MOUNT VERNON COMMUNITY SCHOOL DISTRICT
MOUNT VERNON, IOWA

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

JUNE 30, 2005

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MOUNT VERNON COMMUNITY SCHOOL DISTRICT

OFFICIALS

Name	Title	Term Expires
	Board of Education	
	(Before September 2004 Election)	
Thomas Wieseler	President	2004
Todd Tripp	Vice President	2006
Eldean Borg	Board Member	2004
Ann Stoner	Board Member	2005
Bob Penn	Board Member	2005
Janet Griffith	Board Member	2004
Rebecca Brandt	Board Member	2006
	Board of Education	
	(After September 2004 Election)	
Thomas Wieseler	President	2007
Todd Tripp	Vice President	2006
Eldean Borg	Board Member	2007
Ann Stoner	Board Member	2005
Bob Penn	Board Member	2005
Janet Griffith	Board Member	2007
Rebecca Brandt	Board Member	2006
	School Officials	
Jeff Schwiebert	Superintendent	2005
Matt Burke	District Secretary/Treasurer	2005
Guy Booth	Attorney	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Mount Vernon Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Mount Vernon Community School District, 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 basic financial statements based on our audit.

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

The financial statements do not include the financial data for the District's legally separate component unit. U.S. generally accepted accounting principles require the financial data for that component unit to be reported with the financial data of the District's primary government unless the District also issues financial statements for the financial reporting entity that include the financial data for its component unit. The District has not issued such reporting entity financial statements. The effects of this departure from U.S. generally accepted accounting principles on the assets, liabilities, fund balances, revenues and expenditures of the discretely presented component unit are not reasonably determinable at this time.

In our opinion, because of the omission of the discretely presented component unit, as discussed above, the financial statements referred to above do not present fairly, in conformity with U.S. generally accepted accounting principles, the financial position of the discretely presented component unit of the Mount Vernon Community School District as of June 30, 2005, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Mount Vernon 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 August 9, 2005 on our consideration of Mount Vernon 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.

The Management's Discussion and Analysis and budgetary comparison information on pages 6 through 17 and 52 through 53 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. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mount Vernon 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. 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.

Oskaloosa, Iowa
August 9, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Mount Vernon 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 $7,363,295 in fiscal 2004 to $7,914,597 in fiscal 2005, while General Fund expenditures increased from $7,481,663 in fiscal 2004 to $7,928,188 in fiscal 2005. The District's General Fund balance decreased from $1,376,721 in fiscal 2004 to $1,363,150 in fiscal 2005, a 1% decrease.

- The increase in General Fund revenues was primarily attributable to an increase in state foundation aid revenue, an increase in open enrollment tuition, and an increase in special education tuition. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits, the hiring of new teaching positions, and an increase in computer hardware purchases.

- The fund balance in the Capital Projects Fund decreased from $8,991,771 in fiscal 2004 to $7,453,636 in fiscal 2005 primarily due to the construction costs for the new high school building.

- The Debt Service Fund revenues and other financing sources increased from $351,962 in fiscal 2004 to $915,920 in fiscal 2005 primarily due to an increase in debt service fund property taxes for the repayment of the $8,900,000 general obligation bonds issued during fiscal 2004. The district paid $290,000 in principal and $396,900 in interest for the repayment of this debt issue during fiscal 2005.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Mount Vernon 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 Mount Vernon Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The Fiduciary Fund statements provide financial information about activities for which

Mount Vernon Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

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-1
Mount Vernon Community School District Annual Financial Report

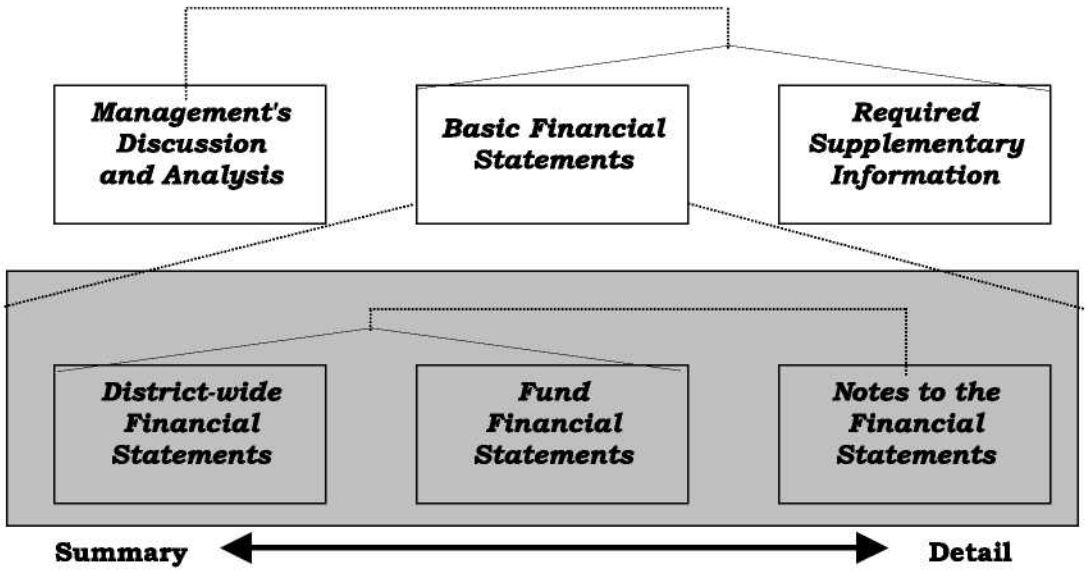

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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 day care	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	• Statement of net assets • Statement of activities	• Balance sheet • Statement of revenues, expenditures and changes in fund balances	• Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows	• 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:

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 two Enterprise Funds, the School Nutrition Fund and the Daycare Fund.

The required financial statements for proprietary funds include a statement of net assets, 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.
- Agency Funds – These are funds through which the District administers and accounts for employee wellness program funds.

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 as compared to June 30, 2004.

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

	Governmental Activities June 30,		Business type Activities June 30,		Total District June 30,		Total Change June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
Current and other assets	$ 13,408	$ 14,227	$ 67	53	$ 13,475	14,280	(805)
Capital assets	4,978	$ 3,231	9	13	4,987	3,244	1,743
Total assets	18,386	17,458	76	66	18,462	17,524	938
Long-term liabilities	8,685	9,195	-	-	8,685	9,195	(510)
Other liabilities	3,919	3,242	5	6	3924	3,248	676
Total liabilities	12,604	12,437	5	6	12,609	12,443	166
Net assets:							
Invested in capital assets, net of related debt	3,724	2,936	9	13	3,733	2,949	784
Restricted	495	513	-	_	495	513	(18)
Unrestricted	1,563	1,572	62	47	1,625	1,619	6
Total net assets	$ 5,782	5,021	$ 71	60	$ 5,853	5,081	772

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.

Unrestricted net assets represent 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.

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

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

	Governmental Activities June 30,		Business type Activities June 30,		Total District June 30,		Total Change June 30,
Revenues:	2005	2004	2005	2004	2005	2004	2004-2005
Program revenues:							
Charges for service	$1,493	1,216	$382	333	$1,875	1,549	21.0%
Operating grants, contributions and restricted interest	708	693	114	103	822	796	3.3%
Capital grants, contributions and restricted interest	-	-	-	-	-	-	-
General revenues:							
Property tax	2,847	2,339	-	-	2,847	2,339	21.7%
Local option sales and service tax	10	6	-	-	10	6	66.7%
Unrestricted state grants	3,924	3,673	-	-	3,924	3,673	6.8%
Unrestricted investment earnings	282	53	2	1	284	54	425.9%
Other	208	374	-	-	208	374	(44.4)%
Total revenues							
Program expenses:							
Governmental activities:							
Instruction	5,432	5,258	-	-	5,432	5,258	3.3%
Support services	2,417	2,201	-	-	2,417	2,201	9.8%
Non-instructional programs	1	1	487	457	488	458	6.6%
Other expenses	861	480	-	-	861	480	79.4%
Total expenses	8,711	7,940	487	457	9,198	8,397	9.5%
Change in net assets	$761	414	$11	(20)	$772	394	95.9%

Property tax and unrestricted state grants account for 68% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 85% of the total expenses.

Overall net assets increased approximately $772,000 for the current year.

Other expenses increased approximately $381,000 (79.4%) and property tax revenues increased approximately $508,000 (21.7%) due mainly to the additional Debt Service tax levy used to make payments on the $8,900,000 general obligation bond issue.

A rise in interest rates and earnings on unspent bond proceeds led to an approximate $230,000 (425.9%) increase in investment earnings.

Governmental Activities

Revenues for governmental activities were $9,472,426 and expenses were $8,710,893.

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

(Expressed in Thousands)

	Total Cost of Services		Net Cost of Services	
	2004	2005	2004	2005
Instruction	$ 5,258	5,432	3,698	3,571
Support services	2,201	2,417	2,135	2,365
Non-instructional programs	1	1	1	1
Other expenses	480	861	196	573
Totals	$ 7,940	8,711	6,030	6,510

The cost financed by users of the District's programs was $1,493,612.

- Federal and state governments subsidized certain programs with grants and contributions totaling $707,685.

- The net cost of governmental activities was financed with $3,046,821 in property and other taxes and $3,923,781 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were $498,485 and expenses were $487,072. The District's business type activities include the School Nutrition Fund and Daycare Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2005, the School Board approved an increase in meal prices for the 2004-2005 fiscal year to offset increasing food costs in the Nutrition Program as well as replacing obsolete kitchen equipment in the main production kitchen in the high school.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Mount Vernon 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 $9,289,421 as compared to last year's ending fund balances of $10,782,763. The primary reason for the decrease was the construction costs for the new high school building in the Capital Projects Fund.

Governmental Fund Highlights

- The District's General Fund maintained a similar financial position in fiscal 2005 as compared to the previous fiscal year. Total student enrollment in district had slight increase in fiscal 2005 and general fund expenditures approximately matched general fund revenues for the fiscal year.

- General Fund revenues increased from $7,363,295 in fiscal 2004 to $7,914,597 in fiscal 2005, while General Fund expenditures increased from $7,481,663 in fiscal 2004 to $7,928,188 in fiscal 2005. The District's General Fund balance decreased from $1,376,721 in fiscal 2004 to $1,363,150 in fiscal 2005, a 1% decrease.

- The increase in General Fund revenues was primarily attributable to an increase in state foundation aid revenue, an increase in open enrollment tuition, and an increase in special education tuition. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and an increase in computer hardware purchases.

- The decrease in the Capital Projects Fund unreserved fund balance from $8,991,771 in fiscal 2004 to $7,453,636 in fiscal 2005 was primarily attributable to the construction costs for the new high school building. The available funds in the Capital Projects Fund originated from the receipt of $9,009,907 from the issuance of

general obligation bonds during fiscal 2004. The proceeds from these bonds are being held in the Capital Projects Fund for the construction of a new high school building west of the current high school building and the remodeling of the current high school building into a middle school. The high school construction project bid was awarded to Kleiman Construction, Inc. at a total bid price of $10,447,540. The high school construction project is expected to be completed by August, 2006. Architectural design work to remodel the current high school building into a middle school continues with a goal of completing the remodeling project by August, 2006.

- The Debt Service Fund revenues and other financing sources increased from $351,962 in fiscal 2004 to $915,920 in fiscal 2005 was primarily due to an increase in debt service property taxes for the repayment of the $8,900,000 general obligation bonds issued during fiscal 2004. During fiscal 2005 the district paid $290,000 in principal and $396,900 in interest for the repayment of this debt issue.

- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from $299,749 in fiscal 2004 to $351,808 in fiscal 2005. While revenues remained approximately the same, the District continued to reduce spending from the PPEL Fund in order to improve the financial condition of the fund for the current high school and middle school construction projects.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from $37,941 at June 30, 2004 to $37,925 at June 30, 2005. During fiscal 2005 the district increased the prices of school lunches to offset the increasing costs of food purchased by the Nutrition Fund.

BUDGETARY HIGHLIGHTS

Over the course of the year, Mount Vernon Community School District amended its annual budget one time to reflect additional revenue and expenditures associated with the nutrition program and changes in purchased services. No functional budget areas were exceeded at year end.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested $5.0 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was $223,460.

The original cost of the District's capital assets was $8.3 million primarily in the governmental funds. The District's construction in progress totaled $1,766,546 at June 30, 2005 which represents the beginning of construction of the new high school building.

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	$ 298	298	$ -	-	$ 298	298	$ -
Construction in progress	1,767	51	-	-	1,767	51	1,716
Buildings	2,440	2,527	-	-	2,440	2,527	(87)
Improvements other than buildings	199	67	-	-	199	67	132
Furniture and equipment	274	288	9	13	283	301	(18)
Totals	$ 4,978	$3,231	$ 9	13	$ 4,987	3,244	$1,743

Long-Term Debt

At June 30, 2005, the District had $8,685,000 in general obligation debt and capital loan notes outstanding. (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 June 30, 2005	Total District June 30, 2004	Total Change June 30, 2004-2005
General obligation bonds	$ 8,610	8,900	(290)
Capital Loan Notes	75	295	(220)
	-		
Totals	$ 8,685	9,195	(510)

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Construction continues on the new high school building. Construction of the building by Kleiman Construction of Cedar Rapids, Iowa began in April, 2005 with expected completion in August, 2006.

- Architectural design work to remodel the current high school building into a middle school continues with a goal of completing the remodeling project by August, 2006.

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 Matt Burke, School District Secretary/Treasurer, Mount Vernon Community School District, 525 Palisades Road, Mount Vernon, Iowa, 52314.

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Basic Financial Statements

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
June 30, 2005

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	$ 10,187,700	$ 64,296	$ 10,251,996
Receivables:			
Property tax:			
Current year	25,375	-	25,375
Succeeding year	2,663,871	-	2,663,871
Income surtax	232,161	-	232,161
Accounts	2,450	1,017	3,467
Due from other governments	297,220	-	297,220
Interfund balances (note 4)	(726)	726	-
Inventories	-	1,185	1,185
Capital assets, net of accumulated depreciation (note 5)	4,978,298	9,455	4,987,753
Total assets	18,386,349	76,679	18,463,028
Liabilities			
Accounts payable	646,036	38	646,074
Salaries and benefits payable	576,562	-	576,562
Accrued interest payable	32,330	-	32,330
Deferred revenue:			
Succeeding year property tax	2,663,871	-	2,663,871
Other	-	5,421	5,421
Long-term liabilities (note 6):			
Portion due within one year:			
Bonds payable	300,000	-	300,000
Notes payable	75,000	-	75,000
Portion due after one year:			
Bonds payable	8,310,000	-	8,310,000
Total liabilities	12,603,799	5,459	12,609,258

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
June 30, 2005

	Governmental Activities	Business-type Activities	Total
Net Assets			
Invested in capital assets, net of related debt	$ 3,724,279	$ 9,455	$ 3,733,734
Restricted for:			
Management levy	67,532	-	67,532
Physical plant and equipment levy	351,808	-	351,808
Other special revenue purposes	53,294	-	53,294
Capital projects	22,655	-	22,655
Unrestricted	1,562,982	61,765	1,624,747
Total net assets	$ 5,782,550	$ 71,220	$ 5,853,770

See notes to financial statements.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants, Contributions and Restricted Interest	Program Revenues: Capital Grants, Contributions and Restricted Interest
Governmental Activities:				
Instruction:				
Regular instruction	$ 3,808,095	$ 979,286	$ 284,627	$ -
Special instruction	908,112	258,319	95,572	-
Other instruction	716,099	228,017	15,298	-
	5,432,306	1,465,622	395,497	-
Support services:				
Student services	198,606	-	7,104	-
Instructional staff services	387,478	-	12,059	-
Administration services	780,717	-	1,000	-
Operation and maintenance of plant services	703,806	7,375	-	-
Transportation services	345,781	20,615	3,128	-
	2,416,388	27,990	23,291	-
Non-instructional programs	716	-	-	-
Other expenditures:				
Long-term debt interest and fiscal charges	404,302	-	-	-
AEA flowthrough	288,897	-	288,897	-
Depreciation (unallocated) *	168,284	-	-	-
	861,483	-	288,897	-
Total governmental activities	8,710,893	1,493,612	707,685	-
Business-Type Activities:				
Non-instructional programs:				
Food service operations	458,376	342,699	113,967	-
Daycare operations	28,696	39,487	-	-
Total business-type activities	487,072	382,186	113,967	-
Total	$ 9,197,965	$ 1,875,798	$ 821,652	$ -

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
$ (2,544,182)	$ -	$ (2,544,182)
(554,221)	-	(554,221)
(472,784)	-	(472,784)
(3,571,187)	-	(3,571,187)
(191,502)	-	(191,502)
(375,419)	-	(375,419)
(779,717)	-	(779,717)
(696,431)	-	(696,431)
(322,038)	-	(322,038)
(2,365,107)	-	(2,365,107)
(716)	-	(716)
(404,302)	-	(404,302)
-	-	-
(168,284)	-	(168,284)
(572,586)	-	(572,586)
(6,509,596)	-	(6,509,596)
-	(1,710)	(1,710)
-	10,791	10,791
-	9,081	9,081
(6,509,596)	9,081	(6,500,515)

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

Functions/Programs

General Revenues:

Property tax levied for:
  General purposes
  Debt service
  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

Net assets end of year

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

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
$ 1,873,320	$ -	$ 1,873,320
685,603	-	685,603
287,808	-	287,808
190,092	-	190,092
9,998	-	9,998
3,923,781	-	3,923,781
282,298	2,332	284,630
18,229	-	18,229
7,271,129	2,332	7,273,461
761,533	11,413	772,946
5,021,017	59,807	5,080,824
$ 5,782,550	$ 71,220	$ 5,853,770

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	General	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and pooled investments	$ 1,635,856	$ -	$ 8,079,862	$ 471,982	$ 10,187,700
Receivables:					
Property tax:					
Current year	16,157	5,917	-	3,301	25,375
Succeeding year	1,691,926	619,266	-	352,679	2,663,871
Income surtax	232,161	-	-	-	232,161
Interfund receivable (note 4)	5,916	-	-	-	5,916
Accounts	2,450	-	-	-	2,450
Due from other governments	297,220	-	-	-	297,220
Total assets	$ 3,881,686	$ 625,183	$ 8,079,862	$ 827,962	$ 13,414,693

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	General	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ 17,161	$ -	$ 626,226	$ 2,649	$ 646,036
Salaries and benefits payable	576,562	-	-	-	576,562
Interfund payable (note 4)	726	5,916	-	-	6,642
Deferred revenue:					
Succeeding year property tax	1,691,926	619,266	-	352,679	2,663,871
Other	232,161	-	-	-	232,161
Total liabilities	2,518,536	625,182	626,226	355,328	4,125,272
Fund balance:					
Reserved for:					
Debt service	-	1	-	-	1
Unreserved:					
Reported in nonmajor Special Revenue Funds	-	-	-	472,634	472,634
Designated for instructional support	770,495	-	-	-	770,495
Designated for cash flow	566,425	-	-	-	566,425
Undesignated	26,230	-	7,453,636	-	7,479,866
Total fund balances	1,363,150	1	7,453,636	472,634	9,289,421
Total liabilities and fund balances	$ 3,881,686	$ 625,183	$ 8,079,862	$ 827,962	$ 13,414,693

See notes to financial statements.

MOUNT VERNON 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	$	9,289,421
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		4,978,298
Other long-term assets, including income surtax receivable, are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		232,161
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.		(32,330)
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(8,685,000)
Net assets of governmental activities	$	5,782,550

See notes to financial statements.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	General	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total
Revenues:					
Local sources:					
Local tax	$ 1,977,589	$ 685,198	$ 9,998	$ 376,099	$ 3,048,884
Tuition	1,228,175	-	-	-	1,228,175
Other	66,746	1,797	250,900	237,071	556,514
State sources	4,495,642	405	-	229	4,496,276
Federal sources	146,445	-	-	-	146,445
Total revenues	7,914,597	687,400	260,898	613,399	9,476,294
Expenditures:					
Current:					
Instruction:					
Regular instruction	3,779,342	-	-	19,449	3,798,791
Special instruction	908,112	-	-	-	908,112
Other instruction	513,687	-	-	219,398	733,085
	5,201,141	-	-	238,847	5,439,988
Support services:					
Student services	195,988	-	-	907	196,895
Instructional staff services	386,637	-	-	841	387,478
Administration services	772,334	-	-	8,383	780,717
Operation and maintenance of plant services	785,906	-	-	44,557	830,463
Transportation services	297,285	-	-	15,256	312,541
	2,438,150	-	-	69,944	2,508,094
Non-instructional programs	-	-	-	716	716
Other expenditures:					
Facilities acquisition	-	-	1,799,033	17,008	1,816,041
Long term debt:					
Principal	-	510,000	-	-	510,000
Interest and fiscal charges	-	405,920	-	-	405,920
AEA flowthrough	288,897	-	-	-	288,897
	288,897	915,920	1,799,033	17,008	3,020,858
Total expenditures	7,928,188	915,920	1,799,033	326,515	10,969,656
Excess (deficiency) of revenues over (under) expenditures	(13,591)	(228,520)	(1,538,135)	286,884	(1,493,362)

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	General	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total
Other financing sources (uses):					
Sale of equipment	$ 20	$ -	$ -	$ -	$ 20
Interfund transfers in	-	228,520	-	1,908	230,428
Interfund transfers out	-	(1,908)	-	(228,520)	(230,428)
Total other financing sources (uses)	20	226,612	-	(226,612)	20
Net change in fund balances	(13,571)	(1,908)	(1,538,135)	60,272	(1,493,342)
Fund balances beginning of year	1,376,721	1,909	8,991,771	412,362	10,782,763
Fund balances end of year	$ 1,363,150	$ 1	$ 7,453,636	$ 472,634	$ 9,289,421

See notes to financial statements.

MOUNT VERNON 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		$ (1,493,342)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the statement of net assets and are allocated over their estimated useful lives as depreciation expense in the statement of activities. The amounts of capital outlays and depreciation expense in the year are as follows:		
Capital outlays	$ 1,967,006	
Depreciation expense	(219,861)	1,747,145
Certain income surtax not received until several months after the District's fiscal year ends is not considered available revenue in the governmental funds and is deferred. It is, however, recorded as revenue in the statement of activities.		(3,888)
Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets.		510,000
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, however, interest expense is recognized as the interest accrues, regardless of when it is due.		1,618
Change in net assets of governmental activities		$ 761,533

See notes to financial statements.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2005

	Enterprise Funds		
	School Nutrition	Nonmajor - Daycare	Total
Assets			
Cash and cash equivalents	$ 30,963	$ 33,333	$ 64,296
Interfund receivable (note 4)	726	-	726
Accounts receivable	1,017	-	1,017
Inventories	1,185	-	1,185
Capital assets, net of accumulated depreciation	9,455	-	9,455
Total assets	43,346	33,333	76,679
Liabilities			
Accounts payable	-	38	38
Deferred revenue	5,421	-	5,421
Total liabilities	5,421	38	5,459
Net Assets			
Invested in capital assets	9,455	-	9,455
Unrestricted	28,470	33,295	61,765
Total net assets	$ 37,925	$ 33,295	$ 71,220

See notes to financial statements.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2005

	Enterprise Funds		
	School Nutrition	Nonmajor - Daycare	Total
Operating revenues:			
Local sources:			
Charges for services	$ 342,699	$ 39,487	$ 382,186
Operating expenses:			
Non-instructional programs:			
Food and community services operations:			
Salaries	118,445	18,891	137,336
Benefits	41,474	4,086	45,560
Purchased services	2,310	-	2,310
Supplies	292,010	5,719	297,729
Small equipment	538	-	538
Depreciation	3,599	-	3,599
	458,376	28,696	487,072
Operating income (loss)	(115,677)	10,791	(104,886)
Non-operating revenues:			
Interest on investments	1,694	638	2,332
State sources	5,214	-	5,214
Federal sources	108,753	-	108,753
Total non-operating revenues	115,661	638	116,299
Change in net assets	(16)	11,429	11,413
Net assets beginning of year	37,941	21,866	59,807
Net assets end of year	$ 37,925	$ 33,295	$ 71,220

See notes to financial statements.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2005

	Enterprise Funds		
	School Nutrition	Nonmajor - Daycare	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	$ 339,828	$ -	$ 339,828
Cash received from miscellaneous operating activities	2,362	39,487	41,849
Cash payments to employees for services	(161,524)	(23,377)	(184,901)
Cash payments to suppliers for goods or services	(285,871)	(5,681)	(291,552)
Net cash provided by (used in) operating activities	(105,205)	10,429	(94,776)
Cash flows from non-capital financing activities:			
State grants received	5,214	-	5,214
Federal grants received	101,774	-	101,774
Net cash provided by non-capital financing activities	106,988	-	106,988
Cash flows from investing activities:			
Interest on investments	1,694	638	2,332
Net increase in cash and cash equivalents	3,477	11,067	14,544
Cash and cash equivalents beginning of year	27,486	22,266	49,752
Cash and cash equivalents end of year	$ 30,963	$ 33,333	$ 64,296

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2005

	Enterprise Funds		
	School Nutrition	Nonmajor - Daycare	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	$ (115,677)	$ 10,791	$ (104,886)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	3,599	-	3,599
Commodities used	6,979	-	6,979
(Increase) in interfund receivable	(726)	-	(726)
(Increase) in accounts receivable	(1,017)	-	(1,017)
Decrease in inventories	2,008	-	2,008
Increase in accounts payable	-	38	38
(Decrease) in salaries and benefits payable	(1,605)	(400)	(2,005)
Increase in deferred revenue	1,234	-	1,234
Net cash provided by (used in) operating activities	$ (105,205)	$ 10,429	$ (94,776)

Non-cash investing, capital and financing activities:
During the year ended June 30, 2005, the District received $6,979 of federal commodities.

See notes to financial statements.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2005

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Cash and pooled investments	$ 855	$ 2,375
Liabilities:		
Other payables	-	$ 2,375
Net assets:		
Reserved for scholarships	$ 855	

See notes to financial statements.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2005

	Private Purpose Trust
	Scholarship
Additions:	
Local sources:	
Gifts and contributions	$ 1,000
Interest	12
Total additions	1,012
Deductions:	
Support services:	
Scholarships awarded	1,000
Change in net assets	12
Net assets beginning of year	843
Net assets end of year	$ 855

See notes to financial statements.

Note 1. Summary of Significant Accounting Policies

Mount Vernon Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Mount Vernon, Iowa, and agricultural territory in Linn, Jones, and Johnson 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, Mount Vernon 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. Mount Vernon Community School District has one component unit which meets the Governmental Accounting Standards Board criteria.

The Mount Vernon School Foundation, a discretely presented component unit, has been omitted from the financial statements. The financial statements presented include only the primary government of the Mount Vernon Community School District.

B. Basis of Presentation

District-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.

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

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

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

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

The District reports the following major governmental funds:

The General Fund is the main 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 expenses, including instructional, support and other costs.

The Debt Service Fund is used 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 District reports the following major proprietary fund:

The Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

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

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

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.

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

All proprietary funds of the District apply 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.

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the statement of net assets and 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 that the tax asking is certified by the Board of Education to the County Board of Supervisors. Current year property tax receivable represents unpaid taxes from the current year. 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 to the County Auditor by April 15 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 District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

The property tax revenue recognized in these funds becomes 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.

Income surtax receivable – Income surtax budgeted for the fiscal year ended June 30, 2005 will not be received by the District until the fiscal year ending June 30, 2006. Accordingly, income surtax is recorded as a receivable and included in deferred revenue on the modified accrual basis for the governmental funds. For the District-wide statements, on the Statement of Activities the income surtax revenue is recognized.

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 contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

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

Asset Class	Amount
Land	$ 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 of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Buildings	50 years
Improvements other than buildings	20 years
Furniture and equipment	5-12 years

Salaries and Benefits Payable – Payroll and related expenses 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 collectible 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 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, the succeeding year 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.

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation and sick leave for subsequent use. The District's policy is not to reimburse employees for sick leave or vacation. Vacation can only be used by the employee in the year it is earned. The District has no compensated absences liability at June 30, 2005.

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

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

Designated Fund Balance – The District designated a portion of its fund balance for instructional support and cash flow.

Invested in capital assets, net of related debt – In the District-wide statement of net assets, the net asset balance invested in capital assets, net of related debt is equal to the capital assets balances, including restricted capital assets, less accumulated depreciation and the outstanding balances of any bonds, notes, or other debt that are attributable to the acquisition, construction, or improvement of those assets.

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

E. Budgets and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Note 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.

Note 2. Cash and Pooled Investments (continued)

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

	Amortized Cost/ Fair Value
Iowa Schools Joint Investment Trust - Diversified Portfolio	$ 16,200
Collateralized Certificate of Deposit	8,050,921
	$ 8,067,121

The investments in the Iowa Schools Joint Investment Trust are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940. The collateralized certificate of deposit is stated at fair value.

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.

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

Note 3. Interfund Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Special Revenue - Physical Plant and Equipment Levy	$ 228,520
Special Revenue- Physical Plant and Equipment Levy	Debt Service	1,908
Total		$ 230,428

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

Note 4. Interfund Receivables and Payables

At June 30, 2005, the interfund receivables and payables consisted of the following:

Receivable Fund	Payable Fund	Amount
Interfund balances between Governmental Funds:		
Pooled cash balances:		
General	Debt Service	$ 5,916
Interfund balances between Proprietary and Governmental Funds:		
Other receivables:		
Enterprise - School Nutrition	General	726
		$ 6,642

Pooled cash balances are temporary financing between funds which is necessary due to the timing of expected tax collections. These balances are not included on the government-wide statement of net assets.

Other receivable interfund balances are due to timing differences involved in the reimbursement of General Fund food usage to the School Nutrition Fund. These balances have been eliminated on the face of the government-wide statement of net assets.

Note 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	$ 298,137	$ -	$ -	$ 298,137
Construction in progress	51,079	1,715,467	-	1,766,546
Total capital assets not being depreciated	349,216	1,715,467	-	2,064,683
Capital assets being depreciated:				
Buildings	4,567,132	-	-	4,567,132
Improvements other than buildings	527,308	151,752	44,514	634,546
Furniture and equipment	980,909	99,787	-	1,080,696
Total capital assets being depreciated	6,075,349	251,539	44,514	6,282,374
Less accumulated depreciation for:				
Buildings	2,039,702	87,303	-	2,127,005
Improvements other than buildings	460,314	19,064	44,514	434,864
Furniture and equipment	693,396	113,494	-	806,890
Total accumulated depreciation	3,193,412	219,861	44,514	3,368,759
Total capital assets being depreciated, net	2,881,937	31,678	-	2,913,615
Governmental activities capital assets, net	$ 3,231,153	$ 1,747,145	$ -	$ 4,978,298

Note 5. Capital Assets (continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	$ 25,340	$ -	$ -	$ 25,340
Less accumulated depreciation	12,286	3,599	-	15,885
Business-type activities capital assets, net	$ 13,054	$ (3,599)	$ -	$ 9,455

Depreciation expense was charged by the District to the following functions:

Governmental activities:	
Instruction:	
Regular	$ 9,304
Other	1,886
Support services:	
Student services	1,711
Operation and maintenance of plant services	4,436
Transportation	34,240
	51,577
Unallocated depreciation	168,284
Total governmental activities depreciation expense	$ 219,861
Business-type activities:	
Food service operations	$ 3,599

Note 6. Long-Term Liabilities

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

	General Obligation Bonds	Capital Loan Notes	Total
Balance beginning of year	$ 8,900,000	$ 295,000	$ 9,195,000
Additions	-	-	-
Reductions	290,000	220,000	510,000
Balance end of year	$ 8,610,000	$ 75,000	$ 8,685,000
Due within one year	$ 300,000	$ 75,000	$ 375,000

Bonds Payable

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

Year Ending June 30,	Interest Rate	Principal	Interest	Total
2006	4.00 %	$ 300,000	$ 385,300	$ 685,300
2007	4.50	315,000	373,300	688,300
2008	4.50	330,000	359,126	689,126
2009	4.50	345,000	344,276	689,276
2010	4.50	360,000	328,750	688,750
2011	4.50	375,000	312,550	687,550
2012	4.50	390,000	295,676	685,676
2013	4.50	405,000	278,126	683,126
2014	4.50	425,000	259,900	684,900
2015	4.10	445,000	240,776	685,776
2016	4.20	460,000	222,530	682,530
2017	4.25	480,000	203,210	683,210
2018	4.30	500,000	182,810	682,810
2019	4.40	520,000	161,310	681,310
2020	4.50	540,000	138,430	678,430
2021	4.60	565,000	114,130	679,130
2022	4.70	590,000	88,140	678,140
2023	4.75	620,000	60,410	680,410
2024	4.80	645,000	30,960	675,960
Total		$ 8,610,000	$ 4,379,710	$ 12,989,710

During the year ended June 30, 2005, the District retired $290,000 of bonds.

Note 6. Long-Term Liabilities (continued)

Capital Loan Notes

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

Year Ending June 30,	Principal	Interest	Total
2006	$ 75,000	$ 1,331	$ 76,331

During the year ended June 30, 2005, the District retired $220,000 of capital loan notes.

Note 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. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were $322,898, $297,529, and $277,163 respectively, equal to the required contributions for each year.

Note 8. Risk Management

Mount Vernon 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.

Note 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 $288,897 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.

Note 10. Construction Commitments

The District entered into various contracts totaling $11,291,552 for construction of a high school building. At June 30, 2005 $1,712,639 of the contracts were completed. The remaining amounts of the contracts will be paid as work on the project progresses.

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Required Supplementary Information

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances –
Budget and Actual (Accrual Basis) – All Governmental Funds
and Proprietary Funds
Required Supplementary Information
Year Ended June 30, 2005

	Governmental Funds - Actual	Proprietary Funds - Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
REVENUES:						
Local sources	$ 4,833,573	$ 384,518	$ 5,218,091	$ 4,717,587	$ 4,717,587	$ 500,504
State sources	4,496,276	5,214	4,501,490	4,528,947	4,528,947	(27,457)
Federal sources	146,445	108,753	255,198	734,344	734,344	(479,146)
Total revenues	9,476,294	498,485	9,974,779	9,980,878	9,980,878	(6,099)
EXPENDITURES:						
Instruction	5,439,988	-	5,439,988	5,514,593	5,990,840	550,852
Support services	2,508,094	-	2,508,094	2,290,932	2,599,961	91,867
Non-instructional programs	716	487,072	487,788	440,960	590,915	103,127
Other expenditures	3,020,858	-	3,020,858	10,692,865	10,692,865	7,672,007
Total expenditures	10,969,656	487,072	11,456,728	18,939,350	19,874,581	8,417,853
Excess (deficiency) of revenues over (under) expenditures	(1,493,362)	11,413	(1,481,949)	(8,958,472)	(9,893,703)	8,411,754
Other financing sources, net	20	-	20	8,900,000	8,900,000	(8,899,980)
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(1,493,342)	11,413	(1,481,929)	(58,472)	(993,703)	(488,226)
Balance beginning of year	10,782,763	59,807	10,842,570	1,687,514	1,687,514	9,155,056
Balance end of year	$ 9,289,421	$ 71,220	$ 9,360,641	$ 1,629,042	$ 693,811	$ 8,666,830

See accompanying independent auditor's report.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
June 30, 2005

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the 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 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 expenditures by $935,231.

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Other Supplementary Information

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2005

	Special Revenue			
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Total
Assets				
Cash and pooled investments	$ 66,715	$ 55,943	$ 349,324	$ 471,982
Receivables:				
Property tax:				
Current year	817	-	2,484	3,301
Succeeding year	84,123	-	268,556	352,679
Total assets	$ 151,655	$ 55,943	$ 620,364	$ 827,962
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	$ -	$ 2,649	$ -	$ 2,649
Deferred revenue:				
Succeeding year property tax	84,123	-	268,556	352,679
Total liabilities	84,123	2,649	268,556	355,328
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	67,532	53,294	351,808	472,634
Total liabilities and fund equity	$ 151,655	$ 55,943	$ 620,364	$ 827,962

See accompanying independent auditor's report.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	Special Revenue			
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Total
Revenues:				
Local sources:				
Local tax	$ 88,461	$ -	$ 287,638	$ 376,099
Other	1,183	228,017	7,871	237,071
State sources	59	-	170	229
Total revenues	89,703	228,017	295,679	613,399
Expenditures:				
Current:				
Instruction:				
Regular instruction	19,449	-	-	19,449
Other instruction	-	219,398	-	219,398
Support services:				
Student services	907	-	-	907
Instructional staff services	841	-	-	841
Administration services	8,383	-	-	8,383
Operation and maintenance of plant services	44,557	-	-	44,557
Transportation services	15,256	-	-	15,256
Non instructional programs	716	-	-	716
Other expenditures:				
Facilities acquisition	-	-	17,008	17,008
Total expenditures	90,109	219,398	17,008	326,515
Excess (deficiency) of revenues over (under) expenditures	(406)	8,619	278,671	286,884
Other financing sources (uses):				
Interfund transfers in	-	-	1,908	1,908
Interfund transfers out	-	-	(228,520)	(228,520)
Total other financing sources (uses)	-	-	(226,612)	(226,612)

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	Special Revenue			
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Total
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	$ (406)	$ 8,619	$ 52,059	$ 60,272
Fund balances beginning of year	67,938	44,675	299,749	412,362
Fund balances end of year	$ 67,532	$ 53,294	$ 351,808	$ 472,634

See accompanying independent auditor's report.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Activity Fund/Interest	$ 846	$ 523	$ -	$ 1,369
Strings	-	986	902	84
Drama & Speech	1	6,976	6,942	35
New York Trip	1	890	891	-
Vocal	4,199	(451)	2,410	1,338
Instrumental	3	6,775	6,778	-
Miscellaneous Athletics	30	4,462	4,491	1
Cross Country Co-Ed	1	2,913	2,913	1
Tennis Co-Ed	1	1,056	1,056	1
Boys Basketball	1	6,253	5,750	504
Boys Football	1	32,175	31,623	553
Boys Soccer	1	2,111	1,664	448
Boys Baseball	165	7,603	7,768	-
Boys Track	1	3,295	3,295	1
Boys Golf	-	1,954	1,954	-
Boys Wrestling	-	7,010	6,478	532
Girls Basketball	25	5,550	5,093	482
Girls Volleyball	999	9,524	10,522	1
Girls Soccer	1	1,688	1,688	1
Girls Softball	96	4,352	4,447	1
Girls Track	1	2,456	2,456	1
Student Pop and Juice	-	1,351	1,335	16
Art	687	2,158	2,026	819
Building Club	1,723	8,285	8,846	1,162
Industrial Arts Projects	7	452	-	459
Class Pictures	1,167	468	41	1,594
Uniform/Robe Rental	2,716	1,096	494	3,318
Recreation Association	765	-	-	765
Enact	23	-	-	23
Academic Decathlon	41	60	101	-
Student Council	891	4,675	4,724	842
Chess Club	351	-	-	351
Annual	11,525	15,514	17,970	9,069
Class of 2001	683	-	72	611
Class of 2002	155	-	-	155
Class of 2003	592	-	435	157
Class of 2004	240	35	35	240
Class of 2005	842	25	420	447
Class of 2006	1,725	720	1,987	458
Class of 2007	1	1,604	-	1,605
Cheerleading	1	4,723	4,312	412

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Dance Group	$ -	$ 12,769	$ 9,211	$ 3,558
Athletic Resale	-	1,203	1,203	-
Activity Fees	1	788	150	639
Scholarship Fund	99	2,189	2,052	236
German Trip	38	45	83	-
Spanish Trip	1,322	13,617	13,488	1,451
H.S. Special Fees	1,838	1,378	1,580	1,636
Library	636	60	142	554
Mathcounts	270	-	-	270
Instrumental	-	751	525	226
Boys Basketball	1	1,419	1,419	1
Boys Football	-	1,019	1,019	-
Boys Track	1	662	662	1
Boys Wrestling	-	502	502	-
Girls Basketball	1	1,063	1,063	1
Girls Volleyball	-	2,053	2,053	-
Girls Softball	-	286	285	1
Girls Track	-	622	506	116
Class Pictures	3,185	5,469	4,277	4,377
8th Grade Musical	1,939	1,299	1,295	1,943
Strings - Middle School	1	647	628	20
Student Council	667	12,792	12,626	833
Annual	379	4,681	4,022	1,038
Activity Fees	-	570	-	570
Middle School Special Fees	492	2,178	865	1,805
Class Picture - Elementary	2,785	3,289	90	5,984
Strings - Elementary	5	351	301	55
We Tap	50	-	-	50
Activity Fees	11	43	-	54
Field Trips	-	4,229	4,229	-
Foundation Grant	19	-	-	19
Birthday Books	427	2,776	3,203	-
Total	$ 44,675	$ 228,017	$ 219,398	$ 53,294

See accompanying independent auditor's report.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
Year Ended June 30, 2005

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash	$ 2,529	$ 17,854	$ 18,008	$ 2,375
Liabilities				
Other payables	$ 2,529	$ 17,854	$ 18,008	$ 2,375

See accompanying independent auditor's report.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	Modified Accrual Basis Years Ended June 30,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	$ 3,048,884	$ 2,540,909	$ 2,436,379	$ 2,346,459
Tuition	1,228,175	884,941	822,399	724,722
Other	556,514	402,928	314,684	272,873
State sources	4,496,276	4,227,033	4,405,764	4,202,054
Federal sources	146,445	142,292	130,204	76,441
Total revenues	$ 9,476,294	$ 8,198,103	$ 8,109,430	$ 7,622,549
Expenditures:				
Instruction:				
Regular instruction	$ 3,798,791	$ 3,689,273	$ 3,541,680	$ 3,443,061
Special instruction	908,112	990,017	831,728	769,734
Other instruction	733,085	656,563	582,921	598,604
Support services:				
Student services	196,895	168,382	179,519	176,197
Instructional staff services	387,478	271,406	223,854	207,921
Administration services	780,717	744,773	779,821	722,579
Operation and maintenance of plant services	830,463	653,278	645,050	595,513
Transportation services	312,541	394,811	321,859	331,697
Non-instructional programs	716	705	618	401
Other expenditures:				
Facilities acquisition	1,816,041	51,079	30,236	897,709
Long-term debt:				
Principal	510,000	330,000	305,000	110,000
Interest and fiscal charges	405,920	22,004	42,529	16,235
AEA flowthrough	288,897	283,799	305,040	296,273
Total expenditures	$ 10,969,656	$ 8,256,090	$ 7,789,855	$ 8,165,924

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
Mount Vernon 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 Mount Vernon 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 August 9, 2005. In that report, we expressed an adverse opinion on the discretely presented component unit due to the omission of financial information pertaining to the Mount Vernon School Foundation. In addition, we expressed unqualified opinions on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the District. 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 Mount Vernon 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 Mount Vernon Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about Mount Vernon Community School 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 Mount Vernon Community School District and other parties to whom Mount Vernon 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 Mount Vernon 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.

Oskaloosa, Iowa
August 9, 2005

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2005

Part I: Findings Related to the General Purpose 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. We noted that the bank deposits, bank reconciliation and the posting of the cash receipts journal, check signing, payroll and payroll reports are all done by the same person in the various funds.

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

Response – We will investigate available alternatives as responsibilities change and implement changes whenever possible.

Conclusion – Response accepted.

I-B-05 Gate Admissions - The gate admissions and change box are not always reconciled with prenumbered tickets. Prenumbered tickets are only used for certain events.

Recommendation – The District should establish reconciliation procedures for gate admissions. The reconciliation should include the issuance of prenumbered tickets and the reconciling of the change box and admissions to the number of tickets issued.

Response – Most students and parents purchase season activity tickets. The amount of cash taken in at each event is minimal for those events where prenumbered tickets were not used. We feel our gate receipt procedures in place at these events are adequate.

Conclusion – Response acknowledged, however, the added control of reconciling prenumbered tickets with cash collected could be considered an additional safeguard.

I-C-05 Disbursements – Out of forty disbursements tested, six were only partially supported by an invoice or receipt. These were mainly items for travel, lodging, and meal expenses. Upon further follow up, no questionable expenditures were noted.

Recommendation – All disbursements should be adequately supported by an invoice, receipt or other written documentation at the time of their payment.

Response – We will make sure that all future disbursements are properly supported prior to their being paid.

Conclusion – Response accepted.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2005

Part I: Findings Related to the General Purpose Financial Statements (continued):

Reportable Conditions (continued):

I-D-05 Payroll Records – Out of ten employees tested for payroll, one did not have a completed W-4 on file.

Recommendation – All employees should have a completed W-4 on file.

Response – All employees are required to complete Form W-4. However, these forms are stored by date of hire and are not easily obtainable. We will have all employees complete a new W-4 and store them in a central location.

Conclusion – Response accepted.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2005

Part II: 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.

II-B-05 Certified Budget – Expenditures for the year ended June 30, 2005, did not exceed the amounts budgeted.

II-C-05 Questionable Expenditures – No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

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

II-E-05 Business Transactions – We noted no business transactions between the District and District officials or employees.

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

II-G-05 Board Minutes – 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.

II-I-05 Deposits and Investments – The District has an investment in a collateralized certificate of deposit that is not covered by federal depository insurance since it is through a brokerage agency. This is an unallowable investment under the District's investment policy, which requires certificates of deposit to be at federally insured Iowa depository institutions.

Recommendation – If the District plans to invest in similar collateralized certificates of deposit, then it should amend its investment policy to allow such an investment.

Response – We will consider amending our investment policy to include collateralized certificates of deposit.

Conclusion – Response accepted.

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

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2005

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

II-K-05 Student Activity Accounts – The District included accounts in the Special Revenue, Student Activity Fund which include activities that would more appropriately be accounted for in the General, Private Purpose Trust, or Enterprise Fund.

The Iowa Department of Education's Uniform Administrative Procedures for Iowa School Officials Chapter 7, page 77, states "The Student Activity Fund shall not be used as a clearing account for the General Fund or any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents or sales, textbook/library book purchases, curricular activities, or any other revenues or expenditures more properly included in another fund. The purpose of the Student Activity Fund is to account for financial transactions related to the co-curricular and extra-curricular activities offered as a part of the education program for the students."

Recommendation – The accounts should be closed to the General, Private Purpose Trust, or Enterprise Fund where applicable. The District should limit the use of the Student Activity Fund to transactions related to co-curricular and extra-curricular activities.

Response – We will close these accounts and account for the activities within the General, Private Purpose Trust, or Enterprise Fund as appropriate.

Conclusion – Response accepted.

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