures:			
Instruction:			
Regular instruction	811,575	740,752	752,775
Special instruction	202,625	280,167	250,447
Other instruction	97,413	69,549	63,808
Support services:			
Student services	14,930	16,086	398
Instructional staff services	35,010	23,418	23,750
Administration services	213,685	254,247	242,080
Operation and maintenance of plant services	141,994	118,252	110,692
Transportation services	61,533	115,584	66,616
Other expenditures:			
Facilities acquisition	-	1,776	67,318
Long-term debt:			
Principal	55,000	50,000	50,000
Interest and other charges	11,710	14,010	16,315
AEA flowthrough	<u>55,911</u>	<u>53,680</u>	<u>54,961</u>
Total	<u><u>\$ 1,701,386</u></u>	<u><u>1,737,521</u></u>	<u><u>1,699,160</u></u>

See accompanying independent auditor's report.

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

To the Board of Education of
Meservey-Thornton Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Meservey-Thornton 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 20, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over

financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-05 is a material weakness.

Compliance and Other Matters

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

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

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Meservey-Thornton Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Cornwell, Frideres, Maher & Associates, P.C.
Certified Public Accountants

September 20, 2005

Meservey-Thornton Community School District
Thornton, Iowa

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-05 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

Response – We are doing everything we can within our situation and make improvements as the situation changes. We will continue to review our procedures and implement additional controls where possible.

Conclusion – Response acknowledged. The District could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Other Findings Related To Statutory Reporting:

II-A-05 Official Depositories – Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

Meservey-Thornton Community School District
Thornton, Iowa

Schedule of Findings

Year ended June 30, 2005

- II-B-05 Certified Budget – Disbursements for the year ended June 30, 2005 did not exceed the amounts budgeted.
- II-C-05 Questionable Expenditures – No expenditures that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- II-D-05 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-E-05 Business Transactions – Business transactions between the District and District officials or employees are detailed as follows:
- | <u>Name, Title and
Business Connection</u> | <u>Transaction
Description</u> | <u>Amount</u> |
|--|------------------------------------|---------------|
| Rich Miller, Board Member | Bus repairs | \$ 880 |
- The transaction with the Board Member Miller does not appear to represent a conflict of interest since the transaction was less than \$2,500 as provided by Chapter 279.7A of the Code of Iowa.
- II-F-05 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- II-G-05 Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.
- II-H-05 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.

Meservey-Thornton Community School District
Thornton, Iowa

Schedule of Findings

Year ended June 30, 2005

- II-I-05 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District’s investment policy were noted.
- II-J-05 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.
- II-K-05 Authorized Check Signatures – It was noted that check signatures although authorized by bank signature cards, were not in accordance with Chapters 291.1 and 291.8 of the Code.

Recommendation – Per Chapter 291.1 the president or the president’s designee shall sign, using an original or facsimile signature, all school districts warrants. The board of directors, by resolution, may designate an individual, who shall not be the secretary, to sign warrants on his behalf. Per Chapter 291.8 the Board secretary shall draw each order on the treasurer and countersign using an original or facsimile signature.

Response – We will properly sign warrants in accordance with the Code in the future.

Conclusion – Response accepted.

- II-L-05 Mileage Rate – It was noted that mileage was paid at a rate in excess of the amount allowable by the Board and the Federal Internal Revenue Service.

Recommendation – Mileage should be paid at a Board approved rate not in excess of the amount allowable by the Internal Revenue Service as provided by Chapter 70A.9 of the Code of Iowa.

Response – This was an isolated case involving the transportation of a student. We will pay the correct mileage rate in the future.

Conclusion – Response accepted.

Meservey-Thornton Community School District
Thornton, Iowa

Schedule of Findings

Year ended June 30, 2005

II-M-05 Deficit Balance – One student activity account had a deficit balance at June 30, 2005.

Recommendation – The District should continue to investigate alternatives to eliminate this deficit in order to return this account to a sound financial condition.

Response – The District is continuing to investigate alternatives to eliminate this deficit. In the next fiscal year a transfer will be made from the General Fund to cover this deficit.

Conclusion – Response accepted.

II-N-05 Additional Compensation – The method of payment to employees for services relating to extra-curricular activities does not allow for the withholding of any taxes.

Recommendation – The District should ensure that payments to employees from the Student Activity Fund for services performed be treated as additional compensation and, accordingly, withhold the appropriate taxes as required by the Internal Revenue Service and the Iowa Department of Revenue and Finance.

Response – We will take the necessary steps to correct this situation.

Conclusion – Response accepted.