

MIDLAND COMMUNITY SCHOOL DISTRICT

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

June 30, 2005

Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-13
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	15
Statement of Activities	B	16-17
Governmental Fund Financial Statements:		
Balance Sheet	C	18
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	19
Statement of Revenues, Expenditures and Changes in Fund Balances	E	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	21
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	22
Statement of Revenues, Expenses, and Changes in Net Assets	H	23
Statement of Cash Flows	I	24
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	25
Statement of Changes in Fiduciary Net Assets	K	26
Notes to Financial Statements		27-35
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund		37
Notes to Required Supplementary Information - Budgetary Reporting		38
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	40
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	41
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	42-43
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	4	44
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		45-46
Schedule of Findings		47-49

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Independent Auditor's Report

To the Board of Education of
Midland 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 Midland Community School District, Wyoming, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with Government Auditing Standards, we have also issued our report dated September 7, 2005, on our consideration of Midland Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 37 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Midland 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 supplemental information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

September 7, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$6,083,341 in fiscal 2004 to \$5,980,859 in fiscal 2005, while General Fund expenditures increased from \$5,710,024 in fiscal 2004 to \$5,911,496 in fiscal 2005. The District's General Fund balance increased from \$860,057 in fiscal 2004 to \$934,183 in fiscal 2005
- The decrease in General Fund revenues was attributable to an decrease in local tax. 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 Sample 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 Sample 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 Sample Community School District acts solely as an agent or custodian for the benefit of those outside of County 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. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

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

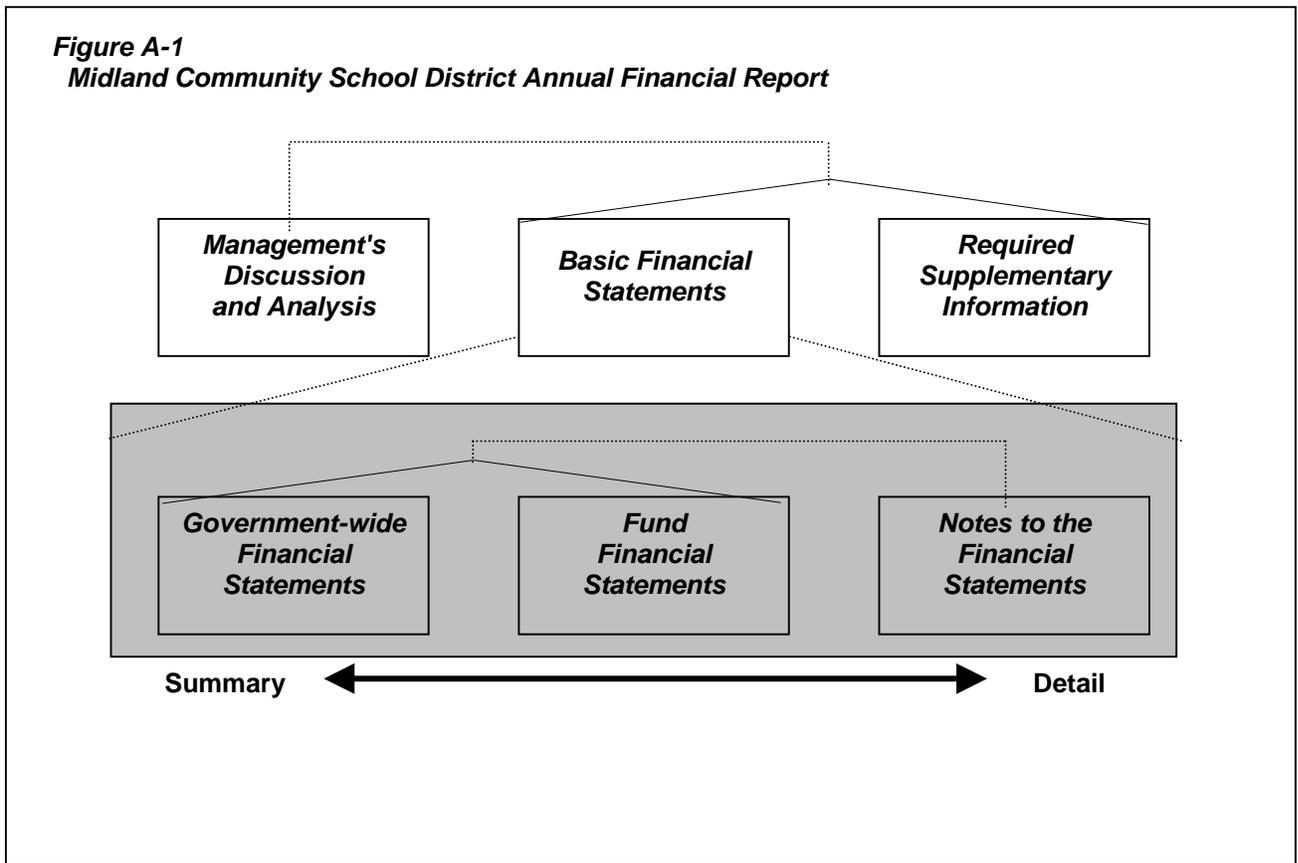


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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.

- 1) *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.
- 2) 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 Private-Purpose Trust and Agency Funds.

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2004-2005
	Governmental Activities		Business-type Activities		Total School District		
	2005	2004	2005	2004	2005	2004	
	\$	\$	\$	\$	\$	\$	
Current and other assets	6,828,009	6,404,976	(9,383)	15,721	6,818,626	6,420,697	6%
Capital assets	783,186	801,804	12,465	14,885	795,651	816,689	-2%
Total assets	7,611,195	7,206,780	3,082	30,606	7,614,277	7,237,386	5%
Long-term liabilities	44,151	40,386	-	-	44,151	40,386	9%
Other liabilities	5,233,914	5,090,214	14,287	13,557	5,248,201	5,103,771	3%
Total liabilities	5,278,065	5,130,600	14,287	13,557	5,292,352	5,144,157	3%
Net Assets:							
Invested in capital assets, net of related debt	783,186	801,804	12,465	14,885	795,651	816,689	-2%
Restricted	415,889	278,978	-	-	415,889	278,978	49%
Unrestricted	1,134,055	995,398	(23,670)	2,164	1,110,385	997,562	11%
TOTAL NET ASSETS	2,333,130	2,076,180	(11,205)	17,049	2,321,925	2,093,229	11%

The District's combined net assets increased by nearly 11%, or approximately \$228,000, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$136,000 or 49% 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 \$113,000, or 11%.

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

Figure A-4

	Change in Net Assets						Percentage Change 2004-2005
	Governmental Activities		Business-type Activities		Total School District		
	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$	
Revenues							
Program Revenues:							
Charges for services	240,987	280,537	114,408	121,855	355,395	402,392	-12%
Operating grants & contributions	778,397	740,870	98,527	108,232	876,924	849,102	3%
Capital grants & contributions	-	-	-	-	-	-	0%
General Revenues:							
Property taxes	2,794,735	2,889,959	-	-	2,794,735	2,889,959	-3%
Income Surtax	211,090	223,760	-	-	211,090	223,760	-6%
Local option sales tax	329,195	312,630	-	-	329,195	312,630	5%
Unrestricted state grants	2,300,612	2,250,839	-	-	2,300,612	2,250,839	2%
Unrestricted investment earnings	67,302	34,640	-	-	67,302	34,640	94%
Other revenue	6,651	12,974	-	-	6,651	12,974	-49%
Total Revenues	6,728,969	6,746,209	212,935	230,087	6,941,904	6,976,296	0%
Expenses:							
Instruction	3,920,639	3,862,048	-	-	3,920,639	3,862,048	2%
Support services	2,067,747	1,869,606	-	-	2,067,747	1,869,606	11%
Non-instructional programs	-	-	241,189	234,601	241,189	234,601	3%
Other expenditures	483,633	500,346	-	-	483,633	500,346	-3%
Total expenses	6,472,019	6,232,000	241,189	234,601	6,713,208	6,466,601	4%
Change in net assets before transfers	256,950	514,209	(28,254)	(4,514)	228,696	509,695	-55%
Transfers	-	(2,285)	-	2,285	-	-	0%
CHANGE IN NET ASSETS	256,950	511,924	(28,254)	(2,229)	228,696	509,695	-55%
Net assets beginning of year	2,076,180	1,564,256	17,049	19,278	2,093,229	1,583,534	33%
Net assets end of year	2,333,130	2,076,180	(11,205)	17,049	2,321,925	2,093,229	11%

Property tax and unrestricted state grants account for 87% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 92% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$6,728,969 and expenses were \$6,472,019. The District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5

Total and Net Cost of Governmental Activities

	Total Cost of Services 2005 \$	Total Cost of Services 2004 \$	Net Cost of Services 2005 \$	Net Cost of Services 2004 \$
Instruction	3,920,639	3,862,048	3,117,134	3,062,231
Support Services	2,067,747	1,869,606	2,059,311	1,861,550
Non-instructional Programs	-	-	-	-
Other Expenses	483,633	500,346	276,190	286,812
TOTAL	6,472,019	6,232,000	5,452,635	5,210,593

- The cost financed by users of the District's programs was \$240,987.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$778,397.
- The net cost of governmental activities was financed with \$3,335,020 in property and other taxes and \$2,300,612 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were **\$212,935** and expenses were \$241,189. 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.

During the year ended June 30, 2005, the District's expenses increased do to raises for salaries and the increasing cost of food.

INDIVIDUAL FUND ANALYSIS

As previously noted, Midland 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 \$1,394,223, above last year's ending fund balances of \$1,165,276.

Governmental Fund Highlights

- The District's General Fund financial position is the result of many factors.
- The General Fund balance increased from \$860,057 to \$934,183

- The Capital Projects Fund balance increased due to decreased spending The District ended fiscal 2004 with a balance of \$161,588. Fiscal 2005 ended with a balance of \$229,791.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$17,049 at June 30, 2004 to \$(11,205) at June 30, 2005. A large portion of the declining revenue for the School Nutrition fund was due in part that the number of meals served decreased. This resulted from declining enrollment and the fact that the District did not raise the price of the lunches to cover rising costs.

BUDGETARY HIGHLIGHTS

Over the course of the year, Midland Community School District amended its annual budget one time to reflect additional revenue and expenditures associated with the elementary building capital project activity.

The District's receipts were \$5,350 less than budgeted receipts. The most significant variance resulted from the District receiving less in local sources than originally anticipated.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$.77 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6). More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$132,847.

The original cost of the District's capital assets was \$4.7 million. Governmental funds account for \$4.6 million, with the remainder of \$0.1 million accounted for in the Proprietary, School Nutrition Fund.

Figure A-6

Capital Assets (net of depreciation)

	Governmental		Business type		Total		Percentage Change 2004-2005
	Activities		Activities		School District		
	2005	2004	2005	2004	2005	2004	
	\$	\$	\$	\$	\$	\$	
Land	25,000	25,000	-	-	25,000	25,000	0%
Construction in progress	-	-	-	-	-	-	0%

Buildings	190,368	226,804	-	-	190,368	226,804	-16%
Improvements	249,381	205,124	-	-	249,381	205,124	22%
Equipment & Furniture	318,437	344,876	12,465	3,625	330,902	348,501	-5%
TOTAL	783,186	801,804	12,465	3,625	795,651	805,429	-1%

Long-Term Debt

At June 30, 2005, the District had \$44,151 in other long-term debt outstanding. This represents an decrease 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**

	Total School District		Percentage Change
	2005	2004	2004-2005
Early Retirement	\$ 44,151	\$ 40,386	9%

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:

- Due to recent completion of property revaluation assessments, the District's total taxable valuation will increase 3 percent for property tax collected in fiscal 2006.
- School financing is highly dependent upon student enrollment. The District's September 2005 enrollment is expected to decrease by approximately 40 students. This drop in enrollment will decrease the District's funding for fiscal year 2006.
- The District is expecting the declining enrollment to level off.
- The District has evaluated the condition of its transportation vehicles and determined, due to safety precautions, one bus must be replaced during fiscal 2006 at a cost of \$61,000. To pay for the bus, the District will use resources from the Local Option Sales and Service Taxes. (LOSST)
- The District will negotiate a new negotiated agreement during fiscal 2005 with the Midland Education Association (MEA). Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance. The District will rely on funds provided by the budget guarantee.
- The District will try to pass a \$.67 Physical Plant and Equipment Levy (PPEL). The proceeds will be used for building repairs. Included in these repairs is a roof at Oxford Junction which will cost in excess of \$100,000.
- An internet based phone system is planned for over a period of 3 years, which could cost approximately \$15,000 and paid from the Local Option Sales & Service Tax funds. (LOSST)

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 Al Homandberg, Superintendent, Midland Community School District, 109 Green Street, Wyoming, Iowa, 52362.

BASIC FINANCIAL STATEMENTS

MIDLAND COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents:			
ISCAP	1,804,511	-	1,804,511
Other	1,958,204	-	1,958,204
Receivables:			
Property tax:			
Delinquent	71,616	-	71,616
Succeeding year	2,682,265	-	2,682,265
Accounts	215	30	245
Accrued interest:			
ISCAP	13,010	-	13,010
Due from other governments	285,358	-	285,358
Interfund receivable/payable	12,830	(12,830)	-
Inventories	-	3,417	3,417
Capital assets, net of accumulated depreciation	783,186	12,465	795,651
Total assets	7,611,195	3,082	7,614,277
Liabilities			
Accounts payable	201,388	-	201,388
Salaries and benefits payable	526,015	11,802	537,817
Deferred revenue:			
Succeeding year property tax	2,682,265	-	2,682,265
Other	-	2,485	2,485
ISCAP warrants payable	1,798,000	-	1,798,000
ISCAP accrued interest payable	14,013	-	14,013
ISCAP premium	12,233	-	12,233
Long-term liabilities:			
Early retirement	24,749	-	24,749
Portion due after one year:			
Early retirement	19,402	-	19,402
Total liabilities	5,278,065	14,287	5,292,352
Net assets			
Invested in capital assets, net of related debt	783,186	12,465	795,651
Restricted for:			
Management levy	63,240	-	63,240
Capital outlay	298,635	-	298,635
Other special revenue purposes	54,014	-	54,014
Unrestricted	1,134,055	(23,670)	1,110,385
Total net assets	2,333,130	(11,205)	2,321,925

MIDLAND COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	2,411,631	92,085	373,417	-
Special instruction	892,618	24,141	170,490	-
Other instruction	616,390	123,421	19,951	-
	<u>3,920,639</u>	<u>239,647</u>	<u>563,858</u>	<u>-</u>
Support services:				
Student services	264,784	-	7,096	-
Instructional staff services	138,643	-	-	-
Administration services	699,010	-	-	-
Operation and maintenance of plant services	548,733	615	-	-
Transportation services	416,577	725	-	-
	<u>2,067,747</u>	<u>1,340</u>	<u>7,096</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	217,341	-	-	-
AEA flowthrough	207,443	-	207,443	-
Depreciation (unallocated)*	58,849	-	-	-
	<u>483,633</u>	<u>-</u>	<u>207,443</u>	<u>-</u>
Total governmental activities	6,472,019	240,987	778,397	-
Business type activities:				
Non-instructional programs:				
Food service operations	241,189	114,408	98,527	-
Total	<u>6,713,208</u>	<u>355,395</u>	<u>876,924</u>	<u>-</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				

Change in net assets

Net assets beginning of year, as restated

Net assets end of year

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

MIDLAND COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

<u>Net (Expense) Revenue and Changes in Net</u>		
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
(1,946,129)	-	(1,946,129)
(697,987)	-	(697,987)
(473,018)	-	(473,018)
<u>(3,117,134)</u>	<u>-</u>	<u>(3,117,134)</u>
(257,688)	-	(257,688)
(138,643)	-	(138,643)
(699,010)	-	(699,010)
(548,118)	-	(548,118)
(415,852)	-	(415,852)
<u>(2,059,311)</u>	<u>-</u>	<u>(2,059,311)</u>
(217,341)	-	(217,341)
-	-	-
(58,849)	-	(58,849)
<u>(276,190)</u>	<u>-</u>	<u>(276,190)</u>
(5,452,635)	-	(5,452,635)
-	(28,254)	(28,254)
<u>(5,452,635)</u>	<u>(28,254)</u>	<u>(5,480,889)</u>
2,728,089	-	2,728,089
66,646	-	66,646
211,090	-	211,090
329,195	-	329,195
2,300,612	-	2,300,612
67,302	-	67,302
6,651	-	6,651
<u>5,709,585</u>	<u>-</u>	<u>5,709,585</u>
256,950	(28,254)	228,696
<u>2,076,180</u>	<u>17,049</u>	<u>2,093,229</u>
<u>2,333,130</u>	<u>(11,205)</u>	<u>2,321,925</u>

MIDLAND COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2005

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Assets			
Cash and pooled investments:			
ISCAP	1,804,511	-	1,804,511
Other	1,550,883	407,321	1,958,204
Receivables:			
Property tax:			
Delinquent	66,073	5,543	71,616
Succeeding year	2,414,940	267,325	2,682,265
Accounts	215	-	215
Accrued interest - ISCAP	13,010	-	13,010
Interfund receivable	-	12,830	12,830
Due from other governments	236,115	49,243	285,358
	<u>6,085,747</u>	<u>742,262</u>	<u>6,828,009</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	186,491	14,897	201,388
Salaries and benefits payable	526,015	-	526,015
ISCAP warrants payable	1,798,000	-	1,798,000
ISCAP accrued interest payable	14,013	-	14,013
ISCAP premium	12,233	-	12,233
Deferred revenue:			
Succeeding year property tax	2,414,940	267,325	2,682,265
Other	199,872	-	199,872
Total liabilities	<u>5,151,564</u>	<u>282,222</u>	<u>5,433,786</u>
Fund balances:			
Unreserved reported in:			
General fund	934,183	-	934,183
Special revenue funds	-	230,249	230,249
Capital projects funds	-	229,791	229,791
Total fund balances	<u>934,183</u>	<u>460,040</u>	<u>1,394,223</u>
	<u>6,085,747</u>	<u>742,262</u>	<u>6,828,009</u>
Total liabilities and fund balances			

MIDLAND COMMUNITY SCHOOL DISTRICT

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

June 30, 2005

	\$
Total fund balances of governmental funds (Exhibit C)	1,394,223
<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.	783,186
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	199,872
Long-term liabilities, including early retirement benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(44,151)</u>
Net assets of governmental activities (Exhibit A)	<u><u>2,333,130</u></u>

MIDLAND COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	General Fund \$	Nonmajor Governmental Funds \$	Total \$
Revenues:			
Local sources:			
Local tax	2,739,141	545,493	3,284,634
Tuition	103,064	-	103,064
Other	79,811	126,126	205,937
State sources	2,797,845	20,166	2,818,011
Federal sources	260,998	-	260,998
Total revenues	<u>5,980,859</u>	<u>691,785</u>	<u>6,672,644</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	2,362,177	34,623	2,396,800
Special instruction	892,618	-	892,618
Other instruction	494,484	123,837	618,321
	<u>3,749,279</u>	<u>158,460</u>	<u>3,907,739</u>
Support services:			
Student services	263,891	893	264,784
Instructional staff services	138,290	353	138,643
Administration services	706,192	4,052	710,244
Operation and maintenance of plant services	501,677	52,638	554,315
Transportation services	344,724	37,734	382,458
	<u>1,954,774</u>	<u>95,670</u>	<u>2,050,444</u>
Other expenditures:			
Facilities acquisition	-	284,010	284,010
AEA flowthrough	207,443	-	207,443
	<u>207,443</u>	<u>284,010</u>	<u>491,453</u>
Total expenditures	<u>5,911,496</u>	<u>538,140</u>	<u>6,449,636</u>
Excess (deficiency) of revenues over (under) expenditures	<u>69,363</u>	<u>153,645</u>	<u>223,008</u>
Other financing sources (uses):			
Compensation for loss of fixed assets	3,919	1,176	5,095
Sales of equipment	844	-	844
Total other financing sources (uses)	<u>4,763</u>	<u>1,176</u>	<u>5,939</u>
Net change in fund balances	74,126	154,821	228,947
Fund balances beginning of year	860,057	305,219	1,165,276
Fund balances end of year	<u>934,183</u>	<u>460,040</u>	<u>1,394,223</u>

MIDLAND COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		228,947

**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 year as follows:

Expenditures for capital assets	111,809	
Depreciation expense	<u>(130,427)</u>	(18,618)

Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.

50,386

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>(3,765)</u>
------------------	--	----------------

Changes in net assets of governmental activities (Exhibit B)

	<u><u>256,950</u></u>
--	-----------------------

MIDLAND COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2005

	Nonmajor School Nutrition
	<u>\$</u>
Assets	
Accounts receivable	30
Inventories	3,417
Capital assets, net of accumulated depreciation	<u>12,465</u>
Total assets	<u>15,912</u>
Liabilities	
Interfund payable	12,830
Salaries and benefits payable	11,802
Deferred revenue	<u>2,485</u>
Total liabilities	<u>27,117</u>
Net assets	
Invested in capital assets, net of related debt	12,465
Unrestricted	<u>(23,670)</u>
Total net assets	<u><u>(11,205)</u></u>

MIDLAND COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	Nonmajor School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>114,408</u>
Operating expenses:	
Non-instructional programs:	
Salaries	104,239
Benefits	13,969
Purchased services	4,803
Supplies	115,758
Depreciation	<u>2,420</u>
	<u>241,189</u>
Operating gain (loss)	<u>(126,781)</u>
Non-operating revenue:	
State sources	3,478
Federal sources	<u>95,049</u>
Total non-operating revenue	<u>98,527</u>
Change in net assets	(28,254)
Net assets beginning of year, as restated	<u>17,049</u>
Net assets end of year	<u><u>(11,205)</u></u>

MIDLAND COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2005

	Nonmajor School Nutrition \$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	114,737
Cash payments to employees for services	(117,808)
Cash payments to suppliers for goods or services	(106,988)
Net cash used by operating activities	<u>(110,059)</u>
Cash flows from non-capital financing activities:	
Interfund loans	12,830
State grants received	3,478
Federal grants received	83,748
Net cash provided by non-capital financing activities	<u>100,056</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(10,003)
Cash and cash equivalents at beginning of year	<u>10,003</u>
Cash and cash equivalents at end of year	<u><u>-</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(126,781)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	11,301
Depreciation	2,420
Decrease (increase) in inventories	2,271
(Decrease) increase in salaries and benefits payable	401
(Decrease) increase in deferred revenue	329
Net cash used in operating activities	<u><u>(110,059)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received \$11,301 of federal commodities.

MIDLAND COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2005

	Private Purpose Trust Scholarship
	<u>\$</u>
Assets	
Cash and pooled investments	16,236
Accrued interest receivable	<u>99</u>
Total Assets	16,335
Liabilities	<u>-</u>
Net Assets	
Reserved for scholarships	<u><u>16,335</u></u>

MIDLAND COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2005

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Interest	847
Deductions:	
Support services:	
Scholarships awarded	<u>983</u>
Change in net assets	(136)
Net assets beginning of year	<u>16,471</u>
Net assets end of year	<u><u>16,335</u></u>

IMIDLAND COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2005

1. Summary of Significant Accounting Policies

Midland 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 Wyoming, Onslow, Oxford Junction, Lost Nation, Center Junction and Monmouth Iowa and the predominately agricultural territory in a portion of Jones, Jackson, Clinton and Cedar 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, Midland 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 Midland Community School District has no component units that meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental fund:

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004, through June 30, 2005, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

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

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

Capital Assets – Capital assets, which include property, furniture and equipment are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	2,500
Buildings	2,500
Improvements other than buildings	2,500
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,500

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	5-20 years
Furniture and equipment	3-15 years

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

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

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

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

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

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

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

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

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

E. Budgeting and Budgetary Control

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

2. Cash and Pooled Investments

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

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

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

3. Interfund Receivables and Payables

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
		\$
Nonmajor Governmental Funds: Student Activity Fund	Nonmajor Enterprise: School Nutrition Fund	12,830

The School Nutrition Fund borrowed money from the Student Activity Fund for cash flow.

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. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2005, is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
			\$	\$	\$	\$
2004-05B	1/28/05	1/27/06	946,728	12,826	944,000	13,849
2005-06A	6/30/05	6/30/06	857,783	184	854,000	164
Total			<u>1,804,511</u>	<u>13,010</u>	<u>1,798,000</u>	<u>14,013</u>

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

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

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

Series	Interest Rates on Warrants	Interest Rates on Investments
	%	%
2004-05B	3.500	2.280
2005-06A	4.000	3.903

5. Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	25,000	-	-	25,000
Capital assets being depreciated:				
Buildings	2,786,150	-	-	2,786,150
Improvements other than buildings	395,670	66,670	-	462,340
Furniture and equipment	1,367,179	45,139	47,533	1,364,785
Total capital assets being deprec.	<u>4,548,999</u>	<u>111,809</u>	<u>47,533</u>	<u>4,613,275</u>
Less accumulated depreciation for:				
Buildings	2,559,346	36,436	-	2,595,782
Improvements other than buildings	190,546	22,413	-	212,959
Furniture and equipment	1,022,303	71,578	47,533	1,046,348
Total accumulated depreciation	<u>3,772,195</u>	<u>130,427</u>	<u>47,533</u>	<u>3,855,089</u>
Total capital assets being depreciated, net	<u>776,804</u>	<u>(18,618)</u>	-	<u>758,186</u>
Governmental activities capital assets, net	<u>801,804</u>	<u>(18,618)</u>	-	<u>783,186</u>

	Balance Beginning of Year, as Restated	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	129,067	-	-	129,067
Less accumulated depreciation	<u>114,182</u>	<u>2,420</u>	-	<u>116,602</u>
Business type activities capital assets, net	<u>14,885</u>	<u>(2,420)</u>	-	<u>12,465</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	11,066
Other	1,869
Support Services:	
Operation and maintenance of plant services	2,168
Transportation	56,475
	<u>71,578</u>
Unallocated depreciation	<u>58,849</u>
Total depreciation expense – governmental activities	<u>130,427</u>
Business type activities:	
Food services	<u>2,420</u>

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
	\$	\$	\$	\$	\$
Early retirement	40,386	44,394	40,629	44,151	24,749

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 twenty years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives are based on 50% of the employees last years salary. Early retirement expenditures for the year ended June 30, 2005 totaled \$40,629.

General Obligation Bonds Payable

The District had no bonded indebtedness at June 30, 2005.

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 3.70% 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 \$198,813, \$197,523, and \$205,309 respectively, equal to the required contributions for each year.

8. Risk Management

The District is a member in the Iowa School Employee Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members continuing membership in the Association had their deficit recovery assessment included in their annual premium for the 2004-2005 and 2005-2006 plan years. The deficit recovery is equal to 2% of the annual premium. The total amount of the deficit recoveries of current members is estimated to be \$2.2 million. The District's share of this assessment was \$16,456, of which \$8,228 was paid with the 2004-2005 premiums and \$8,228 is a liability as of June 30, 2005 and will be paid with the 2005-2006 premiums. Since the

program is now fully insured, there will be no additional assessments due to claims exceeding premiums charged to members.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2005 were \$411,418

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

The 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 \$207,433 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.

10. Restatement of Beginning Net Assets

The beginning net assets for the Statement of Activities and the Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds was increased by \$11,260. Prior year capital assets, net of accumulated depreciation, was understated in the School Nutrition Fund.

REQUIRED SUPPLEMENTARY INFORMATION

MIDLAND COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Revenues:						
Local sources	3,593,635	114,408	3,708,043	3,728,712	3,728,712	(20,669)
Intermediate sources	-	-	-	2,000	2,000	(2,000)
State sources	2,818,011	3,478	2,821,489	2,840,217	2,840,217	(18,728)
Federal sources	260,998	95,049	356,047	320,000	320,000	36,047
Total revenues	<u>6,672,644</u>	<u>212,935</u>	<u>6,885,579</u>	<u>6,890,929</u>	<u>6,890,929</u>	<u>(5,350)</u>
Expenditures:						
Instruction	3,907,739	-	3,907,739	4,259,573	4,687,557	779,818
Support services	2,050,444	-	2,050,444	2,053,000	2,584,296	533,852
Non-instructional programs	-	241,189	241,189	335,000	335,000	93,811
Other expenditures	491,453	-	491,453	425,599	625,000	133,547
Total expenditures	<u>6,449,636</u>	<u>241,189</u>	<u>6,690,825</u>	<u>7,073,172</u>	<u>8,231,853</u>	<u>1,541,028</u>
Excess (deficiency) of revenues over (under) expenditures	223,008	(28,254)	194,754	(182,243)	(1,340,924)	1,535,678
Other financing sources (uses) net	<u>5,939</u>	<u>-</u>	<u>5,939</u>	<u>8,000</u>	<u>8,000</u>	<u>(2,061)</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	228,947	(28,254)	200,693	(174,243)	(1,332,924)	1,533,617
Balance beginning of year	<u>1,165,276</u>	<u>17,049</u>	<u>1,182,325</u>	<u>1,880,292</u>	<u>1,880,292</u>	<u>(697,967)</u>
Balance end of year	<u><u>1,394,223</u></u>	<u><u>(11,205)</u></u>	<u><u>1,383,018</u></u>	<u><u>1,706,049</u></u>	<u><u>547,368</u></u>	<u><u>835,650</u></u>

MIDLAND COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2005

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Internal Service, Private Purpose Trust and Agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the modified accrual and accrual basis. Encumbrances are not recognized on the budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by the fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$1,158,681.

OTHER SUPPLEMENTARY INFORMATION

MIDLAND COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2005

Assets	Special Revenue Funds			Capital Projects Fund	Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	Local Option Sales and Services Tax	
	\$	\$	\$	\$	\$
Cash and pooled investments	103,556	41,571	67,136	195,058	407,321
Receivables:					
Property tax:					
Delinquent	3,835	-	1,708	-	5,543
Succeeding year	200,000	-	67,325	-	267,325
Interfund receivable		12,830			12,830
Due from other governments	-	-	-	49,243	49,243
Total assets	307,391	54,401	136,169	244,301	742,262
Liabilities & Fund Balances					
Liabilities:					
Accounts payable	-	387	-	14,510	14,897
Deferred revenue:					
Succeeding year property tax	200,000	-	67,325	-	267,325
Total liabilities	200,000	387	67,325	14,510	282,222
Fund balances:					
Unreserved reported in:					
Special revenue funds	107,391	54,014	68,844	-	230,249
Capital projects funds	-	-	-	229,791	229,791
Total fund balances	107,391	54,014	68,844	229,791	460,040
Total liabilities and fund balances	307,391	54,401	136,169	244,301	742,262

MIDLAND COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	Special Revenue Funds			Capital Projects	Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	Local Option Sales Tax	
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	149,652	-	66,646	329,195	545,493
Other	1,863	121,730	691	1,842	126,126
State sources	115	-	51	20,000	20,166
Total revenues	<u>151,630</u>	<u>121,730</u>	<u>67,388</u>	<u>351,037</u>	<u>691,785</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	34,623	-	-	-	34,623
Other instruction	-	123,837	-	-	123,837
Support services:					
Student services	893	-	-	-	893
Instructional staff services	353	-	-	-	353
Administration services	4,052	-	-	-	4,052
Operation and maintenance of plant services	52,638	-	-	-	52,638
Transportation services	37,734	-	-	-	37,734
Other expenditures:					
Facilities acquisition	-	-	-	284,010	284,010
Total expenditures	<u>130,293</u>	<u>123,837</u>	<u>-</u>	<u>284,010</u>	<u>538,140</u>
Excess (deficiency) of revenues over (under) expenditures	21,337	(2,107)	67,388	67,027	153,645
Other financing sources (uses):					
Compensation for loss of fixed assets	-	-	-	1,176	1,176
Net change in fund balance	21,337	(2,107)	67,388	68,203	154,821
Fund balances beginning of year	86,054	56,121	1,456	161,588	305,219
Fund balances end of year	<u>107,391</u>	<u>54,014</u>	<u>68,844</u>	<u>229,791</u>	<u>460,040</u>

MIDLAND COMMUNITY SCHOOL DISTRICT

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</u>	<u>Expenditures</u>	<u>Intra- Fund Transfers</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$	\$
Band revolving	1	83	250	166	-
K-5 vocal music	272	-	-	-	272
Big East Conference	102	1,825	1,860	-	67
Scoreboard account	2,500	-	2,376	-	124
Athletics	1,519	35,082	35,179	-	1,422
Yearbook	4,419	2,341	4,400	-	2,360
HS student council	15,517	13,828	13,145	97	16,297
N.H.S./fund balance	70	160	220	-	10
Drama club	343	-	61	-	282
Cheerleaders	102	1,325	925	-	502
FCCLA	1,022	2,829	2,496	-	1,355
Ag. club	2,607	6,983	9,629	3,967	3,928
Foreign language club	3,442	3,548	2,031	(1,117)	3,842
Invent Iowa	317	-	-	-	317
MS student council	1,914	273	1,100	-	1,087
Savings interest	1,006	-	-	-	1,006
SAFE	50	-	-	-	50
FFA wildflower co-op	4,897	3,572	714	(261)	7,494
Tatu	66	357	235	-	188
Environment grant fund	947	-	-	-	947
OJ Book Fairs	7	753	565	-	195
Fine arts	474	2,507	2,867	-	114
Onslow elementary	367	671	503	-	535
Team nutrition	-	1,497	924	-	573
Investment	1,216	159	-	-	1,375
Interest	25	212	-	(237)	-
Athletic resale	607	-	-	-	607
High school incentives	336	15,942	10,948	(5,314)	16
Onslow book fair	593	728	546	-	775
Oxford junction pop machine	83	1,154	923	-	314
OJ 4 & 5 incentive	1,361	1,088	1,655	-	794
Onslow K-3 activity	541	885	747	-	679
Onslow box top	702	1,343	1,268	-	777
OJ/BELC donation/fund balance	555	500	-	-	1,055
WYO/BELC donation/fund balance	162	-	-	-	162
OJ elem. assistance/fund balance	72	-	50	-	22
Middle school incentives	7,924	21,426	28,695	-	655
Sound system balance	500	240	680	-	60
Paul Petersen foundation	-	-	-	1,485	1,485

MIDLAND COMMUNITY SCHOOL DISTRICT

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</u>	<u>Expenditures</u>	<u>Intra- Fund Transfers</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$	\$
Class of 2004	512	-	43	(469)	-
Class of 2005	1,700	-	383	(1,317)	-
Class of 2006	-	419	1,148	3,000	2,271
Beginning accruals	(2,729)	-	(2,729)	-	-
Totals	<u>56,121</u>	<u>121,730</u>	<u>123,837</u>	<u>-</u>	<u>54,014</u>

MIDLAND COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2005	2004	2003	2002
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	3,284,634	3,351,863	2,865,927	2,451,723
Tuition	103,064	125,238	76,891	152,049
Other	205,937	193,666	202,920	162,074
Intermediate sources	-	2,836	2,025	-
State sources	2,818,011	2,759,844	3,001,150	3,060,811
Federal sources	260,998	229,029	255,235	183,825
Total revenues	6,672,644	6,662,476	6,404,148	6,010,482
Expenditures:				
Instruction:				
Regular instruction	2,396,800	2,399,410	2,483,741	2,664,239
Special instruction	892,618	1,056,081	1,112,006	1,041,772
Other instruction	618,321	430,536	423,161	432,538
Support services:				
Student services	264,784	245,736	235,401	210,712
Instructional staff services	138,643	92,767	93,869	133,041
Administration services	710,244	634,671	580,376	478,323
Operation and maintenance of plant services	554,315	503,425	472,480	471,533
Transportation services	382,458	465,503	408,629	372,105
Non-instructional programs	-	-	-	7,575
Other expenditures:				
Facilities acquisition	284,010	365,570	172,418	131,627
AEA flowthrough	207,443	213,534	230,205	230,836
Total expenditures	6,449,636	6,407,233	6,212,286	6,174,301

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
Midland 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 Midland 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 7, 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 Midland Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings

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

Compliance and Other Matters

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

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

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

September 7, 2005

MIDLAND COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year Ended June 30, 2005

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

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

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

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

Conclusion: Response accepted.

05-I-B Signature Stamp: We noted that a stamp bearing the signature of the Board President is used to cosign checks. The stamps are under the care, custody and control of the administrative office. This practice negates the internal control procedure established by requiring two signatures on a check

Recommendation: We recommend that this practice cease. The board may designate a person other than the board president to cosign checks. If a signature stamp is used, it should remain under the control of the person whose name the stamp bears at all times.

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

Conclusion: Response accepted.

MIDLAND COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year Ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting:

- 05-II-A Official Depositories: Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.
- 05-II-B Certified Budget: Disbursements for the year ended June 30, 2005 did not exceed the amounts budgeted.
- 05-II-C Questionable Expenditures: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 05-II-D Travel Expenses: No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- 05-II-E Business Transactions: Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
		\$
• Betty Wurst, Board Member	Substitute Teacher	160
• Kevin Leonard, Board Member	Assistant Wrestling Coach	1,587
• Bob McCreedy, Board Member	Web Development	1,120

Recommendation: Business with District officials is not a conflict of interest if bids are taken, or the total amount is less than \$2,500. Board Members are allowed to be part-time/temporary employees with annual wages less than \$2,500, effective July 1, 2001. The District should be aware of transactions with school officials that may be conflicts of interest.

District Response: We are aware of the conflict of interest rules.

Conclusion: Response accepted.

- 05-II-F Bond Coverage: Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of bond coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 05-II-G Board Minutes: We noted no transactions requiring board approval that had not been approved by the board.
- 05-II-H Certified Enrollment: No variances in the basic enrollment data certified to the Department of Education were noted.
- 05-II-I Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- 05-II-J Certified Annual Report: We reviewed a draft copy of the CAR and noted no significant deficiencies in the amounts reported.

MIDLAND COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year Ended June 30, 2005

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

05-II-K Reclassification of Student Activity Fund Accounts: There are some accounts in the Student Activity Fund that may belong more appropriately in other funds.

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

District Response: We will review the accounts and make any necessary adjustments.

Conclusion: Response accepted.

05-II-L Deficit Balances: The District has a deficit fund balance in the Nutrition Fund of \$11,205 at June 30, 2005.

Recommendation: The District should continue to monitor the fund and investigate alternatives to eliminate the deficit.

District Response: We are working on ways to eliminate the deficit.

Conclusion: Response accepted.