

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2007

Contents

			<u>Page</u>
Officials			1
Independent Auditor's Report			2-3
Management's Discussion and Analysis (MD&A)			4-13
Basic Financial Statements:	<u>Exhibit</u>		
Government-Wide Financial Statements:			
Statement of Net Assets	A	14	
Statement of Activities	B	15	
Governmental Fund Financial Statements:			
Balance Sheet	C	16	
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	17	
Statement of Revenues, Expenditures and Changes in Fund Balances	E	18	
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	19	
Proprietary Fund Financial Statements:			
Statement of Net Assets	G	20	
Statement of Revenues, Expenses and Changes in Net Assets	H	21	
Statement of Cash Flows	I	22	
Fiduciary Fund Financial Statements:			
Statement of Fiduciary Net Assets	J	23	
Statement of Changes in Fiduciary Net Assets	K	24	
Notes to Basic Financial Statements			25-36
Required Supplementary Information:			
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund			37
Notes to Required Supplementary Information - Budgetary Reporting			38
Other Supplementary Information:	<u>Schedule</u>		
Nonmajor Governmental Funds:			
Combining Balance Sheet	1	39	
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	40	
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	41	
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	4	42	
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 <u>Government Auditing Standards</u>			43-44
Schedule of Findings			45-50

Martensdale-St. Marys Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2006 election)		
Patrick Connor	President	2008
Merle Allen	Vice President	2006
Scott Anderson	Board Member	2008
Jim Weaver	Board Member	2007
A. Velvet VanHoose	Board Member	2006
Board of Education (After September 2006 election)		
A. Velvet VanHoose	President	2009
Patrick Connor	Vice President	2008
John Della Vedova	Board Member	2009
Scott Anderson	Board Member	2008
Jim Weaver	Board Member	2007
School Officials		
Peggy Huisman	Superintendent	2007
Jane Cassidy	Business Manager	2007
Brick, Gentry, Bowers, Swartz Stoltze, Schuling & Levis, P.C.	Attorney	2007

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Martensdale-St. Marys Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Martensdale-St. Marys Community School District, Martensdale, Iowa as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Martensdale-St. Marys Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 27, 2008 on our consideration of the Martensdale-St. Marys Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Martensdale-St. Marys Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson
NOLTE, CORNMAN & JOHNSON, P.C.

March 27, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Martensdale-St. Marys Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,994,970 in fiscal 2006 to \$4,563,750 in fiscal 2007, while General Fund expenditures increased from \$4,117,524 in fiscal 2006 to \$4,384,961 in fiscal 2007. The District's General Fund balance was \$219,031 in fiscal 2006 and \$397,820 in fiscal 2007, a 81.6% increase from the prior year.
- The increase in General Fund revenues was attributable to increases across the board in local, state and federal sources in fiscal 2007. The increase in expenditures was due primarily to an increase in negotiated salary and benefits.
- An increase in interest rates during the past fiscal year resulted in interest earnings in the General Fund alone to increase from \$50,878 in fiscal year 2006 to \$64,966 in fiscal year 2007.
- As of June 30, 2007 the District's solvency ratio was 8.5% as compared to 5.5% for the year ended June 30, 2006.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

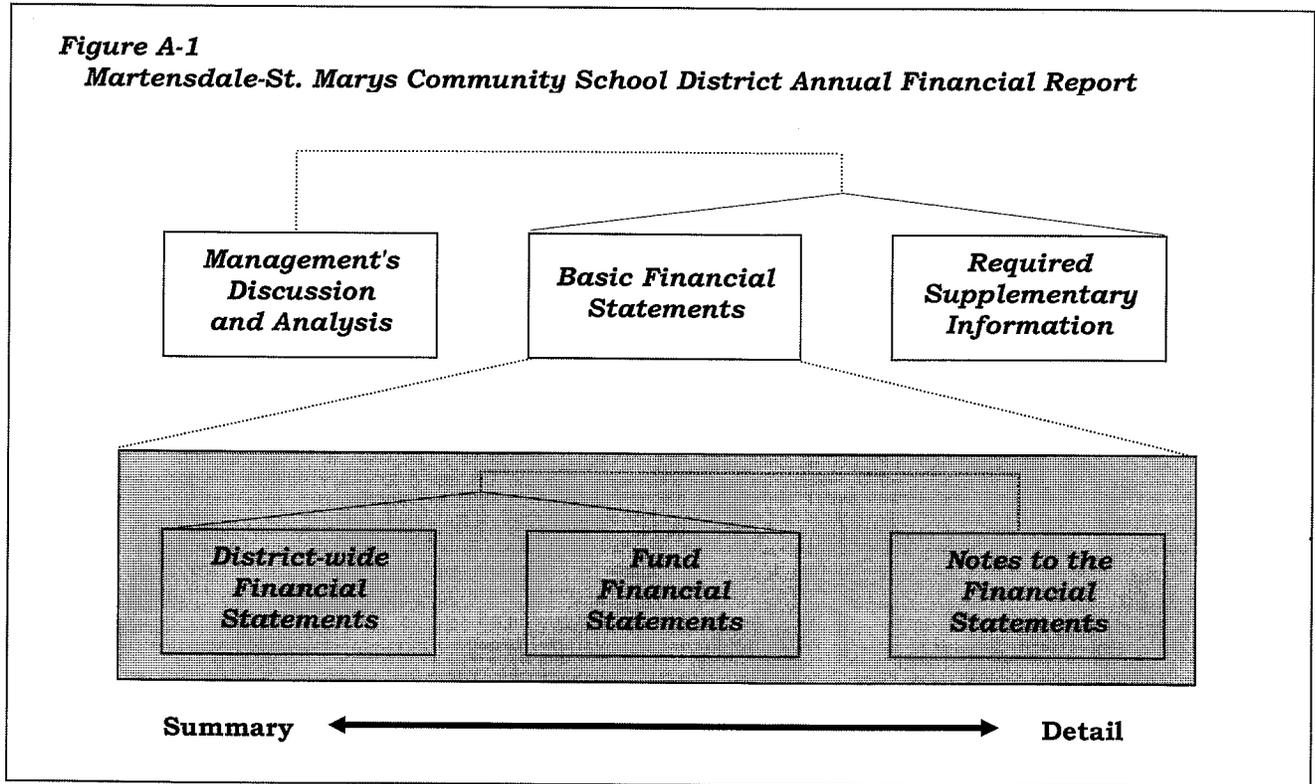


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 4,438,473	3,836,384	38,255	38,254	4,476,728	3,874,638	15.54%
Capital assets	4,136,341	3,997,701	27,692	13,810	4,164,033	4,011,511	3.80%
Total assets	8,574,814	7,834,085	65,947	52,064	8,640,761	7,886,149	9.57%
Long-term obligations	2,480,195	2,593,360	0	0	2,480,195	2,593,360	-4.36%
Other liabilities	3,180,737	2,713,987	9,076	5,437	3,189,813	2,719,424	17.30%
Total liabilities	5,660,932	5,307,347	9,076	5,437	5,670,008	5,312,784	6.72%
Net assets:							
Invested in capital assets, net of related debt	1,676,341	1,988,600	27,692	13,810	1,704,033	2,002,410	-14.90%
Restricted	709,201	180,496	0	0	709,201	180,496	292.92%
Unrestricted	528,340	357,642	29,179	32,817	557,519	390,459	42.79%
Total net assets	\$ 2,913,882	2,526,738	56,871	46,627	2,970,753	2,573,365	15.44%

The District's combined net assets increased by 15.44%, or \$397,388, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$528,705 or 292.92% over the prior year. This dramatic increase is due to a change in the way restricted assets are calculated as compared to the previous year. In previous years, the balance of the Capital Projects Fund as well as the balance of the Debt Service Fund was added back to the invested in capital assets net of related debt. Beginning this year, the fund balances for these two funds is considered a restricted balance unless the District has construction in progress, then the balance of the bond proceeds construction account would be added back to the invested in capital assets net of related debt.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$167,060 or 42.79%. This increase was caused by the increase in General Fund balance and Debt Service balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 as compared to the year ended June 30, 2006.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 497,756	416,465	259,239	240,670	756,995	657,135	15.20%
Operating grants and contributions and restricted interest	585,085	466,683	67,722	62,619	652,807	529,302	23.33%
Capital grants and contributions and restricted interest	0	279,255	0	0	0	279,255	-100.00%
General revenues:							
Local tax	1,730,460	1,613,641	0	0	1,730,460	1,613,641	7.24%
Local option sales and services tax	292,761	228,971	0	0	292,761	228,971	27.86%
Unrestricted state grants	2,114,618	1,898,113	0	0	2,114,618	1,898,113	11.41%
Unrestricted investment earnings	85,447	65,031	0	416	85,447	65,447	30.56%
Other	28,468	44,398	11,886	0	40,354	44,398	-9.11%
Total revenues	5,334,595	5,012,557	338,847	303,705	5,673,442	5,316,262	6.72%
Program expenses:							
Governmental activities:							
Instruction	3,022,361	2,866,378	72,795	0	3,095,156	2,866,378	7.98%
Support services	1,551,270	1,402,458	651	0	1,551,921	1,402,458	10.66%
Non-instructional programs	0	0	255,157	281,521	255,157	281,521	-9.36%
Other expenses	373,820	585,689	0	0	373,820	585,689	-36.17%
Total expenses	4,947,451	4,854,525	328,603	281,521	5,276,054	5,136,046	2.73%
Changes in net assets	387,144	158,032	10,244	22,184	397,388	180,216	120.51%
Beginning net assets	2,526,738	2,368,706	46,627	24,443	2,573,365	2,393,149	7.53%
Ending net assets	\$ 2,913,882	2,526,738	56,871	46,627	2,970,753	2,573,365	15.44%

Local tax and unrestricted state grants account for 77.57% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 96.49% of the revenue from business type activities.

The District's total revenues were approximately \$5.67 million of which \$5.33 million was for governmental activities and approximately \$0.34 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 6.72% increase in revenues and a 2.73% increase in expenses. The increase in revenues was due to increased property tax revenues and local option sales and services tax received by the District during fiscal 2007. The increases in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

Governmental Activities

Revenues for governmental activities were \$5,334,595 and expenses were \$4,947,451.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 3,022,361	2,866,378	5.44%	2,106,985	2,130,210	-1.09%
Support services	1,551,270	1,402,458	10.61%	1,543,580	1,397,195	10.48%
Other expenses	373,820	585,689	-36.17%	214,045	164,717	29.95%
Totals	\$ 4,947,451	4,854,525	1.91%	3,864,610	3,692,122	4.67%

- The cost financed by users of the District's programs was \$497,756.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$585,085.
- The net cost of governmental activities was financed with \$1,730,460 in property tax, \$292,761 in local option sales and services tax, \$2,114,618 in unrestricted state grants and \$85,447 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$338,847 and expenses were \$328,603. The District's business-type activities include the School Nutrition Fund, Day Care Fund and Pre-Kindergarten Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,095,467, above last year's ending fund balances of a \$963,313.

Governmental Fund Highlights

- The District's improving General Fund financial position from \$219,031 to \$397,820 is the product of many factors:
 - The District saw an increase in General Fund revenues as compared to fiscal 2006; the increase in revenues was more than enough to offset the increase in expenditures thus ensuring the improvement of the General Fund.
 - The increase in negotiated salary and benefits settlement, as well as existing expenditure commitments of the District, resulted in an increase in expenditures.

-
- The Capital Projects Fund balance decreased from \$535,140 in fiscal 2006 to \$412,134 in fiscal 2007. The balance decreased due to the increase in expenditures surpassing the increase in revenues during fiscal 2007.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$34,170 at June 30, 2006 to \$47,164 at June 30, 2007, representing an increase of 38.03%. This increase is mainly attributable to the capital contribution from the Capital Projects Fund for a new oven and exhaust hood. The Day Care Fund net assets decreased from \$12,457 at June 30, 2006 to \$12,187 at June 30, 2007, representing a decrease of 2.17%. New for fiscal 2007 was the Pre-kindergarten Fund. Net assets for this fund at June 30, 2007 were a deficit \$2,480.

BUDGETARY HIGHLIGHTS

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

The District's revenues were \$378,357 more than budgeted revenues, a variance of 7.15%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

Initially, total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures as is deemed necessary for each fiscal year. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the instruction and support services functions due to the timing of disbursements paid without sufficient time remaining to amend the budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$4.2 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$158,308.

The original cost of the District's capital assets was \$6.28 million. Governmental funds account for \$6.20 million with the remainder of \$0.08 million in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the building and improvements category. The District's building and improvements totaled \$1,021,453 at June 30, 2006, compared to \$3,853,811 reported at June 30, 2007. This increase is a result of the completion of building construction projects from the previous year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 110,000	110,000	0	0	110,000	110,000	0.00%
Construction in progress	0	2,731,814	0	0	0	2,731,814	-100.00%
Land improvements	75,647	24,214		0	75,647	24,214	212.41%
Buildings and improvements	3,853,811	1,021,453	0	0	3,853,811	1,021,453	277.29%
Machinery and equipment	96,883	110,220	27,692	13,810	124,575	124,030	0.44%
Total	\$ 4,136,341	3,997,701	27,692	13,810	4,164,033	4,011,511	3.80%

Long-Term Debt

At June 30, 2007, the District had \$2,480,195 in general obligation and other long-term debt outstanding. This represents a decrease of 4.4% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had total outstanding General Obligation Bonds payable of \$2,460,000 at June 30, 2007.

The District had total outstanding Post Employment Benefits payable from the General Fund of \$20,195 at June 30, 2007.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2007	2006	2006-07
General Obligation Bonds	\$ 2,460,000	2,565,000	-4.1%
Post Employment Benefit	20,195	28,360	-28.8%
Totals	\$ 2,480,195	2,593,360	-4.4%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The state's economy is showing limited signs of economic recovery. A weaker economy adversely impacts the amount of new general fund money available to the District.
- The voters of Warren and Madison County passed the Local Option Sales and Services Tax for School Infrastructure (SILO) with funding beginning in September 2004. This 1 cent tax on sales and services has greatly benefited the District in maintaining their buildings and purchasing equipment. The funding began in September 2004 and will continue for ten years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP (Note 5)	\$ 1,176,701	0	1,176,701
Other	1,248,002	33,709	1,281,711
Receivables:			
Property tax:			
Delinquent	28,920	0	28,920
Succeeding year	1,608,485	0	1,608,485
Income surtax	171,042	0	171,042
Accounts	623	1,569	2,192
Accrued ISCAP interest (Note 5)	15,209	0	15,209
Due from other governments	189,491	0	189,491
Inventories	0	2,977	2,977
Capital assets, net of accumulated depreciation (Note 6)	4,136,341	27,692	4,164,033
TOTAL ASSETS	8,574,814	65,947	8,640,761
LIABILITIES			
Accounts payable	62,106	539	62,645
Salaries and benefits payable	307,212	5,812	313,024
ISCAP warrants payable (Note 5)	1,179,000	0	1,179,000
ISCAP interest payable (Note 5)	8,301	0	8,301
ISCAP unamortized premium	6,860	0	6,860
Interest payable	8,773	0	8,773
Deferred revenue:			
Succeeding year property tax	1,608,485	0	1,608,485
Unearned revenue	0	2,725	2,725
Long-term liabilities (Note 7):			
Portion due within one year:			
General obligation bonds payable	110,000	0	110,000
Post employment benefit payable	10,334	0	10,334
Portion due after one year:			
General obligation bonds payable	2,350,000	0	2,350,000
Post employment benefit payable	9,861	0	9,861
TOTAL LIABILITIES	5,660,932	9,076	5,670,008
NET ASSETS			
Invested in capital assets, net of related debt	1,676,341	27,692	1,704,033
Restricted for:			
Beginning teacher mentoring	1,660	0	1,660
Salary improvement program	80	0	80
Professional development	407	0	407
Market factor	3,704	0	3,704
Talented and gifted	5,703	0	5,703
Management levy	30,443	0	30,443
Physical plant and equipment levy	136,704	0	136,704
Capital projects	412,134	0	412,134
Debt service	55,057	0	55,057
Other special revenue purposes	63,309	0	63,309
Unrestricted	528,340	29,179	557,519
TOTAL NET ASSETS	\$ 2,913,882	56,871	2,970,753

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Govern- mental Activities	Business- Type Activities	Total
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 2,090,740	296,401	385,756	(1,408,583)	0	(1,408,583)
Special instruction	531,042	74,404	31,864	(424,774)	0	(424,774)
Other instruction	400,579	126,951	0	(273,628)	0	(273,628)
	<u>3,022,361</u>	<u>497,756</u>	<u>417,620</u>	<u>(2,106,985)</u>	<u>0</u>	<u>(2,106,985)</u>
Support services:						
Student services	140,778	0	0	(140,778)	0	(140,778)
Instructional staff services	41,386	0	0	(41,386)	0	(41,386)
Administration services	572,474	0	0	(572,474)	0	(572,474)
Operation and maintenance of plant services	588,711	0	0	(588,711)	0	(588,711)
Transportation services	207,921	0	7,690	(200,231)	0	(200,231)
	<u>1,551,270</u>	<u>0</u>	<u>7,690</u>	<u>(1,543,580)</u>	<u>0</u>	<u>(1,543,580)</u>
Other expenditures:						
Long-term debt:						
Interest and fiscal charges	110,005	0	0	(110,005)	0	(110,005)
AEA flowthrough	159,775	0	159,775	0	0	0
Depreciation(unallocated)*	104,040	0	0	(104,040)	0	(104,040)
	<u>373,820</u>	<u>0</u>	<u>159,775</u>	<u>(214,045)</u>	<u>0</u>	<u>(214,045)</u>
Total governmental activities	4,947,451	497,756	585,085	(3,864,610)	0	(3,864,610)
Business-Type activities:						
Pre kindergarten instruction:						
Regular instruction	72,795	70,315	0	0	(2,480)	(2,480)
Support services:						
Transportation services	651	0	0	0	(651)	(651)
Non-instructional programs:						
Nutrition services	195,187	128,573	67,722	0	1,108	1,108
Day care services	59,970	60,351	0	0	381	381
Total business-type activities	<u>328,603</u>	<u>259,239</u>	<u>67,722</u>	<u>0</u>	<u>(1,642)</u>	<u>(1,642)</u>
Total	<u>\$ 5,276,054</u>	<u>756,995</u>	<u>652,807</u>	<u>(3,864,610)</u>	<u>(1,642)</u>	<u>(3,866,252)</u>
General Revenues & Transfers:						
General Revenues:						
Local tax for:						
General purposes				\$ 1,455,940	0	1,455,940
Debt service				180,023	0	180,023
Capital outlays				94,497	0	94,497
Local option sales and services tax				292,761	0	292,761
Unrestricted state grants				2,114,618	0	2,114,618
Unrestricted investment earnings				85,447	0	85,447
Other general revenues				40,354	0	40,354
Transfers				(11,886)	11,886	0
Total general revenues & transfers				<u>4,251,754</u>	<u>11,886</u>	<u>4,263,640</u>
Changes in net assets				387,144	10,244	397,388
Net assets beginning of year				<u>2,526,738</u>	<u>46,627</u>	<u>2,573,365</u>
Net assets end of year				<u>\$ 2,913,882</u>	<u>56,871</u>	<u>2,970,753</u>

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

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments:				
ISCAP (Note 5)	\$ 1,176,701	0	0	1,176,701
Other	682,672	306,357	258,973	1,248,002
Receivables:				
Property tax:				
Delinquent	22,533	0	6,387	28,920
Succeeding year	1,259,700	0	348,785	1,608,485
Income surtax	171,042	0	0	171,042
Interfund	0	0	21,558	21,558
Accounts	623	0	0	623
Accrued ISCAP interest (Note 5)	15,209	0	0	15,209
Due from other governments	62,156	127,335	0	189,491
TOTAL ASSETS	\$ 3,390,636	433,692	635,703	4,460,031
LIABILITIES AND FUND BALANCES				
Liabilities:				
Interfund payable	\$ 0	21,558	0	21,558
Accounts payable	60,701	0	1,405	62,106
Salaries and benefits payable	307,212	0	0	307,212
ISCAP warrants payable (Note 5)	1,179,000	0	0	1,179,000
ISCAP interest payable (Note 5)	8,301	0	0	8,301
ISCAP unamortized premium	6,860	0	0	6,860
Deferred revenue:				
Succeeding year property tax	1,259,700	0	348,785	1,608,485
Income surtax	171,042	0	0	171,042
Total liabilities	2,992,816	21,558	350,190	3,364,564
Fund balances:				
Reserved for:				
Debt service	0	0	55,057	55,057
Beginning teacher mentoring	1,660	0	0	1,660
Salary improvement program	80	0	0	80
Professional development	407	0	0	407
Market factor	3,704	0	0	3,704
Talented and gifted	5,703	0	0	5,703
Unreserved:				
Undesignated:				
General	386,266	0	0	386,266
Capital projects	0	412,134	0	412,134
Management levy	0	0	30,443	30,443
Physical plant and equipment levy	0	0	136,704	136,704
Other special revenue purposes	0	0	63,309	63,309
Total fund balances	397,820	412,134	285,513	1,095,467
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,390,636	433,692	635,703	4,460,031

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2007

Total fund balances of governmental funds (page 16)	\$	1,095,467
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		4,136,341
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.		171,042
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, are deferred in the governmental funds.		(8,773)
Long-term liabilities, including general obligation bonds, and post employment benefit payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(2,480,195)</u>
Net assets of governmental activites (page 14)	\$	<u><u>2,913,882</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 1,393,140	292,761	334,528	2,020,429
Tuition	346,166	0	0	346,166
Other	124,741	20,481	132,169	277,391
State sources	2,535,980	0	0	2,535,980
Federal sources	163,723	0	0	163,723
Total revenues	<u>4,563,750</u>	<u>313,242</u>	<u>466,697</u>	<u>5,343,689</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	2,066,938	24,991	0	2,091,929
Special instruction	524,806	0	0	524,806
Other instruction	274,572	0	131,353	405,925
	<u>2,866,316</u>	<u>24,991</u>	<u>131,353</u>	<u>3,022,660</u>
Support services:				
Student services	140,778	0	0	140,778
Instructional staff services	41,249	0	0	41,249
Administration services	525,822	27,047	20,146	573,015
Operation and maintenance of plant services	385,607	76,681	145,316	607,604
Transportation services	265,414	0	6,148	271,562
	<u>1,358,870</u>	<u>103,728</u>	<u>171,610</u>	<u>1,634,208</u>
Other expenditures:				
Facilities acquisitions	0	163,821	15,673	179,494
Long-term debt:				
Principal	0	0	105,000	105,000
Interest and fiscal charges	0	0	110,398	110,398
AEA flowthrough	159,775	0	0	159,775
	<u>159,775</u>	<u>163,821</u>	<u>231,071</u>	<u>554,667</u>
Total expenditures	<u>4,384,961</u>	<u>292,540</u>	<u>534,034</u>	<u>5,211,535</u>
Excess(deficiency) of revenues over(under) expenditures	<u>178,789</u>	<u>20,702</u>	<u>(67,337)</u>	<u>132,154</u>
Other financing sources(uses):				
Transfer in	0	0	143,708	143,708
Transfer out	0	(143,708)	0	(143,708)
Total other financing sources(uses)	<u>0</u>	<u>(143,708)</u>	<u>143,708</u>	<u>0</u>
Net change in fund balances	178,789	(123,006)	76,371	132,154
Fund balance beginning of year	219,031	535,140	209,142	963,313
Fund balance end of year	<u>\$ 397,820</u>	<u>412,134</u>	<u>285,513</u>	<u>1,095,467</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2007

Net change in fund balances - total governmental funds (page 18) \$ 132,154

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

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

Expenditures for capital assets	\$ 293,317	
Depreciation expense	<u>(154,677)</u>	138,640

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 105,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 393

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds. 2,792

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

Post Employment Benefit	<u>8,165</u>	
-------------------------	--------------	--

Changes in net assets of governmental activities (page 15) \$ 387,144

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007

	School Nutrition	Day Care	Pre Kindergarten	Total
ASSETS				
Current assets:				
Cash and pooled investments	\$ 19,220	11,157	3,332	33,709
Receivables:				
Accounts	0	1,569	0	1,569
Inventories	2,977	0	0	2,977
Capital assets, net of accumulated depreciation(Note 6)	27,692	0	0	27,692
TOTAL ASSETS	49,889	12,726	3,332	65,947
LIABILITIES				
Accounts payable	0	539	0	539
Salaries and benefits payable	0	0	5,812	5,812
Unearned revenue	2,725	0	0	2,725
TOTAL LIABILITIES	2,725	539	5,812	9,076
NET ASSETS				
Invested in capital assets	27,692	0	0	27,692
Unrestricted	19,472	12,187	(2,480)	29,179
Total net assets	\$ 47,164	12,187	(2,480)	56,871

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2007

	School Nutrition	Day Care	Pre Kindergarten	Total
OPERATING REVENUE:				
Local sources:				
Charges for services	\$ 128,573	60,351	70,315	259,239
OPERATING EXPENSES:				
Instruction:				
Regular:				
Salaries	0	0	43,167	43,167
Benefits	0	0	12,645	12,645
Supplies	0	0	16,983	16,983
Total instruction	0	0	72,795	72,795
Support services:				
Student transportation:				
Services	0	651	0	651
Non-instructional programs:				
Food and community service operations:				
Salaries	75,164	40,218	0	115,382
Benefits	9,703	5,010	0	14,713
Services	3,888	35	0	3,923
Supplies	102,801	14,707	0	117,508
Depreciation	3,631	0	0	3,631
Total food and community service operations	195,187	59,970	0	255,157
TOTAL OPERATING EXPENSES	195,187	60,621	72,795	328,603
OPERATING LOSS	(66,614)	(270)	(2,480)	(69,364)
NON-OPERATING REVENUES:				
State sources	2,549	0	0	2,549
Federal sources	65,173	0	0	65,173
TOTAL NON-OPERATING REVENUES	67,722	0	0	67,722
Excess(Deficiency) of revenues over(under) expenses	1,108	(270)	(2,480)	(1,642)
Other financing sources:				
Capital contribution	11,886	0	0	11,886
Change in net assets	12,994	(270)	(2,480)	10,244
Net assets beginning of year	34,170	12,457	0	46,627
Net assets end of year	\$ 47,164	12,187	(2,480)	56,871

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2007

	School Nutrition	Day Care	Pre Kindergarten	Total
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 131,298	0	0	131,298
Cash received from miscellaneous operating activities	0	62,044	70,315	132,359
Cash payments to employees for services	(84,867)	(50,665)	(50,000)	(185,532)
Cash payments to suppliers for goods or services	(94,612)	(14,854)	(16,983)	(126,449)
Net cash provided by(used in) operating activities	(48,181)	(3,475)	3,332	(48,324)
Cash flows from non-capital financing activities:				
State grants received	2,549	0	0	2,549
Federal grants received	52,735	0	0	52,735
Net cash provided by non-capital financing activities	55,284	0	0	55,284
Cash flows from capital and other financing activities:				
Acquisition of assets	(5,627)	0	0	(5,627)
Net increase(decrease) in cash and cash equivalents	1,476	(3,475)	3,332	1,333
Cash and cash equivalents at beginning of year	17,744	14,632	0	32,376
Cash and cash equivalents at end of year	\$ 19,220	11,157	3,332	33,709
Reconciliation of operating loss to net cash provided by (used in) operating activities:				
Operating loss	\$ (66,614)	(270)	(2,480)	(69,364)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Commodities consumed	12,438	0	0	12,438
Depreciation	3,631	0	0	3,631
Increase in inventories	(361)	0	0	(361)
Decrease in accounts receivable	0	1,693	0	1,693
Increase in accounts payable	0	539	0	539
Increase in unearned revenue	2,725	0	0	2,725
Increase(Decrease) in salaries and benefits payable	0	(5,437)	5,812	375
Net cash provided by (used in) operating activities	\$ (48,181)	(3,475)	3,332	(48,324)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:				
Current assets:				
Cash and investments	\$ 19,220	11,157	3,332	33,709
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:				
During the year ended June 30, 2007, the District received Federal commodities valued at \$12,438.				
During the year ended June 30, 2007, the Nutrition Fund received capital contributions from the Physical Plant and Equipment Levy Fund of \$11,886.				
SEE NOTES TO BASIC FINANCIAL STATEMENTS.				

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2007

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
ASSETS	
Cash and pooled investments	\$ 78,071
LIABILITIES	0
NET ASSETS	
Reserved for scholarships	<u>\$ 78,071</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2007

	Private Purpose Trust
	<u>Scholarship</u>
Additions:	
Local sources:	
Interest on investments	\$ 2,900
Deductions:	
Non-instructional programs:	
Scholarships awarded	<u>3,000</u>
Change in net assets	(100)
Net assets beginning of year	<u>78,171</u>
Net assets end of year	<u>\$ 78,071</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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

The Martensdale-St. Marys Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and pre-kindergarten. The geographic area served includes the Cities of Martensdale and St. Marys, Iowa, and the predominate agricultural territory in Warren and Madison Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

The District reports the following proprietary funds:

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

is used to account for the day care service operations of the District. The Pre-kindergarten Fund is used to account for services provided to pre-kindergarten aged children by the District.

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year.

Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

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

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

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

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

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

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

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

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

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

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007 expenditures in the instruction and support services functions exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by

the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 561,127

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The Certificates of Deposit are classified as Category 1, which means the investments are insured and held by the District in the District's name. Certificates of Deposit are stated at fair value.

At June 30, 2007, the District had investments in Certificates of Deposit maturing in over one year as follows:

	Fair Value
Certificate of deposit	\$ 76,000

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2007 is as follows:

Receivable Fund	Payable Fund	Amount
Debt Service	Capital Projects	\$ 21,558

(4) Transfers

The detail of transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 60,507
Special Revenue, Physical Plant and Equipment Levy	Capital Projects	83,201
Total		\$ 143,708

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

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07A	6/28/06	6/28/07	\$ 0	5,057	0	0
2006-07B	1/26/07	1/25/08	448,853	9,934	450,000	8,122
2007-08A	6/28/07	6/27/08	727,848	218	729,000	179
Total			<u>\$ 1,176,701</u>	<u>15,209</u>	<u>1,179,000</u>	<u>8,301</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2007 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2006-07A	\$ 0	30,000	30,000	0
2006-07B	0	30,000	30,000	0
Total	<u>\$ 0</u>	<u>60,000</u>	<u>60,000</u>	<u>0</u>

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

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	4.500%	5.676%
2006-07B	4.250%	5.315%
2007-08A	4.500%	5.455%

(6) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 110,000	0	0	110,000
Construction in progress	2,731,814	167,808	2,899,622	0
Total capital assets not being depreciated	<u>2,841,814</u>	<u>167,808</u>	<u>2,899,622</u>	<u>110,000</u>
Capital assets being depreciated:				
Land improvements	25,488	55,481	0	80,969
Buildings and improvements	2,203,208	2,932,350	0	5,135,558
Machinery and equipment	839,206	37,300	0	876,506
Total capital assets being depreciated	<u>3,067,902</u>	<u>3,025,131</u>	<u>0</u>	<u>6,093,033</u>
Less accumulated depreciation for:				
Land improvements	1,274	4,048	0	5,322
Buildings and improvements	1,181,755	99,992	0	1,281,747
Machinery and equipment	728,986	50,637	0	779,623
Total accumulated depreciation	<u>1,912,015</u>	<u>154,677</u>	<u>0</u>	<u>2,066,692</u>
Total capital assets being depreciated, net	<u>1,155,887</u>	<u>(117,377)</u>	<u>0</u>	<u>4,026,341</u>
Governmental activities capital assets, net	<u>\$ 3,997,701</u>	<u>50,431</u>	<u>2,899,622</u>	<u>4,136,341</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 60,987	17,513	0	78,500
Less accumulated depreciation	47,177	3,631	0	50,808
Business-type activities capital assets, net	<u>\$ 13,810</u>	<u>13,882</u>	<u>0</u>	<u>27,692</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 10,426
Special		6,236
Other		7,310
Support services:		
Instructional staff		137
Administration		1,485
Operation and maintenance of plant		10,161
Transportation		14,882
		<u>50,637</u>
Unallocated depreciation		<u>104,040</u>
Total governmental activities depreciation expense		<u>\$ 154,677</u>
Business-type activities:		
Food services		<u>\$ 3,631</u>

(7) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2007 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 2,565,000	0	105,000	2,460,000	110,000
Post Employment Benefit	28,360	0	8,165	20,195	10,334
Total	<u>\$ 2,593,360</u>	<u>0</u>	<u>113,165</u>	<u>2,480,195</u>	<u>120,334</u>

General Obligation Bonds Payable

Details of the District's June 30, 2007 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Bond Issue of December 31, 2003		
		Principal	Interest	Total
2008	4.50 % \$	110,000	105,273	215,273
2009	4.25	115,000	100,323	215,323
2010	4.00	120,000	95,435	215,435
2011	3.25	125,000	90,635	215,635
2012	3.50	130,000	86,573	216,573
2013	3.75	135,000	82,022	217,022
2014	4.00	140,000	76,960	216,960
2015	4.10	150,000	71,360	221,360
2016	4.20	155,000	65,210	220,210
2017	4.30	160,000	58,700	218,700
2018	4.40	165,000	51,820	216,820
2019	4.50	175,000	44,560	219,560
2020	4.60	180,000	36,685	216,685
2021	4.70	190,000	28,405	218,405
2022	4.75	200,000	19,475	219,475
2023	4.75	210,000	9,975	219,975
Total		<u>\$ 2,460,000</u>	<u>1,023,411</u>	<u>3,483,411</u>

Post Employment Benefit Payable

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

(8) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$134,388, \$121,106 and \$118,514 respectively, equal to the required contributions for each year.

(9) Risk Management

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

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2007 were \$25,090.

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

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$159,775 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed the certified budget amounts. During the year ended June 30, 2007 disbursements in the instruction and support services functions exceeded the amounts budgeted.

(12) Deficit Fund Balance

The District has deficit net assets in the Enterprise, Pre-kindergarten Fund of \$2,480.

REQUIRED SUPPLEMENTARY INFORMATION

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2007

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Fund Types	Fund Types		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 2,643,986	259,239	2,903,225	2,501,529	2,501,529	401,696
Intermediate sources	0	0	0	75,000	75,000	(75,000)
State sources	2,535,980	2,549	2,538,529	2,637,764	2,637,764	(99,235)
Federal sources	163,723	65,173	228,896	78,000	78,000	150,896
Total revenues	<u>5,343,689</u>	<u>326,961</u>	<u>5,670,650</u>	<u>5,292,293</u>	<u>5,292,293</u>	<u>378,357</u>
Expenditures:						
Instruction	3,022,660	72,795	3,095,455	2,977,590	2,977,590	(117,865)
Support services	1,634,208	651	1,634,859	1,385,000	1,385,000	(249,859)
Non-instructional programs	0	255,157	255,157	254,000	350,000	94,843
Other expenditures	554,667	0	554,667	817,414	817,414	262,747
Total expenditures	<u>5,211,535</u>	<u>328,603</u>	<u>5,540,138</u>	<u>5,434,004</u>	<u>5,530,004</u>	<u>(10,134)</u>
Excess(Deficiency) of revenues over(under) expenditures	132,154	(1,642)	130,512	(141,711)	(237,711)	368,223
Other financing sources, net	0	11,886	11,886	35,000	35,000	(23,114)
Excess(deficiency) of revenues and other financing sources over(under) expenditures	132,154	10,244	142,398	(106,711)	(202,711)	345,109
Balance beginning of year	963,313	46,627	1,009,940	695,246	695,246	314,694
Balance end of year	<u>\$ 1,095,467</u>	<u>56,871</u>	<u>1,152,338</u>	<u>588,535</u>	<u>492,535</u>	<u>659,803</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year the District adopted one budget amendment increasing budgeted disbursements by \$96,000.

During the year ended June 30, 2007, disbursements in the instruction and support services functions exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2007

	Special Revenue Funds					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
ASSETS						
Cash and pooled investments	\$ 29,297	63,309	136,305	228,911	30,062	258,973
Receivables:						
Property tax:						
Current year delinquent	1,146	0	1,804	2,950	3,437	6,387
Succeeding year	70,000	0	98,112	168,112	180,673	348,785
Interfund	0	0	0	0	21,558	21,558
TOTAL ASSETS	\$ 100,443	63,309	236,221	399,973	235,730	635,703
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 0	0	1,405	1,405	0	1,405
Deferred revenue:						
Succeeding year property tax	70,000	0	98,112	168,112	180,673	348,785
	70,000	0	99,517	169,517	180,673	350,190
Fund balances:						
Reserved for debt service	0	0	0	0	55,057	55,057
Unreserved fund balances	30,443	63,309	136,704	230,456	0	230,456
Total fund balances	30,443	63,309	136,704	230,456	55,057	285,513
TOTAL LIABILITIES AND FUND BALANCES	\$ 100,443	63,309	236,221	399,973	235,730	635,703

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2007

	Special Revenue Funds					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
REVENUES:						
Local sources:						
Local tax	\$ 60,008	0	94,497	154,505	180,023	334,528
Other	5,218	126,951	0	132,169	0	132,169
TOTAL REVENUES	65,226	126,951	94,497	286,674	180,023	466,697
EXPENDITURES:						
Current:						
Instruction:						
Other	0	131,353	0	131,353	0	131,353
Support services:						
Administration services	7,483	0	12,663	20,146	0	20,146
Operation and maintenance of plant services	39,937	0	105,379	145,316	0	145,316
Student transportation	6,148	0	0	6,148	0	6,148
Other expenditures:						
Facilities acquisitions	0	0	15,673	15,673	0	15,673
Long-term debt:						
Principal	0	0	0	0	105,000	105,000
Interest and fiscal charges	0	0	0	0	110,398	110,398
TOTAL EXPENDITURES	53,568	131,353	133,715	318,636	215,398	534,034
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	11,658	(4,402)	(39,218)	(31,962)	(35,375)	(67,337)
OTHER FINANCING SOURCES:						
Transfer in	0	0	83,201	83,201	60,507	143,708
NET CHANGE IN FUND BALANCES	11,658	(4,402)	43,983	51,239	25,132	76,371
FUND BALANCE BEGINNING OF YEAR	18,785	67,711	92,721	179,217	29,925	209,142
FUND BALANCE END OF YEAR	\$ 30,443	63,309	136,704	230,456	55,057	285,513

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 3,291	3,143	2,345	4,089
Vocal Music	299	4,229	4,528	0
Instrumental Music	(1,231)	4,983	3,752	0
Music Resale	269	1,007	821	455
Band	792	2,461	1,700	1,553
Boys Basketball	4,285	3,999	3,790	4,494
Athletic Resale	185	0	0	185
Athletics	12,258	31,058	35,887	7,429
Golf	809	2,140	2,090	859
Girls Basketball	175	4,779	4,584	370
Elementary Student Council	1,804	1,924	1,872	1,856
Volleyball	1,021	3,965	4,925	61
Boys Track	64	1,109	258	915
Football	4,499	10,254	11,563	3,190
Cross Country	0	508	324	184
Baseball	2,682	2,965	3,100	2,547
Girls Track	282	3,579	3,175	686
Wrestling	3	0	0	3
Softball	919	4,811	4,501	1,229
Pop	0	2,705	6,498	(3,793)
Student Council	2,515	1,717	1,583	2,649
Pictures	3,192	443	749	2,886
Pictures Interest	46	0	0	46
Student Ambassadors	2,234	0	355	1,879
National Honor Society	781	90	227	644
Dance	1,566	2,002	2,232	1,336
Lockers	607	0	0	607
Math Resale	160	245	267	138
Class of 2004	1,168	0	1,168	0
Class of 2005	1,192	0	0	1,192
Class of 2006	192	0	192	0
Class of 2007	2,215	7,334	7,526	2,023
Class of 2008	1,990	4,678	5,920	748
Class of 2009	933	175	0	1,108
Class of 2010	1,499	225	0	1,724
Class of 2011	2,014	158	760	1,412
Class of 2012	0	1,247	0	1,247
Class of 2013	0	192	0	192
Past Alumni	0	1,168	0	1,168
Annual	8,068	4,703	2,975	9,796
Wrestling Cheerleaders	686	346	337	695
FB/BB Cheerleaders	2,656	5,387	4,215	3,828
General Activities	1,533	7,222	7,134	1,621
Adult Ed	58	0	0	58
Total	\$ 67,711	126,951	131,353	63,309

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	\$ 2,020,429	1,828,027	1,782,209	1,468,089
Tuition	346,166	268,793	193,115	237,180
Other	277,391	257,101	274,261	228,111
State sources	2,535,980	2,256,776	2,278,432	2,197,005
Federal sources	163,723	387,275	304,235	186,085
Total	\$ 5,343,689	4,997,972	4,832,252	4,316,470
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 2,091,929	1,919,119	1,802,790	1,824,800
Special instruction	524,806	592,288	645,026	422,627
Other instruction	405,925	346,799	358,071	367,606
Support services:				
Student services	140,778	103,331	93,793	89,627
Instructional staff services	41,249	58,315	60,109	57,935
Administration services	573,015	522,627	461,959	519,924
Operation and maintenance of plant services	607,604	442,073	418,060	348,965
Transportation services	271,562	264,664	208,206	197,403
Other support services	0	0	0	4,883
Other expenditures:				
Facilities acquisitions	179,494	390,091	2,501,314	231,636
Long-term debt:				
Principal	105,000	100,000	47,985	12,360
Interest and fiscal charges	110,398	115,646	176,478	1,274
AEA flow-through	159,775	141,717	140,879	139,942
Total	\$ 5,211,535	4,996,670	6,914,670	4,218,982

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

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

To the Board of Education of the
Martensdale-St Marys Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Martensdale-St Marys Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 27, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Martensdale-St Marys Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Martensdale-St Marys Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Martensdale-St Marys Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Martensdale-St Marys Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Martensdale-St Marys Community School District's financial statements that is more than inconsequential will not be prevented or detected by Martensdale-St Marys Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Martensdale-St Marys Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

Compliance and Other Matters

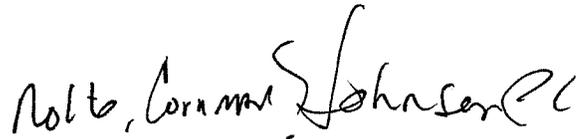
As part of obtaining reasonable assurance about whether Martensdale-St Marys Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 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.

Martensdale-St Marys Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Martensdale-St Marys Community School District's responses and, accordingly, we express no opinion on them.

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

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



NOLTE, CORNMAN & JOHNSON, P.C.

March 27, 2008

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

I-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

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

Conclusion - Response accepted.

I-B-07 Bank Reconciliations - We noted during our audit that the District does not reconcile the bank statements to the general ledger. The reconciliations are being done; however, the balances are not being adjusted to balance and are not being done on the software system.

Recommendation - The District should reconcile bank statement balances to general ledger balances. The District should utilize the software system to reconcile the balances, and adjustments should be made timely.

Response - We will reconcile bank statements to the software system. We will seek additional training to accomplish this.

Conclusion - Response accepted.

I-C-07 Hourly Wages Payroll Procedures - We noted during our audit that the District did not maintain documentation on hours worked by sponsors or coaches for wage and hour purposes, as required by the Department of Labor.

Recommendation - The District should require documentation of hours worked for sponsors and coaches who are not exempt. The District should monitor for minimum wage as well as overtime.

Response - We will try to implement a monitoring system for their hours.

Conclusion - Response accepted.

I-D-07 Gate Admissions - Pre-numbered tickets are not being used for all performances and athletic events held on District grounds.

Recommendation - The District should adopt a Board policy addressing internal control procedures for handling cash for all performances and athletic events. The policy, at a minimum, should include the following:

- a. Change boxes should be established with a specified amount.
- b. The District should use pre-numbered tickets.
- c. Two or more individuals should be involved in ticket sales/cash collecting process. The individuals responsible for ticket sales/cash collecting during the event should be instructed not to leave the change box unattended under any circumstances.
- d. Upon completion of the event, cash should be reconciled by two or more individuals to the number of pre-numbered tickets sold during the event and the amount of beginning cash in the change box.
- e. To reconcile, the next unsold ticket minus the beginning ticket number determines the actual number of tickets sold. The number of tickets sold times the price per ticket equals total sales. Total sales compared to total collections should reconcile. Variances, if any, should be small
- f. A reconciliation sheet should be completed and signed off on by all individuals responsible for counting and reconciling cash.
- g. The change box should be turned into the Activity Director or designee responsible for the accounting function at the event.
- h. The Activity Director or designee should be required to either take to the night deposit at the bank or lock the event proceeds in the District's vault until a deposit can be made the following business day.
- i. A pre-numbered receipt should be written by an individual in the Business Office the next day in the amount of the confirmed deposit.
- j. Administrative personnel should periodically test or review the gate admissions process to ensure that the adopted procedures are being followed properly.
- k. Segregation of duties should be maintained as much as possible throughout the gate admissions process.

Response - We have already implemented most of the suggestions mentioned above and are working towards implementing the remaining suggestions.

Conclusion - Response accepted.

I-E-07 District and Regional Rents - We noted during our audit that the district receives money for use of facilities when hosting district and regional events and receipts the money into the Student Activity Fund.

Recommendation - Chapter 297.9 of the code of Iowa requires rent to be receipted into the General Fund. Rents for facility usage should be receipted into the General Fund.

Response - We will implement the suggested recommendation.

Conclusion - Response accepted.

I-F-07 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year.

Recommendation - Per Chapter 556.1(10) and 556.11 of the Code of Iowa, the District is required to report unclaimed property to the State Treasurer annually before November 1st. The District should submit the outstanding checks to the State Treasurer as unclaimed property.

Response - We will turn checks that have been outstanding for over one year to the State Treasurer and get help to void them from our system.

Conclusion - Response accepted.

I-G-07 Fixed Assets - A record of fixed asset acquisitions and disbursements are kept, however these changes are not kept up to date.

Recommendation - Fixed asset updates should be made on a continuous basis to allow the school officials and outsiders an accurate account of the amount of fixed assets at any point in time. This is necessary for both an accurate account of assets and to ensure a proper amount of insurance is carried to cover the assets in case of loss from fire, vandalism, or theft. The District should have a complete list of additions, deletions, and current assets.

Response - We will try with the manpower available to keep better track of the fixed assets.

Conclusion - Response accepted.

I-H-07 Student Activity Fund - During our audit concerns arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The Student Activity fund shall not be used as a clearing account for any other fund. Moneys in this fund shall be used to support only the cocurricular program defined in Department of Education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). More specific examples of these instances of questioned items and recommendations are as follows:

Donations from Target were recorded in the Student Activity Fund. These donations do not specify the purpose, other than instructional supplies; therefore, they should be receipted into the General Fund for use in all instructional supplies/services.

There are picture and locker accounts in the Student Activity Fund. Revenues and expenses related to these type activities are more appropriately handled through the General Fund.

The Student Activity Fund contains a Class of 2005 account. Upon graduation, the old class accounts cease to be a student organization. Once all transactions relating to the account have been completed, the remaining balance should be redistributed to other organizations within the Student Activity Fund.

The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. If receipts/expenditures are deemed inappropriate for the Student Activity Fund the proper measures should be taken to receipt monies to the correct fund they can be expended from.

Response - The recommendations mentioned above will be implemented.

Conclusion - Response accepted.

I-I-07 Grants - We noted during our audit, that when expenditures for specific projects were posted; it appeared that the expenses were not always properly posted to those projects.

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

Response - We will review the Uniform Financial Accounting Manual and work towards better coding of expenditures

Conclusion - Response accepted.

I-J-07 Retention of Records - During our audit we noted that bank reconciliations and records of receipts for the Nutrition and Activity Funds were not readily available.

Recommendation - The District needs to maintain a filing system which will allow for retention of records which are readily assessable.

Response - We will maintain a filing system so that records are readily accessible.

Conclusion - Response accepted.

I-K-07 Timely Deposits - We noted during our audit that deposits for all funds were prepared but may not be taken to the bank for deposit until several days later.

Recommendation - All receipts should be deposited when received. The District should review procedures to ensure that the deposits are made timely.

Response - We will make deposits timelier in the future.

Conclusion - Response accepted.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS
 YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting:

II-A-07 Certified Budget - District disbursements for the year ended June 30, 2007 exceeded the amounts budgeted in the instruction and support services functions.

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

Response - We will take greater care to make sure the budget is amended when necessary in the future.

Conclusion - Response accepted.

II-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-07 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-D-07 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

In accordance with the Attorney's General's opinion dated November 9, 1976, the below transactions with the spouses of Board Members do not appear to represent a conflict of interest.

Name, Title and Business Connection	Transaction Description	Amount
Pat Connor, Board Member Spouse is a teacher's aide	Services	\$5,703
A. Velvet Van Hoose, Board Member Spouse drives bus for District	Services	\$1,183

II-E-07 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-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-I-07 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.

II-J-07 Financial Condition - During our audit we noted that the District had three negative account balances in the Student Activity Fund totaling \$3,793. The District also has deficit net assets in the Enterprise, Pre-kindergarten Fund of \$2,480.

Recommendation - The District should review purchase approval procedures for the Student Activity Fund and may wish to require additional approval before ordering goods or services from the deficit account. The District should investigate alternatives to eliminate these deficit balances.

Response - We no longer have these deficits.

Conclusion - Response accepted.

II-K-07 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required for the Physical Plant and Equipment Levy and Capital Projects Funds.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response - We have contacted the bank and we are now receiving the fronts and backs of PPEL and Capital Projects checks.

Conclusion - Response accepted.

II-L-07 Physical Plant and Equipment Levy (PPEL) Expenditures - According to Chapter 298.3 of the Code of Iowa, PPEL monies may be used for the purchase of grounds and grounds improvements as well as construction, rental or leasing of buildings. PPEL monies can also be used to purchase a single unit of equipment or technology system that is over \$500 per unit. We noted during our audit that the District purchased network support services, which are an unallowable expense, from the PPEL Fund for \$22,792.15.

Recommendation - The District should review the Code of Iowa with regard to allowable expenditures from the PPEL Fund to avoid non compliance.

The District should make a corrective transfer to the PPEL Fund for \$22,792.15 from the General Fund.

Response - We have made the corrective transfer and will review the Code of Iowa to avoid noncompliance.

Conclusion - Response accepted.