

LEWIS CENTRAL COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2004

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Lewis Central Community School District

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--|------------------------------|---------------------|
| Board of Education (Before September 2003 election) | | |
| Peter Norville | President | 2004 |
| Randy Portrey | Vice President | 2005 |
| Becky Burgart | Board Member | 2003 |
| Jo Kossow | Board Member | 2003 |
| Daryl Weilage | Board Member | 2003 |
| Don Christensen | Board Member | 2004 |
| Shelly Robinson | Board Member | 2005 |
| Board of Education (After September 2003 election) | | |
| Randy Portrey | President | 2005 |
| Daryl Weilage | Vice President | 2006 |
| Peter Norville | Board Member | 2004 |
| Don Christensen | Board Member | 2004 |
| Shelly Robinson | Board Member | 2005 |
| Scott Charleson | Board Member | 2006 |
| Dorene Scheffel | Board Member | 2006 |
| School Officials | | |
| Mark Schweer | Superintendent | 2004 |
| Donna Gregory | District Secretary/Treasurer | 2004 |
| Brian Gruhn | Attorney | 2004 |
| Steve Krohn | Attorney | 2004 |

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Lewis Central Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Lewis Central Community School District as of and for the year ended June 30, 2004, 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, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, business-type activities, each major fund, and the aggregate remaining fund information of the Lewis Central Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated September 21, 2004 on our consideration of the Lewis Central Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 37 through 39 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and

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presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Lewis Central 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 three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, 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 PC
NOLTE, CORNMAN & JOHNSON, P.C.

September 21, 2004

BASIC FINANCIAL STATEMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Lewis Central Community School District provides the 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, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$18,429,448 in fiscal year 2003 to \$18,381,251 in fiscal year 2004, while General Fund expenditures decreased from \$18,120,024 in fiscal 2003 to \$17,594,595 in fiscal 2004. This resulted in an increase in the District's General Fund balance from \$1,638,329 in fiscal 2003 to \$2,362,572 in fiscal 2004, a 44% increase from prior year.
- The increase in General Fund revenues was attributable to an increase in local sources and federal grant revenue in fiscal 2004. The decrease in expenditures was due primarily to a cut in negotiated salary and benefits. One reason the General Fund balance increased is because the District cut staffing in the previous year to cover budget shortfalls due to statewide reduction of funding. As a result, the District's financial position improved.
- The District converted to GAAP budgeting.
- The government-wide financial statements reflect an increase in net assets in the governmental activities of \$2,704,737, and an increase in the business-type activities of \$64,159.

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 Lewis Central 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 Lewis Central 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 Lewis Central Community School District acts solely as an agent or custodial for the benefit of those outside of County government.

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. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

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

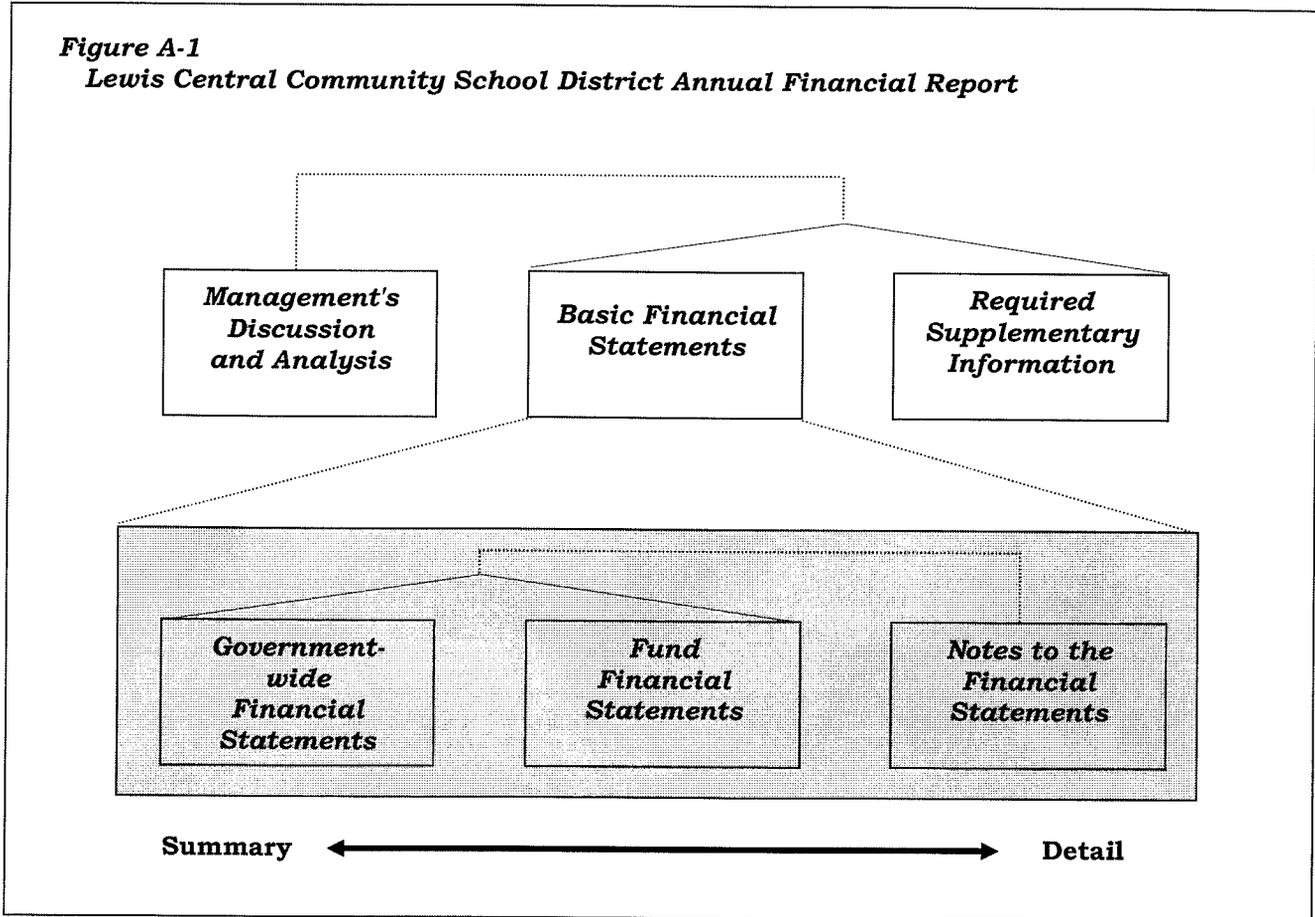


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2
Major Features of the Government-Wide and Fund Financial Statements

| | Government-wide Statements | Fund Statements | | |
|--|--|--|--|---|
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire district (except fiduciary funds) | The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance | Activities the district operates similar to private businesses, 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 |
| 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'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, Lucky Children Day Care Fund, and Swimming Pool Fund.

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

- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include the Agency Fund.
 - Agency Fund - These are funds for which the District administers and accounts for certain revenue collected for District employee purchases of pop and related expenditures.

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 government-wide financial statements because it cannot use these assets to finance its operations.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004 compared to June 30, 2003.

Figure A-3
Condensed Statement of Net Assets

| | Governmental | | Business-type | | Total | | Total |
|--|---------------|------------|---------------|---------|------------|------------|----------|
| | Activities | | Activities | | District | | Change |
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2003-04 |
| Current and other assets | \$ 14,796,327 | 17,183,395 | 186,433 | 144,113 | 14,982,760 | 17,327,508 | -13.53% |
| Capital assets | 24,101,286 | 20,578,177 | 293,488 | 278,767 | 24,394,774 | 20,856,944 | 16.96% |
| Total assets | 38,897,613 | 37,761,572 | 479,921 | 422,880 | 39,377,534 | 38,184,452 | 3.12% |
| Long-term obligations | 16,966,447 | 17,514,642 | 0 | 0 | 16,966,447 | 17,514,642 | -3.13% |
| Other liabilities | 14,476,541 | 15,497,042 | 15,744 | 22,862 | 14,492,285 | 15,519,904 | -6.62% |
| Total liabilities | 31,442,988 | 33,011,684 | 15,744 | 22,862 | 31,458,732 | 33,034,546 | -4.77% |
| Net assets: | | | | | | | |
| Invested in capital assets, net of related debt | 7,313,089 | 3,371,863 | 293,488 | 278,767 | 7,606,577 | 3,650,630 | 108.36% |
| Restricted | 277,418 | 295,851 | 0 | 0 | 277,418 | 295,851 | -6.23% |
| Unrestricted | (135,882) | 1,082,174 | 170,689 | 121,251 | 34,807 | 1,203,425 | -97.11% |
| Total net assets | \$ 7,454,625 | 4,749,888 | 464,177 | 400,018 | 7,918,802 | 5,149,906 | 53.77% |

The District's combined net assets increased by 53.77%, or \$2,768,896, 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 represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$18,433, or 6.23% over the prior year. The decrease was primarily a result of the District paying out early retirement benefits reducing the liability and restricting a balance for the Management Levy.

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 – decreased \$946,292, or 97.11%. This decrease in unrestricted net assets was a result of the District borrowing funds to pay for capital construction, resulting in a deficit balance of \$2,937,500 in the Capital Projects Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2004 compared to June 30, 2003.

Figure A-4
Changes of Net Assets

| | Governmental Activities | | Business-type Activities | | Total District | | Total Change |
|--|-------------------------|------------|--------------------------|-----------|----------------|------------|--------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2003-04 |
| Revenues: | | | | | | | |
| Program revenues: | | | | | | | |
| Charges for services | \$ 2,657,916 | 2,536,462 | 862,731 | 814,597 | 3,520,647 | 3,351,059 | 5.06% |
| Operating grants and contributions and restricted interest | 2,554,812 | 2,304,077 | 409,098 | 391,204 | 2,963,910 | 2,695,281 | 9.97% |
| General revenues: | | | | | | | |
| Local tax | 8,190,729 | 7,995,664 | 0 | 0 | 8,190,729 | 7,995,664 | 2.44% |
| Local option sales and services tax | 1,741,642 | 1,205,582 | 0 | 0 | 1,741,642 | 1,205,582 | 44.46% |
| Unrestricted state grants | 7,872,506 | 8,305,333 | 0 | 0 | 7,872,506 | 8,305,333 | -5.21% |
| Other | 44,228 | 218,407 | 1,864 | 2,432 | 46,092 | 220,839 | -79.13% |
| Total revenues | 23,061,833 | 22,565,525 | 1,273,693 | 1,208,233 | 24,335,526 | 23,773,758 | 2.36% |
| Program expenses: | | | | | | | |
| Governmental activities: | | | | | | | |
| Instructional | 13,409,055 | 13,708,030 | 0 | 0 | 13,409,055 | 13,708,030 | -2.18% |
| Support services | 4,658,245 | 5,002,109 | 0 | 0 | 4,658,245 | 5,002,109 | -6.87% |
| Non-instructional programs | 21,784 | 25,457 | 1,209,534 | 1,211,122 | 1,231,318 | 1,236,579 | -0.43% |
| Other expenses | 2,268,012 | 3,603,593 | 0 | 0 | 2,268,012 | 3,603,593 | -37.06% |
| Total expenses | 20,357,096 | 22,339,189 | 1,209,534 | 1,211,122 | 21,566,630 | 23,550,311 | -8.42% |
| Changes in net assets | 2,704,737 | 226,336 | 64,159 | (2,889) | 2,768,896 | 223,447 | 1139.17% |
| Beginning Net Assets | 4,749,888 | 4,523,552 | 400,018 | 402,907 | 5,149,906 | 4,926,459 | 4.54% |
| Ending Net Assets | \$ 7,454,625 | 4,749,888 | 464,177 | 400,018 | 7,918,802 | 5,149,906 | 53.77% |

Property tax, local option sales and services tax and unrestricted state grants account for 77% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 89% of the total expenses.

The District received 44.46% more local option sales and services tax than the prior year. The District also had increases in federal awards and property tax revenues compare to fiscal 2003.

Included in the other revenues are interest earnings. The District received interest earnings of \$46,092 in 2004 compared to \$187,002 in 2003, resulting in a net decrease of \$140,910 or 75%.

Governmental Activities

Revenue for governmental activities were \$23,061,833 and expenses were \$20,357,096.

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

Figure A-5
Total and Net Cost of Governmental Activities

| | Total Cost of Services | Net Cost of Services |
|----------------------------|---------------------------|-------------------------|
| Instruction | \$ 13,409,055 | 8,929,932 |
| Support services | 4,658,245 | 4,610,450 |
| Non-instructional programs | 21,784 | 21,784 |
| Other expenses | 2,268,012 | 1,582,202 |
| Totals | <u>\$ 20,357,096</u> | <u>15,144,368</u> |

- The cost financed by users of the District's programs was \$2,657,916.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,554,812.
- The net cost of governmental activities was financed with \$8,190,729 in local tax, \$1,741,642 in local option sales and services tax. \$7,872,506 in state foundation aid and \$44,228 in interest income.

Business-Type Activities

Revenues of the District's business-type activity were \$1,273,693 and expenses were \$1,209,534. The District's business-type activity is the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and interest income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Lewis Central 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 balances of \$223,308, well below last year's ending fund balances of \$1,589,705. However, the primary reason for the decrease is the increase in capital improvements.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. Growth during the year in tax and federal awards resulted in an increase in revenues. The increase in revenues as well as the District's decrease in General Fund expenditures, resulted in a fund balance increase from \$1,638,329 to \$2,362,572.
- The Capital Projects Fund balance decreased from a deficit \$669,636 to a deficit \$2,718,115, due in part to the increase in LOSST revenue and the District borrowing funds for construction. These factors were offset by the increase in construction expenditures.

Proprietary Fund Highlights

The Proprietary Fund net assets increased from a \$400,018 at June 30, 2003 to \$464,177 at June 30, 2004, representing an increase of 16.04%.

BUDGETARY HIGHLIGHTS

Over the course of the year, Lewis Central Community School District amended its annual budget one time to reflect additional expenditures associated with all functional areas except for the non-instructional programs.

The District's revenues were \$867,320 more than budgeted revenues, a variance of 3.56%. The most significant variance resulted from the District receiving more in local and federal sources than originally anticipated.

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional program functional area due to the timing of expenditures paid.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$24.4 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities and transportation equipment. (See Figure A-6) This amount represents a net increase of 16.96% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$967,818.

The original cost of the District's capital assets was \$39.9 million. Governmental funds account for \$39.3 million with the remainder of \$0.6 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$22,663,598 at June 30, 2004, compared to \$16,367,776 reported at June 30, 2003. This increase resulted from the construction loan used for capital improvements.

Figure A-6
Capital Assets, Net of Depreciation

| | Governmental | | Business-type | | Total | | Total |
|-------------------------|---------------|------------|---------------|---------|------------|------------|----------|
| | Activities | | Activities | | District | | |
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2003-04 |
| Land | \$ 500,000 | 500,000 | 0 | 0 | 500,000 | 500,000 | 0.00% |
| Buildings | 22,663,598 | 16,367,776 | 0 | 0 | 22,663,598 | 16,367,776 | 38.46% |
| Land improvements | 0 | 2,429,206 | 0 | 0 | 0 | 2,429,206 | -100.00% |
| Machinery and equipment | 937,688 | 1,281,195 | 293,488 | 278,767 | 1,231,176 | 1,559,962 | -21.08% |
| Total | \$ 24,101,286 | 20,578,177 | 293,488 | 278,767 | 24,394,774 | 20,856,944 | 16.96% |

Long-Term Debt

At June 30, 2004, the District had \$16,966,447 in general obligation and other long-term debt outstanding. This represents a decrease of 3.13% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding General Obligation Bonds payable of \$16,320,000 at June 30, 2004.

The District had outstanding Bus Lease payable from the Special Revenue, Physical Plant and Equipment Levy Fund and General Fund of \$467,945 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations

| | Total School District | | Total Change |
|--------------------------|--------------------------|-------------------|-----------------|
| | June 30, | | June 30, |
| | 2004 | 2003 | 2003-04 |
| General obligation bonds | \$ 16,320,000 | 16,965,000 | -3.80% |
| Bus lease | 467,945 | 231,929 | 101.76% |
| Early retirement | 93,265 | 234,171 | -60.17% |
| Compensated absences | 85,237 | 83,543 | 2.03% |
| Totals | <u>\$ 16,966,447</u> | <u>17,514,643</u> | <u>-3.13%</u> |

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- During the 2003-04 the District experienced increased enrollment for the first time in four years. The District expects a slight increase in enrollment due to a new housing development in progress within the District.
- 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.
- Historically, the District has entered into annual contracts with its two collective bargaining units. The District will negotiate new agreements during fiscal 2005. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance. Corresponding cost reductions will be made to offset the cost of negotiated settlements and other cost increases.

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 Donna Gregory, District Secretary/Treasurer, Lewis Central Community School District, 1600 East South Omaha Bridge Rd., Council Bluffs, Iowa, 51503.

LEWIS CENTRAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

| | Governmental Activities | Business-type Activities | Total |
|---|----------------------------|-----------------------------|-------------------|
| ASSETS | | | |
| Cash and cash equivalents: | | | |
| ISCAP (Note 4) | \$ 3,203,698 | 0 | 3,203,698 |
| Other | 3,288,029 | 148,585 | 3,436,614 |
| Receivables: | | | |
| Property tax: | | | |
| Succeeding year | 7,951,365 | 0 | 7,951,365 |
| Income surtax | 225,000 | 0 | 225,000 |
| Due from other governments | 128,235 | 9,653 | 137,888 |
| Inventories | 0 | 28,195 | 28,195 |
| Capital assets, net of accumulated depreciation (Note 5) | 24,101,286 | 293,488 | 24,394,774 |
| TOTAL ASSETS | 38,897,613 | 479,921 | 39,377,534 |
| LIABILITIES | | | |
| Accounts payable | 167,945 | 1,126 | 169,071 |
| Salaries and benefits payable | 60,209 | 5,222 | 65,431 |
| ISCAP warrants payable (Note 4) | 3,231,000 | 0 | 3,231,000 |
| Construction loan | 2,937,500 | 0 | 2,937,500 |
| Accrued interest payable | 128,522 | 0 | 128,522 |
| Deferred revenue: | | | |
| Succeeding year property tax | 7,951,365 | 0 | 7,951,365 |
| Other | 0 | 9,396 | 9,396 |
| Long-term liabilities (Note 6): | | | |
| Portion due within one year: | | | |
| Bonds payable | 680,000 | 0 | 680,000 |
| Bus lease payable | 109,871 | 0 | 109,871 |
| Early retirement payable | 58,548 | 0 | 58,548 |
| Compensated absences payable | 85,237 | 0 | 85,237 |
| Portion due after one year: | | | |
| Bonds payable | 15,640,000 | 0 | 15,640,000 |
| Bus lease payable | 358,074 | 0 | 358,074 |
| Early retirement payable | 34,717 | 0 | 34,717 |
| TOTAL LIABILITIES | 31,442,988 | 15,744 | 31,458,732 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 7,313,089 | 293,488 | 7,606,577 |
| Restricted for: | | | |
| Phase III | 54,924 | 0 | 54,924 |
| Talented and gifted | 22,403 | 0 | 22,403 |
| Management levy | 71,806 | 0 | 71,806 |
| Other special revenue purposes | 128,285 | 0 | 128,285 |
| Unrestricted | (135,882) | 170,689 | 34,807 |
| TOTAL NET ASSETS | \$ 7,454,625 | 464,177 | 7,918,802 |

SEE NOTES TO FINANCIAL STATEMENTS.

LEWIS CENTRAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

| Functions/Programs | Program Revenues | | |
|---|----------------------|----------------------|---|
| | Expenses | Charges for Services | Operating Grants, Contributions and Restricted Interest |
| Governmental activities: | | | |
| Instruction: | | | |
| Regular instruction | \$ 8,874,419 | 1,233,229 | 1,718,707 |
| Special instruction | 3,190,347 | 315,673 | 102,500 |
| Other instruction | 1,344,289 | 1,109,014 | 0 |
| | <u>13,409,055</u> | <u>2,657,916</u> | <u>1,821,207</u> |
| Support services: | | | |
| Student services | 451,700 | 0 | 0 |
| Instructional staff services | 694,962 | 0 | 0 |
| Administration services | 1,256,814 | 0 | 0 |
| Operation and maintenance of plant services | 1,630,776 | 0 | 0 |
| Transportation services | 549,719 | 0 | 47,795 |
| Central support services | 45,801 | 0 | 0 |
| Other support services | 28,473 | 0 | 0 |
| | <u>4,658,245</u> | <u>0</u> | <u>47,795</u> |
| Non-instructional programs: | | | |
| Operation of non-instructional programs | 3,500 | 0 | 0 |
| Community service and education operations | 18,284 | 0 | 0 |
| | <u>21,784</u> | <u>0</u> | <u>0</u> |
| Other expenditures: | | | |
| Long-term debt interest | 869,933 | 0 | 0 |
| AEA flowthrough | 685,810 | 0 | 685,810 |
| Depreciation (unallocated) * | 712,269 | 0 | 0 |
| | <u>2,268,012</u> | <u>0</u> | <u>685,810</u> |
| Total governmental activities | 20,357,096 | 2,657,916 | 2,554,812 |
| Business-Type activities: | | | |
| Non-instructional programs: | | | |
| Nutrition services | 1,086,867 | 750,561 | 404,642 |
| Daycare services | 107,630 | 95,716 | 4,456 |
| Swimming pool services | 15,037 | 16,454 | 0 |
| Total business-type activities | 1,209,534 | 862,731 | 409,098 |
| Total | \$ 21,566,630 | 3,520,647 | 2,963,910 |

General Revenues:

| |
|-------------------------------------|
| Property tax for: |
| General purposes |
| Capital outlay |
| Debt service |
| Local option sales and services tax |
| Unrestricted state grants |
| Unrestricted investment earnings |

Total general revenues

Changes in net assets

Net assets beginning of year

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

| Net (Expense) Revenue and Changes in Net Assets | | |
|--|-----------------------------|--------------|
| Governmental Activities | Business-Type Activities | Total |
| (5,922,483) | 0 | (5,922,483) |
| (2,772,174) | 0 | (2,772,174) |
| (235,275) | 0 | (235,275) |
| (8,929,932) | 0 | (8,929,932) |
| (451,700) | 0 | (451,700) |
| (694,962) | 0 | (694,962) |
| (1,256,814) | 0 | (1,256,814) |
| (1,630,776) | 0 | (1,630,776) |
| (501,924) | 0 | (501,924) |
| (45,801) | 0 | (45,801) |
| (28,473) | 0 | (28,473) |
| (4,610,450) | 0 | (4,610,450) |
| (3,500) | 0 | (3,500) |
| (18,284) | 0 | (18,284) |
| (21,784) | 0 | (21,784) |
| (869,933) | 0 | (869,933) |
| 0 | 0 | 0 |
| (712,269) | 0 | (712,269) |
| (1,582,202) | 0 | (1,582,202) |
| (15,144,368) | 0 | (15,144,368) |
| 0 | 68,336 | 68,336 |
| 0 | (7,458) | (7,458) |
| 0 | 1,417 | 1,417 |
| 0 | 62,295 | 62,295 |
| (15,144,368) | 62,295 | (15,082,073) |
| \$ 6,333,026 | 0 | 6,333,026 |
| 468,749 | 0 | 468,749 |
| 1,388,954 | 0 | 1,388,954 |
| 1,741,642 | 0 | 1,741,642 |
| 7,872,506 | 0 | 7,872,506 |
| 44,228 | 1,864 | 46,092 |
| 17,849,105 | 1,864 | 17,850,969 |
| 2,704,737 | 64,159 | 2,768,896 |
| 4,749,888 | 400,018 | 5,149,906 |
| \$ 7,454,625 | 464,177 | 7,918,802 |

LEWIS CENTRAL COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

| | General | Capital Projects | Other Nonmajor Governmental Funds | Total |
|--|----------------------|---------------------|--|-------------------|
| ASSETS | | | | |
| Cash and cash equivalents: | | | | |
| ISCAP(Note 4) | \$ 3,203,698 | 0 | 0 | 3,203,698 |
| Other | 2,577,533 | 131,645 | 578,851 | 3,288,029 |
| Receivables: | | | | |
| Property tax | | | | |
| Succeeding year | 5,785,271 | 0 | 2,166,094 | 7,951,365 |
| Income surtax | 225,000 | 0 | 0 | 225,000 |
| Due from other governments | 0 | 128,235 | 0 | 128,235 |
| TOTAL ASSETS | \$ 11,791,502 | 259,880 | 2,744,945 | 14,796,327 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 127,450 | 40,495 | 0 | 167,945 |
| Salaries and benefits payable | 60,209 | 0 | 0 | 60,209 |
| ISCAP warrants payable(Note 4) | 3,231,000 | 0 | 0 | 3,231,000 |
| Construction loan | 0 | 2,937,500 | 0 | 2,937,500 |
| Deferred revenue: | | | | |
| Succeeding year property tax | 5,785,271 | 0 | 2,166,094 | 7,951,365 |
| Income surtax | 225,000 | 0 | 0 | 225,000 |
| Total liabilities | 9,428,930 | 2,977,995 | 2,166,094 | 14,573,019 |
| Fund balances: | | | | |
| Reserved for: | | | | |
| Debt service | 0 | 0 | 128,270 | 128,270 |
| Phase III | 54,924 | 0 | 0 | 54,924 |
| Teacher compensation | 22,403 | 0 | 0 | 22,403 |
| Unreserved: | | | | |
| Designated for special purposes | 100,000 | 0 | 0 | 100,000 |
| Undesignated: | | | | |
| General | 2,185,245 | 0 | 0 | 2,185,245 |
| Capital projects | 0 | (2,718,115) | 0 | (2,718,115) |
| Management levy | 0 | 0 | 165,071 | 165,071 |
| Physical plant and equipment levy | 0 | 0 | 157,225 | 157,225 |
| Other special revenue purposes | 0 | 0 | 128,285 | 128,285 |
| Total fund balances | 2,362,572 | (2,718,115) | 578,851 | 223,308 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 11,791,502 | 259,880 | 2,744,945 | 14,796,327 |

SEE NOTES TO FINANCIAL STATEMENTS.

LEWIS CENTRAL COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 YEAR ENDED JUNE 30, 2004

| | | |
|--|-----------|-------------------------|
| Total fund balances of governmental funds (page 17) | \$ | 223,308 |
| <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. | | 24,101,286 |
| Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period. | | 225,000 |
| Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds. | | (128,522) |
| Long-term liabilities, including bonds payable, bus lease payable, bus loan payable, compensated absences and early retirement payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. | | (16,966,447) |
| | | (16,966,447) |
| Net assets of governmental activites (page 14) | \$ | <u>7,454,625</u> |

SEE NOTES TO FINANCIAL STATEMENTS.

LEWIS CENTRAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

| | General | Capital Projects | Other Nonmajor Governmental Funds | Total |
|--|---------------------|---------------------|--|-------------------|
| REVENUES: | | | | |
| Local sources: | | | | |
| Local tax | \$ 6,072,030 | 1,741,642 | 2,118,592 | 9,932,264 |
| Tuition | 1,548,902 | 0 | 0 | 1,548,902 |
| Other | 334,318 | 474 | 818,450 | 1,153,242 |
| State sources | 9,456,032 | 0 | 1,317 | 9,457,349 |
| Federal sources | 969,969 | 0 | 0 | 969,969 |
| Total revenues | <u>18,381,251</u> | <u>1,742,116</u> | <u>2,938,359</u> | <u>23,061,726</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular instruction | 8,249,103 | 0 | 175,536 | 8,424,639 |
| Special instruction | 3,116,389 | 0 | 0 | 3,116,389 |
| Other instruction | 724,758 | 0 | 613,584 | 1,338,342 |
| | <u>12,090,250</u> | <u>0</u> | <u>789,120</u> | <u>12,879,370</u> |
| Support services: | | | | |
| Student services | 450,984 | 0 | 0 | 450,984 |
| Instructional staff services | 701,737 | 0 | 0 | 701,737 |
| Administration services | 1,347,281 | 0 | 5,084 | 1,352,365 |
| Operation and maintenance of plant services | 1,793,108 | 0 | 81,560 | 1,874,668 |
| Transportation services | 506,822 | 0 | 401,024 | 907,846 |
| Central support services | 0 | 0 | 45,801 | 45,801 |
| Other support services | 0 | 0 | 28,473 | 28,473 |
| | <u>4,799,932</u> | <u>0</u> | <u>561,942</u> | <u>5,361,874</u> |
| Non-instructional programs: | | | | |
| Operation of non-instructional programs | 0 | 0 | 3,500 | 3,500 |
| Community service and education operations | 18,603 | 0 | 0 | 18,603 |
| | <u>18,603</u> | <u>0</u> | <u>3,500</u> | <u>22,103</u> |
| Other expenditures: | | | | |
| Facilities acquisitions | 0 | 3,790,595 | 657,194 | 4,447,789 |
| Long-term debt: | | | | |
| Principal | 0 | 0 | 765,068 | 765,068 |
| Interest and fiscal charges | 0 | 0 | 749,588 | 749,588 |
| AEA flowthrough | 685,810 | 0 | 0 | 685,810 |
| | <u>685,810</u> | <u>3,790,595</u> | <u>2,171,850</u> | <u>6,648,255</u> |
| Total expenditures | <u>17,594,595</u> | <u>3,790,595</u> | <u>3,526,412</u> | <u>24,911,602</u> |
| Excess(deficiency) of revenues over(under) expenditures | 786,656 | (2,048,479) | (588,053) | (1,849,876) |
| Other financing sources(uses): | | | | |
| Transfers in | 0 | 0 | 130,457 | 130,457 |
| Transfers out | (64,618) | 0 | (65,839) | (130,457) |
| Proceeds from bus loan | 0 | 0 | 356,084 | 356,084 |
| Sale of property | 0 | 0 | 125,190 | 125,190 |
| Sale of equipment | 2,205 | 0 | 0 | 2,205 |
| | <u>(62,413)</u> | <u>0</u> | <u>545,892</u> | <u>483,479</u> |
| Net change in fund balances | 724,243 | (2,048,479) | (42,161) | (1,366,397) |
| Fund balance beginning of year | 1,638,329 | (669,636) | 621,012 | 1,589,705 |
| Fund balance end of year | <u>\$ 2,362,572</u> | <u>(2,718,115)</u> | <u>578,851</u> | <u>223,308</u> |

SEE NOTES TO FINANCIAL STATEMENTS.

LEWIS CENTRAL COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds (page 19) \$ (1,366,397)

**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 and loss on disposal in the current year, as follows:

| | | |
|------------------------------------|--------------|-----------|
| Capital outlays | \$ 5,155,049 | |
| Depreciation expense | (672,399) | |
| Loss on disposal of capital assets | (959,541) | 3,523,109 |

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded issues, as follows:

| | | |
|--------|-----------|---------|
| Issued | (356,084) | |
| Repaid | 765,068 | 408,984 |

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 107

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. (277)

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.

| | | |
|----------------------|------------|---------|
| Early Retirement | \$ 140,906 | |
| Compensated Absences | (1,695) | 139,211 |

Changes in net assets of governmental activities (page 16) \$ 2,704,737

LEWIS CENTRAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2004

| | School Nutrition | Lucky Children Day Care | Swimming Pool | Total |
|--|---------------------|-------------------------------|------------------|----------------|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and pooled investments | \$ 63,896 | 84,782 | (93) | 148,585 |
| Due from other governments | 9,653 | 0 | 0 | 9,653 |
| Inventories | 28,195 | 0 | 0 | 28,195 |
| Capital assets, net of accumulated depreciation | 293,488 | 0 | 0 | 293,488 |
| TOTAL ASSETS | 395,232 | 84,782 | (93) | 479,921 |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable | 1,126 | 0 | 0 | 1,126 |
| Salaries and benefits payable | 0 | 5,222 | 0 | 5,222 |
| Deferred revenue: | | | | |
| Other | 9,396 | 0 | 0 | 9,396 |
| TOTAL LIABILITIES | 10,522 | 5,222 | 0 | 15,744 |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 293,488 | 0 | 0 | 293,488 |
| Unrestricted | 91,222 | 79,560 | (93) | 170,689 |
| Total net assets | \$ 384,710 | 79,560 | (93) | 464,177 |

SEE NOTES TO FINANCIAL STATEMENTS.

LEWIS CENTRAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

| | School Nutrition | Lucky Children Day Care | Swimming Pool | Total |
|------------------------------|---------------------|-------------------------------|------------------|------------------|
| OPERATING REVENUE: | | | | |
| Local sources: | | | | |
| Charges for services | \$ 750,561 | 95,716 | 16,454 | 862,731 |
| TOTAL OPERATING REVENUES | <u>750,561</u> | <u>95,716</u> | <u>16,454</u> | <u>862,731</u> |
| OPERATING EXPENSES: | | | | |
| Non-instructional programs: | | | | |
| Salaries | 366,379 | 75,646 | 12,941 | 454,966 |
| Benefits | 105,820 | 6,638 | 622 | 113,080 |
| Services | 13,090 | 657 | 0 | 13,747 |
| Supplies | 592,803 | 23,242 | 1,474 | 617,519 |
| Depreciation | 8,277 | 0 | 0 | 8,277 |
| Other | 498 | 1,447 | 0 | 1,945 |
| TOTAL OPERATING EXPENSES | <u>1,086,867</u> | <u>107,630</u> | <u>15,037</u> | <u>1,209,534</u> |
| OPERATING INCOME (LOSS) | <u>(336,306)</u> | <u>(11,914)</u> | <u>1,417</u> | <u>(346,803)</u> |
| NON-OPERATING REVENUES: | | | | |
| State sources | 10,717 | 0 | 0 | 10,717 |
| Federal sources | 393,925 | 4,456 | 0 | 398,381 |
| Interest on investments | 760 | 1,104 | 0 | 1,864 |
| TOTAL NON-OPERATING REVENUES | <u>405,402</u> | <u>5,560</u> | <u>0</u> | <u>410,962</u> |
| Changes in net assets | 69,096 | (6,354) | 1,417 | 64,159 |
| Net assets beginning of year | <u>315,614</u> | <u>85,914</u> | <u>(1,510)</u> | <u>400,018</u> |
| Net assets end of year | <u>\$ 384,710</u> | <u>79,560</u> | <u>(93)</u> | <u>464,177</u> |

SEE NOTES TO FINANCIAL STATEMENTS.

LEWIS CENTRAL COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2004

| | Lucky | | | |
|--|---------------------|----------------------|------------------|-----------|
| | School Nutrition | Children Day Care | Swimming Pool | Total |
| Cash flows from operating activities: | | | | |
| Cash received from sale of lunches and breakfasts | \$ 728,072 | 0 | 0 | 728,072 |
| Cash received from miscellaneous operating activities | 21,739 | 97,661 | 16,454 | 135,854 |
| Cash payments to employees for services | (476,579) | (83,634) | (13,563) | (573,776) |
| Cash payments to suppliers for goods or services | (540,845) | (26,872) | (1,534) | (569,251) |
| Net cash provided by(used in) operating activities | (267,613) | (12,845) | 1,357 | (279,101) |
| Cash flows from non-capital financing activities: | | | | |
| State grants received | 10,717 | 0 | 0 | 10,717 |
| Federal grants received | 325,206 | 4,456 | 0 | 329,662 |
| Net cash provided by non-capital financing activities | 335,923 | 4,456 | 0 | 340,379 |
| Cash flows from capital financing activities: | | | | |
| Acquisition of capital assets | (22,998) | 0 | 0 | (22,998) |
| Net cash used in capital financing activities | (22,998) | 0 | 0 | (22,998) |
| Cash flows from investing activities: | | | | |
| Interest on investments | 760 | 1,104 | 0 | 1,864 |
| Net cash provided by investing activities | 760 | 1,104 | 0 | 1,864 |
| Net increase(decrease) in cash and cash equivalents | 46,072 | (7,285) | 1,357 | 40,144 |
| Cash and cash equivalents at beginning of year | 17,824 | 92,067 | (1,450) | 108,441 |
| Cash and cash equivalents at end of year | \$ 63,896 | 84,782 | (93) | 148,585 |
| Reconciliation of operating income(loss) to net cash provided by(used in) operating activities: | | | | |
| Operating income(loss) | \$ (336,306) | (11,914) | 1,417 | (346,803) |
| Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities: | | | | |
| Commodities consumed | 59,066 | 0 | 0 | 59,066 |
| Depreciation | 8,277 | 0 | 0 | 8,277 |
| Decrease in inventories | 5,532 | 0 | 0 | 5,532 |
| Decrease in accounts receivable | 0 | 1,945 | 0 | 1,945 |
| Increase(Decrease) in accounts payable | 948 | (1,526) | (60) | (638) |
| Decrease in salaries and benefits payable | (4,380) | (1,350) | 0 | (5,730) |
| Decrease in deferred revenue | (750) | 0 | 0 | (750) |
| Net cash provided by(used in) operating activities | \$ (267,613) | (12,845) | 1,357 | (279,101) |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET: | | | | |
| Current assets: | | | | |
| Cash and pooled investments | \$ 63,896 | 84,782 | (93) | 148,585 |
| NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES: | | | | |

During the year ended June 30, 2004, the District received Federal commodities valued at \$59,066.

SEE NOTES TO FINANCIAL STATEMENTS.

LEWIS CENTRAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

| | <u>Agency Fund</u> |
|-----------------------------|------------------------|
| ASSETS | |
| Cash and pooled investments | \$ 1,824 |
| Total assets | <u>1,824</u> |
| LIABILITIES | |
| Due to other groups | <u>1,824</u> |
| Total liabilities | <u>1,824</u> |
| NET ASSETS | <u>\$ 0</u> |

SEE NOTES TO FINANCIAL STATEMENTS.

LEWIS CENTRAL COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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

The Lewis Central Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the city of Council Bluffs, Iowa, and the predominate agricultural territory in Pottawattamie County. 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, Lewis Central Community School District has included all funds, organizations, account groups, 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 Lewis Central 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 Pottawattamie 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 service.

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

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

Restricted net assets result when constraints placed on net 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 Project Fund is utilized to account for local option sales and services tax and capital improvements.

The District reports the following major and nonmajor proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund, the Enterprise Lucky Children Day Care and the Enterprise, Swimming Pool Fund. The School Nutrition Fund is a major fund used to account for the food service operations of the District. The Lucky Children Day Care Fund

is a nonmajor fund used to account for the child care operations of the District. The Swimming Pool Fund is a nonmajor fund used to account for the swimming pool operations of the District.

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

The Agency Fund is used to account for assets help by the District as an agent for individuals, private organizations. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of result of operations.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

The proprietary fund of the District applies all applicable

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, 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, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

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 | \$ 2,500 |
| Buildings | 2,500 |
| Land improvements | 2,500 |
| Machinery and equipment: | |
| School Nutrition Fund equipment | 500 |
| Other machinery and equipment | 2,500 |

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

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

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

Deferred Revenue - Although certain 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.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, expenditures in the non-instructional program functional area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2004 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 and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial

paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$23,528 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Number 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment trust is not subject to risk categorization.

(3) Transfers

The detail of transfers for the year ended June 30, 2004 is as follows:

| Transfer to | Transfer from | Amount |
|--------------|--|-------------------|
| Debt Service | General | \$ 64,618 |
| Debt Service | Special Revenue: Physical Plant and Equipment Levy | <u>65,839</u> |
| | | <u>\$ 130,457</u> |

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

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa 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. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2004 is as follows:

| Series | Warrant Date | Final Warrant Maturity | Investments | Accrued Interest Receivable | Warrants Payable | Accrued Interest Payable |
|----------|--------------|------------------------|--------------|-----------------------------|------------------|--------------------------|
| 2004-05A | 6/30/05 | 6/30/05 | \$ 3,288,029 | 0 | 3,231,000 | 0 |

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make

minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. No ISCAP advance activity in the General Fund was noted for the year ended June 30, 2004.

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 |
|----------|----------------------------|-------------------------------|
| 2004-05A | 3.000% | 2.463% |

(5) Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|--|---------------------------|-----------|-----------|---------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 500,000 | 0 | 0 | 500,000 |
| Total capital assets not being depreciated | 500,000 | 0 | 0 | 500,000 |
| Capital assets being depreciated: | | | | |
| Buildings | 29,373,632 | 7,082,867 | 443,000 | 36,013,499 |
| Land improvements | 2,478,782 | 0 | 2,478,782 | 0 |
| Machinery and equipment | 3,696,408 | 550,964 | 1,405,342 | 2,842,030 |
| Total capital assets being depreciated | 35,548,822 | 7,633,831 | 4,327,124 | 38,855,529 |
| Less accumulated depreciation for: | | | | |
| Buildings | 13,005,856 | 761,845 | 417,800 | 13,349,901 |
| Land improvements | 49,576 | 0 | 49,576 | 0 |
| Machinery and equipment | 2,415,213 | 247,272 | 758,143 | 1,904,342 |
| Total accumulated depreciation | 15,470,645 | 1,009,117 | 1,225,519 | 15,254,243 |
| Total capital assets being depreciated, net | 20,078,177 | 6,624,714 | 3,101,605 | 23,601,286 |
| Governmental activities capital assets, net | \$ 20,578,177 | 6,624,714 | 3,101,605 | 24,101,286 |
| Business-type activities: | | | | |
| Furniture and equipment | \$ 565,913 | 22,998 | 0 | 588,911 |
| Less accumulated depreciation | 287,146 | 8,277 | 0 | 295,423 |
| Business-type activities capital assets, net | \$ 278,767 | 14,721 | 0 | 293,488 |

Depreciation expense was charged by the District as follows:

| | | |
|---|--|-------------------|
| Governmental activities: | | |
| Instruction: | | |
| Regular | | \$ 48,192 |
| Other | | 24,737 |
| Support services: | | |
| Student | | 716 |
| Instructional staff | | 2,041 |
| Administration | | 45,371 |
| Operation and maintenance of plant | | 7,577 |
| Transportation | | 118,638 |
| | | <u>247,272</u> |
| Unallocated depreciation | | <u>712,269</u> |
| Total governmental activities depreciation expense | | <u>\$ 959,541</u> |
| Business-type activities: | | |
| Food services | | \$ 8,277 |
| Total business-type activities depreciation expense | | <u>\$ 8,277</u> |

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year | Due Within One Year |
|--------------------------|---------------------------------|----------------|----------------|---------------------------|---------------------------|
| General obligation bonds | \$ 16,965,000 | 0 | 645,000 | 16,320,000 | 680,000 |
| Bus lease | 231,929 | 356,084 | 120,068 | 467,945 | 109,871 |
| Early retirement | 234,171 | 0 | 140,906 | 93,265 | 58,548 |
| Compensated absences | 83,543 | 85,237 | 83,543 | 85,237 | 85,237 |
| Total | <u>\$ 17,514,643</u> | <u>441,321</u> | <u>989,517</u> | <u>16,966,447</u> | <u>933,656</u> |

Bonds Payable

Details of the District's June 30, 2004 general obligation bonded indebtedness are as follows:

| Year Ending June 30, | Bond Issue of October 21, 1998 | | | Bond Issue of May 1, 1999 | | |
|----------------------------|--------------------------------|----------------------|------------------|---------------------------|---------------------|------------------|
| | Interest Rates | Principal | Interest | Interest Rates | Principal | Interest |
| 2005 | | \$ 0 | 413,126 | 4.50% | \$ 655,000 | 149,181 |
| 2006 | 3.88% | 415,000 | 413,126 | 4.50 | 270,000 | 119,707 |
| 2007 | 4.00 | 600,000 | 397,046 | 4.00 | 115,000 | 107,555 |
| 2008 | 4.00 | 630,000 | 373,046 | 4.10 | 110,000 | 102,955 |
| 2009 | 4.00 | 660,000 | 347,846 | 4.20 | 110,000 | 98,445 |
| 2010 | 4.00 | 700,000 | 321,446 | 4.25 | 100,000 | 93,825 |
| 2011 | 4.05 | 730,000 | 293,446 | 4.25 | 105,000 | 89,575 |
| 2012 | 4.10 | 770,000 | 263,880 | 4.38 | 100,000 | 84,983 |
| 2013 | 4.15 | 805,000 | 232,310 | 4.40 | 100,000 | 80,583 |
| 2014 | 4.20 | 845,000 | 198,902 | 4.50 | 100,000 | 76,083 |
| 2015 | 4.25 | 890,000 | 163,412 | 4.50 | 95,000 | 71,583 |
| 2016 | 4.25 | 935,000 | 125,588 | 4.60 | 90,000 | 67,212 |
| 2017 | 4.25 | 980,000 | 85,850 | 4.75 | 90,000 | 62,938 |
| 2018 | 4.25 | 1,040,000 | 44,200 | 4.75 | 75,000 | 58,662 |
| 2019 | - | - | - | 4.75 | 1,160,000 | 55,100 |
| 2020 | - | - | - | - | - | - |
| 2021 | - | - | - | - | - | - |
| Total | | <u>\$ 10,000,000</u> | <u>3,673,224</u> | | <u>\$ 3,275,000</u> | <u>1,318,387</u> |

| Year Ending June 30, | Bond Issue of May 1, 2001 | | | Total | |
|----------------------------|---------------------------|--------------|-----------|---------------|-----------|
| | Interest Rates | Principal | Interest | Principal | Interest |
| 2005 | 4.50% \$ | 25,000 | 147,067 | \$ 680,000 | 709,374 |
| 2006 | 4.50 | 25,000 | 146,066 | 710,000 | 678,899 |
| 2007 | 4.00 | 25,000 | 145,066 | 740,000 | 649,667 |
| 2008 | 4.10 | 25,000 | 144,066 | 765,000 | 620,067 |
| 2009 | 4.20 | 30,000 | 143,066 | 800,000 | 589,357 |
| 2010 | 4.25 | 30,000 | 141,836 | 830,000 | 557,107 |
| 2011 | 4.25 | 30,000 | 140,576 | 865,000 | 523,597 |
| 2012 | 4.38 | 30,000 | 139,286 | 900,000 | 488,149 |
| 2013 | 4.40 | 30,000 | 137,966 | 935,000 | 450,859 |
| 2014 | 4.50 | 30,000 | 136,616 | 975,000 | 411,601 |
| 2015 | 4.50 | 35,000 | 135,236 | 1,020,000 | 370,231 |
| 2016 | 4.60 | 35,000 | 133,618 | 1,060,000 | 326,418 |
| 2017 | 4.75 | 35,000 | 131,972 | 1,105,000 | 280,760 |
| 2018 | 4.75 | 40,000 | 130,310 | 1,155,000 | 233,172 |
| 2019 | 4.75 | 40,000 | 128,370 | 1,200,000 | 183,470 |
| 2020 | 4.75 | 1,260,000 | 126,420 | 1,260,000 | 126,420 |
| 2021 | 4.75 | 1,320,000 | 64,680 | 1,320,000 | 64,680 |
| Total | | \$ 3,045,000 | 2,272,217 | \$ 16,320,000 | 7,263,828 |

Bus Lease

During the years ended June 30, 2002 and 2004, the District entered into lease agreements with Blue Bird Body Company to purchase buses. The District's bus lease indebtedness is as follows:

| Year Ending June 30, | June 30, 2002 | | | June 30, 2004 | | Total | | |
|----------------------------|------------------|------------|----------|---------------|------------|-----------|------------|--------|
| | Interest Rate | Principal | Interest | Principal | Interest | Principal | Interest | |
| 2005 | 4.48 % \$ | 56,657 | 7,961 | 4.35 % \$ | 53,214 | 12,625 | 109,871 | 20,586 |
| 2006 | 4.48 | 59,195 | 5,423 | 4.35 | 55,528 | 10,311 | 114,723 | 15,734 |
| 2007 | 4.48 | 61,848 | 2,770 | 4.35 | 57,944 | 7,895 | 119,792 | 10,665 |
| 2008 | - | - | - | 4.35 | 60,464 | 5,374 | 60,464 | 5,374 |
| 2009 | - | - | - | 4.35 | 63,095 | 2,744 | 63,095 | 2,744 |
| Total | | \$ 177,700 | 16,154 | | \$ 290,245 | 38,949 | \$ 467,945 | 55,103 |

Early Retirement

The District offers a voluntary early retirement plan to its certified employees at various times. Eligible employees must be at least age fifty-three and employees must have completed twenty-five years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. Early retirement benefits paid during the year ended June 30, 2004 totaled \$140,906. The cost of early retirement payments expected to liquidated currently are recorded as a liability of the government-wide financial statements representing the District's commitment to fund early retirement.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$756,971, \$644,941 and \$641,908 respectively, equal to the required contributions for each year.

(8) Risk Management

Lewis Central 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: medical, dental, vision and prescription drugs.

Each member's contributions to ISEBA funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a GAAP basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

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, 2004 were \$1,569,010.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the District's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

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

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

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$685,810 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Deficit Fund Balance/Net Assets

The District had a deficit undesignated fund balance of \$2,718,115 in the Capital Projects Fund. The District also had deficit net assets of \$93 in the Enterprise, Swimming Pool Fund. Also, on the Statement of Net Assets the Unrestricted Net Assets reported is a deficit of \$135,882.

(11) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2004, disbursements in the non-instructional functional program area exceeded the amount budgeted.

REQUIRED SUPPLEMENTAL INFORMATION

LEWIS CENTRAL COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (GAAP BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

| | Governmental Fund Types Actual | Proprietary Fund Type Actual |
|---|--------------------------------------|------------------------------------|
| Revenues: | | |
| Local sources | \$ 12,634,408 | 864,595 |
| State sources | 9,457,349 | 10,717 |
| Federal sources | 969,969 | 398,381 |
| Total revenues | <u>23,061,726</u> | <u>1,273,693</u> |
| Expenditures: | | |
| Instruction | 12,879,370 | 0 |
| Support services | 5,361,874 | 0 |
| Non-instructional programs | 22,103 | 1,209,534 |
| Other expenditures | 6,648,255 | 0 |
| Total expenditures | <u>24,911,602</u> | <u>1,209,534</u> |
| Excess(deficiency) of revenues over(under) expenditures | (1,849,876) | 64,159 |
| Other financing sources, net | <u>483,479</u> | <u>0</u> |
| Excess(deficiency) of revenues and other financing sources over(under) expenditures | (1,366,397) | 64,159 |
| Balance beginning of year | <u>1,589,705</u> | <u>400,018</u> |
| Balance end of year | <u>\$ 223,308</u> | <u>464,177</u> |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

| Total Actual | Budgeted Amounts | | Final to Actual Variance - Positive (Negative) |
|-------------------|-------------------|--------------------|--|
| | Original | Final | |
| 13,499,003 | 13,024,155 | 13,024,155 | 474,848 |
| 9,468,066 | 9,661,357 | 9,661,357 | (193,291) |
| 1,368,350 | 782,587 | 782,587 | 585,763 |
| <u>24,335,419</u> | <u>23,468,099</u> | <u>23,468,099</u> | <u>867,320</u> |
| 12,879,370 | 13,420,000 | 15,920,000 | 3,040,630 |
| 5,361,874 | 5,293,000 | 5,443,000 | 81,126 |
| 1,231,637 | 1,130,000 | 1,130,000 | (101,637) |
| 6,648,255 | 4,035,477 | 8,175,000 | 1,526,745 |
| <u>26,121,136</u> | <u>23,878,477</u> | <u>30,668,000</u> | <u>4,546,864</u> |
| (1,785,717) | (410,378) | (7,199,901) | 5,414,184 |
| 483,479 | 0 | 0 | 483,479 |
| (1,302,238) | (410,378) | (7,199,901) | 5,897,663 |
| 1,989,723 | 4,495,019 | 4,495,019 | (2,505,296) |
| <u>687,485</u> | <u>4,084,641</u> | <u>(2,704,882)</u> | <u>3,392,367</u> |

LEWIS CENTRAL COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2004

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. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as 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 expenditures by \$6,789,523.

During the year ended June 30, 2004, expenditures in the non-instructional programs functional area exceeded the amount budgeted.

OTHER SUPPLEMENTAL INFORMATION

LEWIS CENTRAL COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2004

| | Special Revenue Funds | | | | | | Total Nonmajor Governmental Funds |
|--|-----------------------|---------------------|--|---------------------|--------------------------------------|------------------|--|
| | Manage- ment | Student Activity | Physical Plant and Equipment Levy | Expendable Trust | Total Special Revenue Funds | Debt Service | |
| ASSETS | | | | | | | |
| Cash and pooled investments | \$ 165,071 | 126,199 | 157,225 | 2,086 | 450,581 | 128,270 | 578,851 |
| Receivables: | | | | | | | |
| Property tax | | | | | | | |
| Succeeding year | 275,000 | 0 | 464,493 | 0 | 739,493 | 1,426,601 | 2,166,094 |
| TOTAL ASSETS | \$ 440,071 | 126,199 | 621,718 | 2,086 | 1,190,074 | 1,554,871 | 2,744,945 |
| LIABILITIES AND FUND EQUITY | | | | | | | |
| Liabilities: | | | | | | | |
| Deferred revenue: | | | | | | | |
| Succeeding year property tax | \$ 275,000 | 0 | 464,493 | 0 | 739,493 | 1,426,601 | 2,166,094 |
| Fund equity: | | | | | | | |
| Fund balances: | | | | | | | |
| Reserved for Debt Service | 0 | 0 | 0 | 0 | 0 | 128,270 | 128,270 |
| Unreserved, undesignated | 165,071 | 126,199 | 157,225 | 2,086 | 450,581 | 0 | 450,581 |
| | 165,071 | 126,199 | 157,225 | 2,086 | 450,581 | 128,270 | 578,851 |
| TOTAL LIABILITIES AND FUND EQUITY | \$ 440,071 | 126,199 | 621,718 | 2,086 | 1,190,074 | 1,554,871 | 2,744,945 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LEWIS CENTRAL COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2004

| | Special Revenue Funds | | | | | | | Total Nonmajor Governmental Funds |
|---|-----------------------|---------------------|-------------------------|--|---------------------|--------------------------------------|------------------|--|
| | Manage- ment | Student Activity | School house 67.5 | Physical Plant and Equipment Levy | Expendable Trust | Total Special Revenue Funds | Debt Service | |
| REVENUES: | | | | | | | | |
| Local sources: | | | | | | | | |
| Local tax | \$ 260,889 | 0 | 0 | 468,749 | 0 | 729,638 | 1,388,954 | 2,118,592 |
| Other | 2,314 | 636,058 | 352 | 172,909 | 3,025 | 814,658 | 3,792 | 818,450 |
| State sources | 163 | 0 | 0 | 291 | 0 | 454 | 863 | 1,317 |
| TOTAL REVENUES | 263,366 | 636,058 | 352 | 641,949 | 3,025 | 1,544,750 | 1,393,609 | 2,938,359 |
| EXPENDITURES: | | | | | | | | |
| Current: | | | | | | | | |
| Instruction: | | | | | | | | |
| Regular instruction | 175,536 | 0 | 0 | 0 | 0 | 175,536 | 0 | 175,536 |
| Other instruction | 0 | 613,584 | 0 | 0 | 0 | 613,584 | 0 | 613,584 |
| Support services: | | | | | | | | |
| Administration services | 5,084 | 0 | 0 | 0 | 0 | 5,084 | 0 | 5,084 |
| Operation and maintenance of plant services | 81,560 | 0 | 0 | 0 | 0 | 81,560 | 0 | 81,560 |
| Student transportation | 44,940 | 0 | 0 | 356,084 | 0 | 401,024 | 0 | 401,024 |
| Central support | 45,801 | 0 | 0 | 0 | 0 | 45,801 | 0 | 45,801 |
| Other support services | 28,473 | 0 | 0 | 0 | 0 | 28,473 | 0 | 28,473 |
| Non-instructional programs: | | | | | | | | |
| Operation of non-instructional programs | 0 | 0 | 0 | 0 | 3,500 | 3,500 | 0 | 3,500 |
| Other expenditures: | | | | | | | | |
| Facilities acquisitions | 0 | 0 | 119,448 | 537,746 | 0 | 657,194 | 0 | 657,194 |
| Long-term debt: | | | | | | | | |
| Principal | 0 | 0 | 0 | 0 | 0 | 0 | 645,000 | 645,000 |
| Interest and fiscal charges | 0 | 0 | 0 | 0 | 0 | 0 | 869,656 | 869,656 |
| TOTAL EXPENDITURES | 381,394 | 613,584 | 119,448 | 893,830 | 3,500 | 2,011,756 | 1,514,656 | 3,526,412 |
| EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES | (118,028) | 22,474 | (119,096) | (251,881) | (475) | (467,006) | (121,047) | (588,053) |
| OTHER FINANCING SOURCES: | | | | | | | | |
| Transfer in | 0 | 0 | 0 | 0 | 0 | 0 | 130,457 | 130,457 |
| Transfer out | 0 | 0 | 0 | (65,839) | 0 | (65,839) | 0 | (65,839) |
| Proceeds from bus loan | 0 | 0 | 0 | 356,084 | 0 | 356,084 | 0 | 356,084 |
| Sale of property | 0 | 0 | 0 | 125,190 | 0 | 125,190 | 0 | 125,190 |
| TOTAL OTHER FINANCING SOURCES | 0 | 0 | 0 | 415,435 | 0 | 415,435 | 130,457 | 545,892 |
| EXCESS(DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES | (118,028) | 22,474 | (119,096) | 163,554 | (475) | (51,571) | 9,410 | (42,161) |
| FUND BALANCE BEGINNING OF YEAR | 283,099 | 103,725 | 119,096 | (6,329) | 2,561 | 502,152 | 118,860 | 621,012 |
| FUND BALANCE END OF YEAR | \$ 165,071 | 126,199 | 0 | 157,225 | 2,086 | 450,581 | 128,270 | 578,851 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LEWIS CENTRAL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2004

| Account | Balance Beginning of Year | Revenues | Expendi- tures | Balance End of Year |
|----------------------------------|---------------------------------|----------|-------------------|---------------------------|
| General Activities | \$ 8,261 | 27,512 | 33,807 | 1,966 |
| State tournaments | 0 | 16,926 | 16,926 | 0 |
| Drama - Fall Play | (32) | 6,227 | 6,195 | 0 |
| Drama - Spring Play | (955) | 15,477 | 14,522 | 0 |
| Speech | 0 | 5,641 | 5,641 | 0 |
| Vocal Music | 3,937 | 55,421 | 51,481 | 7,877 |
| Band | 5,384 | 34,861 | 37,902 | 2,343 |
| Boys Athletics: | | | | |
| Basketball | 5,770 | 24,976 | 25,759 | 4,987 |
| Football | 19,081 | 32,962 | 33,034 | 19,009 |
| Soccer | (1,042) | 11,362 | 10,320 | 0 |
| Baseball | (4,324) | 25,693 | 21,369 | 0 |
| Track | (574) | 8,837 | 8,263 | 0 |
| Cross Country | 0 | 1,593 | 1,593 | 0 |
| Tennis | (222) | 812 | 590 | 0 |
| Golf | (120) | 3,778 | 3,658 | 0 |
| Swimming | 0 | 2,938 | 2,938 | 0 |
| Wrestling | 0 | 18,967 | 18,967 | 0 |
| Girls Athletics: | | | | |
| Basketball | 6,147 | 17,510 | 21,854 | 1,803 |
| Volleyball | 1,266 | 15,050 | 16,316 | 0 |
| Soccer | (823) | 3,500 | 2,677 | 0 |
| Softball | (1,489) | 8,608 | 7,119 | 0 |
| Track | (512) | 8,373 | 7,861 | 0 |
| Cross Country | 0 | 1,733 | 1,733 | 0 |
| Tennis | (222) | 1,607 | 1,385 | 0 |
| Golf | (120) | 1,766 | 1,646 | 0 |
| Swimming | 0 | 4,293 | 4,293 | 0 |
| Future Business Leaders | 2,630 | 1,252 | 1,348 | 2,534 |
| Art Club | 234 | 0 | 123 | 111 |
| Current Affairs | 68 | 0 | 68 | 0 |
| Fellowship of Christian Athletes | (235) | 11,325 | 8,553 | 2,537 |
| Home Economics/LC Students | 1,203 | 0 | 0 | 1,203 |
| Industrial Arts | 2,899 | 0 | 0 | 2,899 |
| Drama Club | 2,111 | 264 | 0 | 2,375 |
| Science Club | 573 | 0 | 0 | 573 |
| S.A.V.E. | 466 | 0 | 466 | 0 |
| LC Volleyball Club | 487 | 0 | 487 | 0 |
| Home Economics Store | 78 | 422 | 395 | 105 |
| Industrial Arts Store | (401) | 18,300 | 17,795 | 104 |
| Special Olympics: | | | | |
| High School | 198 | 1,309 | 1,329 | 178 |
| Elementary | 5 | 0 | 0 | 5 |
| Student Charges | 0 | 2,760 | 1,571 | 1,189 |

LEWIS CENTRAL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2004

| Account | Balance Beginning of Year | Revenues | Expendi- tures | Balance End of Year |
|--------------------------------|---------------------------------|-------------|-------------------|---------------------------|
| Class of 2003 | (361) | 477 | 116 | 0 |
| Class of 2004 | 0 | 2,267 | 2,267 | 0 |
| Class of 2005 | 477 | 4,185 | 3,921 | 741 |
| Class of 2006 | 226 | 322 | 548 | 0 |
| Class of 2007 | 0 | 175 | 101 | 74 |
| Student Council | 2,785 | 7,496 | 6,361 | 3,920 |
| National Honor Society | 0 | 1,555 | 1,431 | 124 |
| Cheerleaders | (2,048) | 14,860 | 10,613 | 2,199 |
| Dance Team | (10,353) | 37,706 | 28,042 | (689) |
| Yearbook | 19,395 | 30,297 | 31,112 | 18,580 |
| Elementary Enrichment | 3,982 | 3,535 | 3,484 | 4,033 |
| Central Student Betterment | 4,636 | 3,302 | 7,938 | 0 |
| Lakeview Student Betterment | 7,174 | 31,314 | 30,809 | 7,679 |
| Kreft Student Betterment | 2,563 | 12,875 | 7,198 | 8,240 |
| High School Student Betterment | (913) | 30,073 | 29,160 | 0 |
| Middle School: | | | | |
| Vocal | 2,384 | 3,864 | 2,462 | 3,786 |
| Band | 3,783 | 29,235 | 29,695 | 3,323 |
| FCA | (42) | 839 | 793 | 4 |
| Student Council | 1,510 | 4,702 | 4,678 | 1,534 |
| Leadership | 2,658 | 9,134 | 6,742 | 5,050 |
| Spirit Club | 165 | 0 | 165 | 0 |
| Yearbook | 5,887 | 2,595 | 2,296 | 6,186 |
| Students | 6,381 | 9,662 | 9,591 | 6,452 |
| Library | 3,709 | 3,533 | 4,077 | 3,165 |
| Total | \$ 103,725 | 636,058 | 613,584 | 126,199 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LEWIS CENTRAL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 AGENCY FUND
 YEAR ENDED JUNE 30, 2004

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year |
|---|---------------------------------|-----------|-----------|---------------------------|
| <u>CENTRAL POP TEACHERS' LOUNGE</u> | | | | |
| ASSETS | | | | |
| Cash and pooled investments | \$ 280 | 463 | 743 | 0 |
| LIABILITIES | | | | |
| Due to other groups | \$ 280 | 463 | 743 | 0 |
| <u>LAKEVIEW POP TEACHERS' LOUNGE</u> | | | | |
| ASSETS | | | | |
| Cash and pooled investments | \$ (83) | 3,145 | 2,628 | 434 |
| Due from other groups | 83 | 0 | 83 | 0 |
| | 0 | 3,145 | 2,711 | 434 |
| LIABILITIES | | | | |
| Due to other groups | \$ 0 | 3,145 | 2,711 | 434 |
| <u>TITAN HILL TEACHERS</u> | | | | |
| ASSETS | | | | |
| Cash and pooled investments | \$ 0 | 2,110 | 1,309 | 801 |
| LIABILITIES | | | | |
| Due to other groups | \$ 0 | 2,110 | 1,309 | 801 |
| <u>ADMINISTRATION POP</u> | | | | |
| ASSETS | | | | |
| Cash and pooled investments | \$ (179) | 790 | 562 | 49 |
| Due from other groups | 179 | 0 | 179 | 0 |
| | 0 | 790 | 741 | 49 |
| LIABILITIES | | | | |
| Due to other groups | \$ 0 | 790 | 741 | 49 |
| <u>MS POP - TEACHERS' LOUNGE</u> | | | | |
| ASSETS | | | | |
| Cash and pooled investments | \$ 368 | 3,265 | 3,149 | 484 |
| LIABILITIES | | | | |
| Due to other groups | \$ 368 | 3,265 | 3,149 | 484 |
| <u>HS POP TEACHERS' LOUNGE</u> | | | | |
| ASSETS | | | | |
| Cash and pooled investments | \$ (958) | 2,947 | 1,933 | 56 |
| Due from other groups | 958 | 0 | 958 | 0 |
| | 0 | 2,947 | 2,891 | 56 |
| LIABILITIES | | | | |
| Due to other groups | \$ 0 | 2,947 | 2,891 | 56 |
| <u>MS SOCIAL</u> | | | | |
| ASSETS | | | | |
| Cash and pooled investments | \$ 11 | 0 | 11 | 0 |
| LIABILITIES | | | | |
| Due to other groups | \$ 11 | 0 | 11 | 0 |
| <u>TOTALS - ALL AGENCY FUNDS</u> | | | | |
| ASSETS | | | | |
| Cash and pooled investments | \$ (561) | 12,720 | 10,335 | 1,824 |
| Due from other groups | 1,220 | 0 | 1,220 | 0 |
| | \$ 659 | 12,720 | 11,555 | 1,824 |
| LIABILITIES | | | | |
| Due to other groups | \$ 659 | 12,720 | 11,555 | 1,824 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LEWIS CENTRAL 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, | | | |
| | 2004 | 2003 | 2002 | 2001 |
| Revenues: | | | | |
| Local sources: | | | | |
| Local tax | \$ 9,932,264 | 8,976,353 | 7,127,180 | 6,596,103 |
| Tuition | 1,548,902 | 1,706,042 | 1,478,100 | 1,274,259 |
| Other | 1,153,242 | 1,014,990 | 1,435,641 | 1,407,278 |
| State sources | 9,457,349 | 10,036,094 | 10,230,093 | 10,291,981 |
| Federal sources | 969,969 | 573,316 | 474,531 | 404,410 |
| Total | <u>\$ 23,061,726</u> | <u>22,306,795</u> | <u>20,745,545</u> | <u>19,974,031</u> |
| Expenditures: | | | | |
| Instruction: | | | | |
| Regular instruction | \$ 8,424,639 | 8,670,491 | 8,716,492 | 8,367,551 |
| Special instruction | 3,116,389 | 3,401,001 | 3,131,051 | 3,194,624 |
| Other instruction | 1,338,342 | 1,250,653 | 1,433,126 | 1,344,664 |
| Support services: | | | | |
| Student services | 450,984 | 386,518 | 343,937 | 310,031 |
| Instructional staff services | 701,737 | 565,228 | 568,553 | 727,818 |
| Administration services | 1,352,365 | 1,338,687 | 1,314,020 | 1,234,994 |
| Operation and maintenance of plant services | 1,874,668 | 1,983,347 | 1,870,437 | 1,732,121 |
| Transportation services | 907,846 | 521,840 | 846,675 | 578,663 |
| Central support services | 45,801 | 33,673 | 58,599 | 30,016 |
| Other support services | 28,473 | 19,300 | 16,384 | 12,601 |
| Non-instructional programs | 22,103 | 25,922 | 17,441 | 81,067 |
| Other expenditures: | | | | |
| Facilities acquisitions | 4,447,789 | 3,944,926 | 4,196,057 | 7,579,085 |
| Long-term debt: | | | | |
| Principal | 765,068 | 671,903 | 595,000 | 550,000 |
| Interest and other charges | 749,588 | 779,714 | 793,674 | 668,360 |
| AEA flow-through | 685,810 | 734,742 | 734,795 | 758,522 |
| Total | <u>\$ 24,911,602</u> | <u>24,327,945</u> | <u>24,636,241</u> | <u>27,170,117</u> |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LEWIS CENTRAL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2004

| GRANTOR/PROGRAM | CFDA NUMBER | GRANT NUMBER | PROGRAM EXPENDITURES |
|--|----------------|-----------------|-------------------------|
| DIRECT: | | | |
| DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT: | | | |
| COMMUNITY DEVELOPMENT BLOCK GRANT | 14.218 | FY 04 | \$ <u>4,020</u> |
| INDIRECT: | | | |
| DEPARTMENT OF AGRICULTURE: IOWA DEPARTMENT OF EDUCATION: | | | |
| FOOD DISTRIBUTION (non-cash) | 10.550 | FY 04 | <u>5,906</u> |
| SCHOOL NUTRITION CLUSTER PROGRAMS: | | | |
| SCHOOL BREAKFAST PROGRAM | 10.553 | FY 04 | 57,552 |
| NATIONAL SCHOOL LUNCH PROGRAM | 10.555 | FY 04 | 333,192 |
| CHILD AND ADULT CARE FOOD PROGRAM | 10.558 | FY 04 | <u>663</u> |
| | | | <u>391,407</u> |
| DEPARTMENT OF EDUCATION: IOWA DEPARTMENT OF EDUCATION: | | | |
| TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES | 84.010 | 3465-G | <u>232,557</u> |
| INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V) | 84.298 | FY 04 | <u>18,253</u> |
| SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS | 84.186 | FY 03 | 74 |
| SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS | 84.186 | FY 04 | <u>10,301</u> |
| | | | <u>10,375</u> |
| COMPREHENSIVE SCHOOL REFORM DEMONSTRATION | 84.332 | FY 04 | <u>56,625</u> |
| TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM | 84.367 | FY 04 | <u>73,575</u> |
| GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A) | 84.369 | FY 04 | <u>18,253</u> |

LEWIS CENTRAL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2004

| GRANTOR/PROGRAM | CFDA NUMBER | GRANT NUMBER | PROGRAM EXPENDITURES |
|---|----------------|-----------------|-------------------------|
| DEPARTMENT OF EDUCATION (CONTINUED): | | | |
| AREA EDUCATION AGENCY: | | | |
| SPECIAL EDUCATION - GRANTS TO STATES (PART B) | 84.027 | FY 04 | <u>102,500</u> |
| VOCATIONAL EDUCATIONS - BASIC GRANTS TO STATES | 84.048 | FY 04 | <u>21,190</u> |
| HARKIN PRESCHOOL GRANT | 84.215 | FY 04 | <u>80,229</u> |
| TOTAL | | | <u>\$ 1,014,890</u> |

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

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

To the Board of Education of the
Lewis Central Community School District:

We have audited the financial statements of Lewis Central Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated September 21, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Lewis Central Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 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. Prior year statutory comments have all been resolved except for items IV-B-04 and IV-K-04.

Internal Control Over Financial Reporting

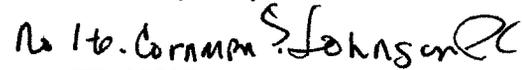
In planning and performing our audit, we considered Lewis Central Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control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

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

the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Prior year reportable conditions have all been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Lewis Central Community School District and other parties to whom Lewis Central Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Lewis Central 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.

September 21, 2004

NOLTE, CORNMAN & JOHNSON P.C.
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(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance

To the Board of Education of
Lewis Central Community School District

Compliance

We have audited the compliance of Lewis Central Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Lewis Central Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Lewis Central Community School District's management. Our responsibility is to express an opinion on Lewis Central Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lewis Central Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Lewis Central Community School District's compliance with those requirements.

In our opinion, Lewis Central Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

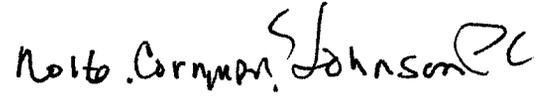
Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations,

contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

A handwritten signature in black ink that reads "Nolte, Cornman, & Johnson P.C." The signature is written in a cursive, somewhat stylized font.

NOLTE, CORNMAN & JOHNSON, P.C.

September 21, 2004

LEWIS CENTRAL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, none were considered material.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No reportable conditions in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Clustered Programs
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.558 - Child and Adult Care Food Program
 - Individual
 - CFDA Number 84.010 - Title I - Grants to Local Educational Agencies
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Lewis Central Community School District did not qualify as a low-risk auditee.

LEWIS CENTRAL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-04 District and Regional Rents - We noted during our audit that the district receives money for use of facilities when hosting district and regional events.

Recommendation - Chapter 297.9 of the code of Iowa requires rent to be receipted into the general fund. The district should receipt rent collected for facility usage into the general fund.

Response - Future receipts will be divided 30% to the General Fund and 70% to the Student Activity Fund to cover expenses.

Conclusion - Response accepted.

II-B-04 Student Activity Fund - We noted during our audit that the Special Revenue - Student Activity Fund included an industrial arts account.

Recommendation - The revenues and expenditures made from this account appear to be more appropriately accounted for in the General Fund. The District should review the transactions in this account and make the necessary adjustments to account for the industrial arts account in the General Fund.

Response - We will make the necessary adjustments and account for the industrial arts accounts in the General Fund.

Conclusion - Response accepted.

II-C-04 Payments Made From Purchase Orders - We noted several instances where the District paid bills from purchase orders rather than from invoices for goods received.

Recommendation - The District should review procedures in place to ensure that payments are supported by invoices or approved supporting documentation.

Response - We have reviewed past practices and have made appropriate changes in procedures.

Conclusion - Response accepted.

II-D-04 Activities Director Travel Expenditures - We noted during our audit that the District pays for travel for the Activities Director, however no authorizing approval is noted. The bills do appear to be approved by the Board.

Recommendation - The District should review procedures in place to ensure a series of checks and balances are in place to approve and signoff on all travel expenses, including the Activities Director expenses.

Response - The high school principal will sign as supervisor to authorize payments.

Conclusion - Response accepted.

LEWIS CENTRAL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

No matters were reported.

LEWIS CENTRAL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part IV: Other Findings Related to Statutory Reporting

IV-A-04 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

IV-B-04 Certified Budget - District disbursements for the year ended June 30, 2004 exceeded the amount budgeted in the non-instructional programs functional area.

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 amend the budget if necessary in the future.

Conclusion - Response accepted.

IV-C-04 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.

IV-D-04 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.

IV-E-04 Business Transactions - No business transactions between the District and District officials were noted.

IV-F-04 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.

IV-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-H-04 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-I-04 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.

IV-J-04 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.

IV-K-04 Financial Condition - The District had a deficit undesignated fund balance of \$2,718,115 in the Capital Projects Fund. The District also had deficit net assets of \$93 in the Enterprise - Swimming Pool Fund. We also noted several deficit Special Revenue – Student Activity Fund account balances. The District also had deficit Unreserved Net Assets of \$135,882 on the Statement of Net Assets.

Recommendation - The District should continue to monitor these funds and accounts balances and investigate alternatives to eliminate the deficits.

Response - We will monitor these funds and accounts and investigate any available options to eliminate these deficits.

Conclusion - Response accepted.