

LOGAN-MAGNOLIA 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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Logan-Magnolia Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2003 Election)</b>		
Randy Koenig	President	2004
James Noneman	Vice President	2004
Kris Earlywine	Board Member	2003
Kevin Mann	Board Member	2003
Dan Cohrs	Board Member	2005
<b>Board of Education (After September 2003 Election)</b>		
Randy Koenig	President	2004
Dennis Alvis	Vice President	2006
Kevin Mann	Board Member	2006
James Noneman	Board Member	2004
Dan Cohrs	Board Member	2005
<b>School Officials</b>		
Edwin Gambs	Superintendent	2004
Karen Jacobsen	District Secretary	2004
Mundt, Franck and Schumacher	Attorney	2004

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Logan-Magnolia 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 Logan-Magnolia 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 Logan-Magnolia 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.

As described in Note 10 to the financial statements, during the year ended June 30, 2004, Logan-Magnolia Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments; Statement No. 37, Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule- Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

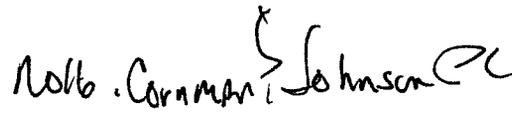
In accordance with Government Auditing Standards, we have also issued our reports dated October 11, 2004 on our consideration of the Logan-Magnolia Community School District's internal control over financial reporting and our tests of its compliance with certain

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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 12 and 34 through 37 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 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 Logan-Magnolia 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 5, 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, P.C.

October 11, 2004

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Logan-Magnolia Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

### **2004 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$4,434,912 in fiscal 2003 to \$4,655,955 in fiscal 2004, while General Fund expenditures increased from \$4,316,303 in fiscal 2003 to \$4,516,087 in fiscal 2004. This resulted in an increase in the District's General Fund balance from of \$1,257 in fiscal 2003 to a balance of \$162,772 in fiscal 2004, due to the implementation of instructional support levy.
- The increase in General Fund revenues was attributable to an increase in federal revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits, even though the District reduced their staff to cut back on budgeted salaries. One reason the General Fund balance increased is because the negotiated salary and benefits settlement was less than the increase in the District's General Fund revenue for fiscal 2004. As a result, the District's General Fund increased.
- A decline in interest rates during the past fiscal year, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone to decrease from \$48,534 in fiscal year 2003 to \$10,468 in fiscal year 2004.

### **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 Logan-Magnolia 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 Logan-Magnolia 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 Logan-Magnolia Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements. Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

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

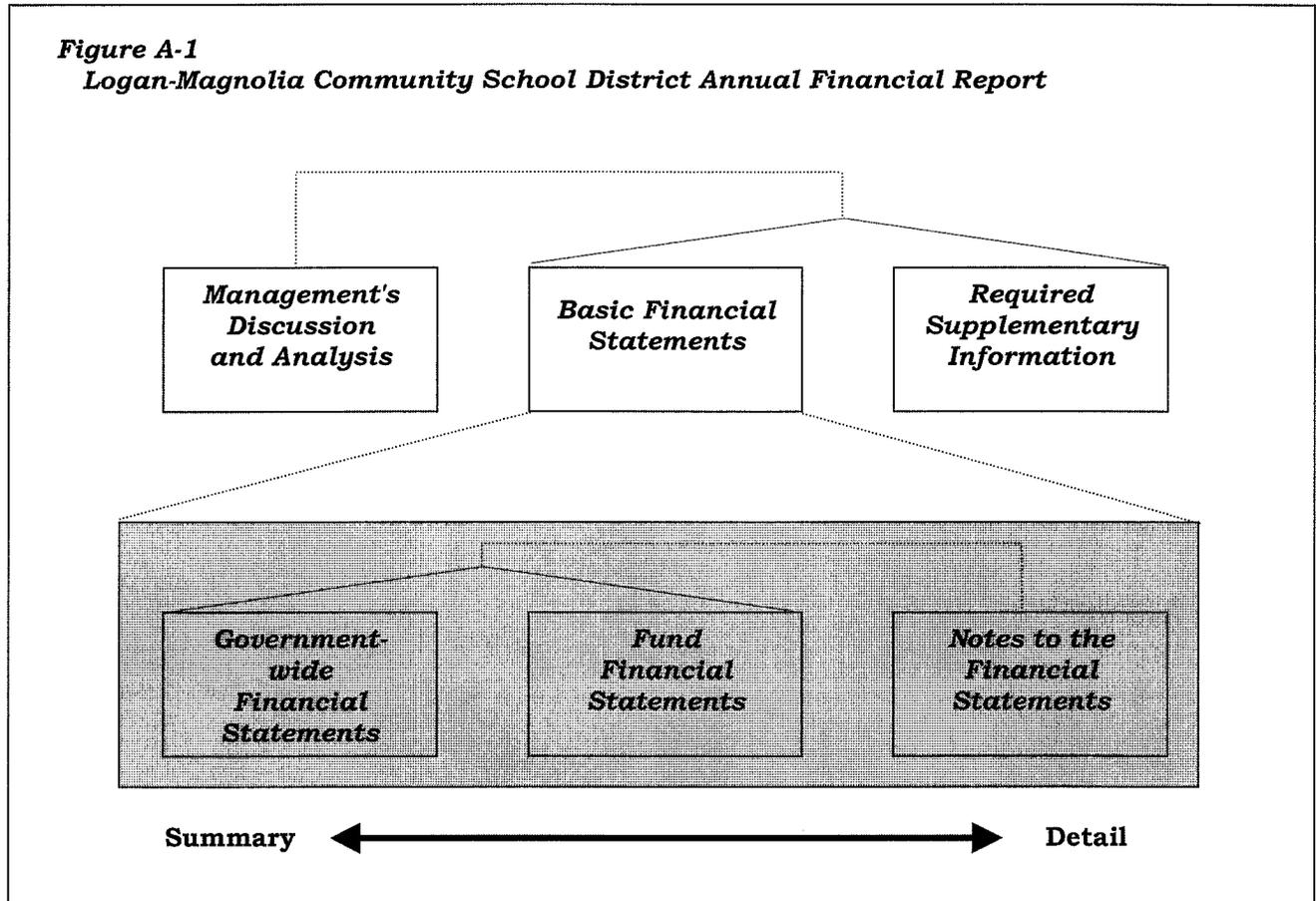


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2</b>			
<b>Major Features of the Government-wide and Fund Financial Statements</b>			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>
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
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
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

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## 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 two 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, Capital Projects, and Debt Service Fund.

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

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

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

Reconciliation 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.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Current and other assets	\$ 4,824,484	30,580	4,855,064
Capital assets	5,378,403	19,441	5,397,844
Total assets	10,202,887	50,021	10,252,908
Long-term obligations	3,976,376	0	3,976,376
Other liabilities	3,512,207	12,086	3,524,293
Total liabilities	7,488,583	12,086	7,500,669
Net assets:			
Invested in capital assets, net of related debt	2,193,941	19,441	2,213,382
Restricted	289,945	0	289,945
Unrestricted	230,418	18,494	248,912
Total net assets	\$ 2,714,304	37,935	2,752,239

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- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,249,271.
  - The net cost of governmental activities was financed with \$1,904,108 in local tax, \$2,305,574 in unrestricted state grants, and \$24,846 in interest income.

### **Business-Type Activities**

Revenues of the District's business-type activities were \$299,265 and expenses were \$314,017. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

### **INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,202,937, above last year's ending fund balances of \$325,166. However, the primary reason for the increase was the increased revenues in the Capital Projects Fund.

### **Governmental Fund Highlights**

- The District's improving General Fund financial position is the product of many factors. Increase in grants resulted in an increase in revenues. The increase in revenues was greater than the increase in General Fund expenditures ensuring the financial position of the District increase.
- The Management, and Activity Fund combined balance increased from \$99,662 in 2003, to \$153,057 in 2004, due to the increase in revenues in both funds.
- The Physical Plant and Equipment Levy (PPEL) fund balance decreased from \$146,635 to \$109,988, due to an increase in total expenditures.
- The Capital Projects fund balance increased to \$722,439. This was a result of an increase in sale of bond proceeds.
- The Debt Service fund balance decreased from \$77,612 to \$54,681. This was a result of increased expenditures.

### **Proprietary Fund Highlights**

The School Nutrition Fund net assets decreased from \$47,839 at June 30, 2003 to \$25,613 at June 30, 2004, representing a decrease of approximately 46%.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, Logan-Magnolia Community School District amended its annual budget one time to reflect additional expenditures in the other expenditures category due to the new bond issue.

The District's revenues were \$72,748 more than budgeted revenues, a variance of 1.3%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

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

Figure A-4  
Changes of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
<b>Revenues:</b>			
<b>Program revenues:</b>			
Charges for services	\$ 648,374	180,682	829,056
Operating grants and contributions and restricted interest	587,544	118,421	705,965
Capital grants and contributions and restricted interest	661,727	0	661,727
<b>General revenues:</b>			
Property tax	1,904,108	0	1,904,108
Unrestricted state grants	2,305,574	0	2,305,574
Other	46,493	162	46,655
<b>Total revenues</b>	<b>6,153,820</b>	<b>299,265</b>	<b>6,453,085</b>
<b>Program expenses:</b>			
<b>Governmental activities:</b>			
Instructional	3,191,912	0	3,191,912
Support services	1,472,525	0	1,472,525
Non-instructional programs	170	314,017	314,187
Other expenses	578,952	0	578,952
<b>Total expenses</b>	<b>5,243,559</b>	<b>314,017</b>	<b>5,557,576</b>
Changes in net assets	910,261	(14,752)	895,509
Net assets beginning of year	1,804,043	52,687	1,856,730
Net assets end of year	2,714,304	37,935	2,752,239

Property tax and unrestricted state grants account for 65% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 84% of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$6,153,820 and expenses were \$5,243,559.

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	\$ 3,191,912	2,148,872
Support services	1,472,525	1,457,011
Non-instructional	170	170
Other expenses	578,952	(260,139)
<b>Totals</b>	<b>\$ 5,243,559</b>	<b>3,345,914</b>

- The cost financed by users of the District's programs was \$648,374.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instruction functional program area due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2004, the District had invested \$5.4 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of more than 21% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$169,293.

The original cost of the District's capital assets was \$7,785,754. Governmental funds account for \$7,620,989 with the remainder of \$164,765 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$1,045,773 at June 30, 2004. This increase resulted from the improvements made during the current year.

Figure A-6

	Capital Assets, Net of Depreciation		
	Governmental	Business-type	Total
	Activities	Activities	School District
	2004	2004	2004
Construction in progress	\$ 1,045,773	0	1,045,773
Buildings	4,225,080	0	4,225,080
Machinery and equipment	107,550	19,441	126,991
Total	\$ 5,378,403	19,441	5,397,844

### Long-Term Debt

At June 30, 2004, the District had long-term debt outstanding of \$3,964,794 in general obligation bonds, revenue bonds, compensated absences, and early retirement. This represents a decrease of approximately 34.3% 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 total outstanding general obligation bonds payable of \$3,950,000 at June 30, 2004.

The District also had total outstanding early retirement payable of \$14,794 at June 30, 2004.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
General obligation bonds	\$ 3,950,000	2,930,000	34.8%
Early retirement	14,794	21,165	-30.1%
Total	<u>\$ 3,964,794</u>	<u>2,951,165</u>	<u>34.3%</u>

## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

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

- Although the District has experienced declining enrollment for a few years, the District expects a slight increase in enrollment.
- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten-year period beginning in fiscal year 2005.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- The District is going to be receiving income surtax revenue in the 2004-05 year.
- The Superintendent Edwin Gambs, is retiring at the end of the 2004-05 school year; a new Superintendent has been found and will start July 1, 2005.

## **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 Karen Jacobsen, Business Manager/Board Secretary, Logan-Magnolia Community School District, 1200 North 2<sup>nd</sup> Avenue, Logan, Iowa, 51546.

BASIC FINANCIAL STATEMENTS

LOGAN-MAGNOLIA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments			
ISCAP(Note 4)	\$ 1,043,845	0	1,043,845
Other	1,169,101	24,108	1,193,209
Receivables:			
Property tax:			
Delinquent	50,266	0	50,266
Succeeding year	1,704,553	0	1,704,553
Income surtax	109,340	0	109,340
Accounts	5,643	2,630	8,273
Accrued interest			
ISCAP(Note 4)	2,399	0	2,399
Other	796	0	796
Due from other governments	738,541	0	738,541
Inventories	0	3,842	3,842
Capital assets, net of accumulated depreciation(Note 5)	5,378,403	19,441	5,397,844
<b>TOTAL ASSETS</b>	<b>10,202,887</b>	<b>50,021</b>	<b>10,252,908</b>
<b>LIABILITIES</b>			
Accounts payable	322,740	5,440	328,180
Interest payable	11,582	0	11,582
Salaries and benefits payable	433,005	6,646	439,651
ISCAP warrants payable(Note 4)	1,046,000	0	1,046,000
ISCAP accrued interest payable(Note 4)	3,638	0	3,638
ISCAP premiums payable	2,111	0	2,111
Deferred revenue:			
Succeeding year property tax	1,704,553	0	1,704,553
Other	160	0	160
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds	220,000	0	220,000
Early retirement	6,371	0	6,371
Portion due after one year:			
General obligation bonds	3,730,000	0	3,730,000
Early retirement	8,423	0	8,423
<b>TOTAL LIABILITIES</b>	<b>7,488,583</b>	<b>12,086</b>	<b>7,500,669</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	2,193,941	19,441	2,213,382
Restricted for:			
Talented and gifted	41,694	0	41,694
Physical plant & equipment levy	109,988	0	109,988
Management levy	33,485	0	33,485
Other special revenue purposes	104,778	0	104,778
Unrestricted	230,418	18,494	248,912
<b>TOTAL NET ASSETS</b>	<b>\$ 2,714,304</b>	<b>37,935</b>	<b>2,752,239</b>

SEE NOTES TO FINANCIAL STATEMENTS.

LOGAN-MAGNOLIA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2004

	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs				
Governmental activities:				
Instruction:				
Regular instruction	\$ 2,021,024	282,346	409,865	0
Special instruction	677,270	72,229	0	0
Other instruction	493,618	278,600	0	0
	3,191,912	633,175	409,865	0
Support services:				
Student services	156,440	0	0	0
Instructional staff services	122,858	0	0	0
Administration services	521,660	0	0	0
Operation and maintenance of plant services	471,732	0	0	0
Transportation services	199,835	15,199	315	0
	1,472,525	15,199	315	0
Non-instructional:				
Community service and education operations	170	0	0	0
Other expenditures:				
Facilities acquisitions	155,300	0	0	661,727
Long-term debt interest	137,958	0	0	0
AEA flowthrough	177,364	0	177,364	0
Depreciation (unallocated)*	108,330	0	0	0
	578,952	0	177,364	661,727
Total governmental activities	5,243,559	648,374	587,544	661,727
Business-Type activities:				
Non-instructional programs:				
Nutrition services	285,304	144,732	118,239	0
Latch key	28,713	36,132	0	0
Total business-type activities	314,017	180,864	118,239	0
Total	\$ 5,557,576	829,238	705,783	661,727

**General Revenues:**

Property tax levied for:  
  General purposes  
  Debt services  
  Capital outlay  
Local option sales and service tax  
Unrestricted state grants  
Unrestricted investment earnings  
Compensation for loss of fixed assets

Total general revenues

Changes in net assets

Net assets beginning of year, as restated (Note 10)

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
(1,328,813)	0	(1,328,813)
(605,041)	0	(605,041)
(215,018)	0	(215,018)
(2,148,872)	0	(2,148,872)
(156,440)	0	(156,440)
(122,858)	0	(122,858)
(521,660)	0	(521,660)
(471,732)	0	(471,732)
(184,321)	0	(184,321)
(1,457,011)	0	(1,457,011)
(170)	0	(170)
506,427	0	506,427
(137,958)	0	(137,958)
0	0	0
(108,330)	0	(108,330)
260,139	0	260,139
(3,345,914)	0	(3,345,914)
0	(22,333)	(22,333)
0	7,419	7,419
0	(14,914)	(14,914)
(3,345,914)	(14,914)	(3,360,828)
\$ 1,524,127	0	1,524,127
278,919	0	278,919
36,638	0	36,638
64,424	0	64,424
2,305,574	0	2,305,574
24,846	162	25,008
21,647	0	21,647
4,256,175	162	4,256,337
910,261	(14,752)	895,509
1,804,043	52,687	1,856,730
\$ 2,714,304	37,935	2,752,239

LOGAN-MAGNOLIA COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004

	General	Capital Projects	Other Governmental Funds	Total
<b>ASSETS</b>				
Cash and pooled investments				
ISCAP (Note 4)	\$ 1,043,845	0	0	1,043,845
Other	575,811	278,977	314,313	1,169,101
Receivables:				
Property tax				
Delinquent	21,097	22,879	6,290	50,266
Succeeding year	1,488,661	0	215,892	1,704,553
Income surtax	109,340	0	0	109,340
Accounts	5,643	0	0	5,643
Accrued interest				
ISCAP (Note 4)	2,399	0	0	2,399
Other	367	299	130	796
Due from other governments	76,816	661,725	0	738,541
<b>TOTAL ASSETS</b>	<b>\$ 3,323,979</b>	<b>963,880</b>	<b>536,625</b>	<b>4,824,484</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 78,292	241,441	3,007	322,740
Salaries and benefits payable	433,005	0	0	433,005
ISCAP warrants payable (Note 4)	1,046,000	0	0	1,046,000
ISCAP accrued interest payable (Note 4)	3,638	0	0	3,638
ISCAP premiums payable	2,111	0	0	2,111
Deferred revenue:				
Succeeding year property tax	1,488,661	0	215,892	1,704,553
Income surtax	109,340	0	0	109,340
Other	160	0	0	160
Total liabilities	3,161,207	241,441	218,899	3,621,547
Fund balances:				
Reserved for:				
Debt service	0	0	54,681	54,681
Talented and gifted	41,694	0	0	41,694
Unreserved:				
Designated for special purposes	320	0	0	320
Designated for cash flow	345	0	0	345
Undesignated	120,413	722,439	263,045	1,105,897
Total fund balances	162,772	722,439	317,726	1,202,937
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 3,323,979</b>	<b>963,880</b>	<b>536,625</b>	<b>4,824,484</b>

SEE NOTES TO FINANCIAL STATEMENTS.

LOGAN-MAGNOLIA COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2004

<b>Total fund balances of governmental funds (page 16)</b>	\$	1,202,937
 <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 report as assets in in the governmental funds.		5,378,403
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(11,582)
Long-term liabilities, including bonds payable and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(3,964,794)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		109,340
<b>Net assets of governmental activites (page 13)</b>	<b>\$</b>	<b>2,714,304</b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Other Governmental Funds	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 1,334,229	0	396,115	1,730,344
LOSST	0	64,424	0	64,424
Tuition	354,575	0	0	354,575
Other	74,228	12,212	232,205	318,645
State sources	2,665,942	0	195	2,666,137
Federal sources	226,981	661,727	0	888,708
Total revenues	4,655,955	738,363	628,515	6,022,833
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular instruction	1,972,837	0	41,074	2,013,911
Special instruction	677,270	0	0	677,270
Other instruction	312,260	0	181,358	493,618
	2,962,367	0	222,432	3,184,799
Support services:				
Student services	156,440	0	0	156,440
Instructional staff services	122,858	0	0	122,858
Administration services	486,485	8,519	26,656	521,660
Operation and maintenance of plant services	388,988	0	78,194	467,182
Transportation services	221,415	0	0	221,415
	1,376,186	8,519	104,850	1,489,555
Non-instructional:				
Community service and education operations	170	0	0	170
Other expenditures:				
Facilities acquisitions	0	1,196,357	4,716	1,201,073
Long-term debt:				
Principal	0	0	215,000	215,000
Interest and fiscal charges	0	0	133,748	133,748
AEA flowthrough	177,364	0	0	177,364
	177,364	1,196,357	353,464	1,727,185
Total expenditures	4,516,087	1,204,876	680,746	6,401,709
Excess(deficiency) of revenues over(under) expenditures	139,868	(466,513)	(52,231)	(378,876)
Other financing sources(uses):				
Transfers in	0	0	46,048	46,048
Transfers out	0	(46,048)	0	(46,048)
Compensation for loss of fixed assets	21,647	0	0	21,647
Sale of bonds	0	1,235,000	0	1,235,000
Total other financing sources	21,647	1,188,952	46,048	1,256,647
Net change in fund balances	161,515	722,439	(6,183)	877,771
Fund balance beginning of year	1,257	0	323,909	325,166
Fund balance end of year	\$ 162,772	722,439	317,726	1,202,937

SEE NOTES TO FINANCIAL STATEMENTS.

LOGAN-MAGNOLIA 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 18) \$ 877,771

*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 outlays expenditures exceeded depreciation expense in the current year, as follows:

Capital expenditures	\$ 1,105,636	
Depreciation expense	(164,647)	940,989

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

Issued	\$ (1,235,000)	
Repaid	215,000	(1,020,000)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. (4,210)

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 fund.

Early retirement	6,371
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Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 109,340

Changes in net assets of governmental activities (page 15) \$ 910,261

SEE NOTES TO FINANCIAL STATEMENTS.

LOGAN-MAGNOLIA COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF NET ASSETS  
 PROPRIETARY FUND  
 YEAR ENDED JUNE 30, 2004

	School Nutrition	Latch Key	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 11,588	12,520	24,108
Accounts receivable	575	2,055	2,630
Inventories	3,842	0	3,842
Capital assets, net of accumulated depreciation	19,441	0	19,441
<b>TOTAL ASSETS</b>	<b>35,446</b>	<b>14,575</b>	<b>50,021</b>
<b>LIABILITIES</b>			
Accounts payable	5,145	295	5,440
Salaries and benefits payable	4,688	1,958	6,646
<b>TOTAL LIABILITES</b>	<b>9,833</b>	<b>2,253</b>	<b>12,086</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	19,441	0	19,441
Unrestricted	6,172	12,322	18,494
<b>TOTAL NET ASSETS</b>	<b>\$ 25,613</b>	<b>12,322</b>	<b>37,935</b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition	Latch Key	Total
OPERATING REVENUE:			
Local sources:			
Other local sources:			
Sale of lunches and breakfasts:			
Students	\$ 129,401	0	129,401
Adults	9,817	0	9,817
A la carte	5,514	0	5,514
Miscellaneous	0	36,132	36,132
TOTAL OPERATING REVENUES	144,732	36,132	180,864
OPERATING EXPENSES:			
Non-instructional programs:			
Salaries	136,016	24,029	160,045
Benefits	22,583	2,802	25,385
Services	5,803	0	5,803
Supplies	116,256	1,882	118,138
Depreciation	4,646	0	4,646
TOTAL OPERATING EXPENSES	285,304	28,713	314,017
OPERATING INCOME (LOSS)	(140,572)	7,419	(133,153)
NON-OPERATING REVENUES:			
Interest	107	55	162
State sources	4,253	0	4,253
Federal sources	113,986	0	113,986
TOTAL NON-OPERATING REVENUES	118,346	55	118,401
Net income (loss)	(22,226)	7,474	(14,752)
Retained earnings at beginning of year	47,839	4,848	52,687
Retained earnings end of year	\$ 25,613	12,322	37,935

SEE NOTES TO FINANCIAL STATEMENTS.

LOGAN-MAGNOLIA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2004

	School Nutrition	Latch Key	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 144,558	(1,270)	143,288
Cash received from miscellaneous operating activities	0	36,132	36,132
Cash payments to employees for services	(158,427)	(26,616)	(185,043)
Cash payments to suppliers for goods or services	(90,607)	(1,587)	(92,194)
Net cash provided by(used in) operating activities	(104,476)	6,659	(97,817)
Cash flows from non-capital financing activities:			
State grants received	4,253	0	4,253
Federal grants received	91,646	0	91,646
Net cash provided by non-capital financing activities	95,899	0	95,899
Cash flows from investing activities:			
Interest on investments	107	55	162
Net cash provided by investing activities	107	55	162
Cash flows from capital financing activities:			
Purchase of assets	(939)	0	(939)
Net cash used in financing activities	(939)	0	(939)
Net increase(decrease) in cash and cash equivalents	(9,409)	6,714	(2,695)
Cash and cash equivalents at beginning of year	20,997	5,806	26,803
Cash and cash equivalents at end of year	\$ 11,588	12,520	24,108
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:			
Operating income(loss)	\$ (140,572)	7,419	(133,153)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Commodities consumed	22,340	0	22,340
Depreciation	4,646	0	4,646
Decrease in inventories	3,967	0	3,967
Increase in accounts receivables	(174)	(1,270)	(1,444)
Increase in accounts payable	5,145	295	5,440
Increase in salaries and benefits payable	172	215	387
Net cash provided by(used in) operating activities	\$ (104,476)	6,659	(97,817)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and pooled investments	\$ 11,588	12,520	24,108
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
During the year ended June 30, 2004, the District received Federal commodities valued at \$22,340.			

SEE NOTES TO FINANCIAL STATEMENTS.

LOGAN-MAGNOLIA COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

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

The Logan-Magnolia 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 Cities of Logan and Magnolia, Iowa, and the predominate agricultural territory in Harrison 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, Logan-Magnolia 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 Logan-Magnolia 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 Harrison County Assessors' Conference Board.

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

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

#### C. Measurement Focus and Basis of Accounting

The Government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred,

regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

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

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

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	\$ 1,500
Buildings	1,500
Improvements other than buildings	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,500

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

Asset Class	Estimated Useful Live (In Years)
Buildings	50 years
Improvements other than buildings	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.

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, disbursements in the non-instruction functional program 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 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 \$838,386 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 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:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	\$ 46,048

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

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2004 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2003-04B	1/30/04	1/28/05	440,983	2,399	438,000	3,638
2004-05A	6/30/04	6/30/05	602,862	0	608,000	0
Total			\$ 1,043,845	2,399	1,046,000	3,638

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 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2004 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2003-04A	\$ 0	180,000	180,000	0
Total	\$ 0	180,000	180,000	0

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

Series	Interest Rates on Warrants	Interest Rates on Investments
2003-04A	2.000%	1.050%
2003-04B	2.000%	1.310%
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, as restated (Note 10)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 0	1,045,773	0	1,045,773
Total capital assets not being depreciated	0	1,045,773	0	1,045,773
Capital assets being depreciated:				
Buildings	5,416,500	0	0	5,416,500
Machinery and equipment	1,098,853	59,863	0	1,158,716
Total capital assets being depreciated	6,515,353	59,863	0	6,575,216
Less accumulated depreciation for:				
Buildings	1,083,090	108,330	0	1,191,420
Machinery and equipment	994,849	56,317	0	1,051,166
Total accumulated depreciation	2,077,939	164,647	0	2,242,586
Total capital assets being depreciated, net	4,437,414	(104,784)	0	4,332,630
Governmental activities capital assets, net \$	4,437,414	940,989	0	5,378,403

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 163,826	939	0	164,765
Less accumulated depreciation	140,678	4,646	0	145,324
Business-type activities capital assets, net \$	23,148	(3,707)	0	19,441

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 20,822
Support services:		
Operation and maintenance of plant services		4,550
Transportation		30,945
		56,317
Unallocated depreciation		108,330
Total governmental activities depreciation expense		\$ 164,647
Business-type activities:		
Food services		\$ 4,646

## (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	\$ 2,930,000	1,235,000	215,000	3,950,000	220,000
Early retirement	21,165	0	6,371	14,794	6,371
Total	\$ 2,951,165	1,235,000	221,371	3,964,794	226,371

General Obligation Bonds Payable

Details of the District's June 30, 2004 General Obligation bonds indebtedness is as follows:

Year Ending June 30,	Interest Rate	Bond issue November 1, 2002		
		Principal	Interest	Total
2005	2.20 % \$	220,000	82,520	302,520
2006	2.20-2.50	240,000	77,570	317,570
2007	2.50-2.80	240,000	71,750	311,750
2008	2.80-3.00	235,000	65,280	300,280
2009	3.00-3.05	250,000	58,270	308,270
2010	3.05-3.25	255,000	50,599	305,599
2011	3.25-3.35	270,000	42,274	312,274
2012	3.35-3.45	280,000	33,297	313,297
2013	3.45-3.55	285,000	23,616	308,616
2014	3.55-3.70	295,000	13,392	308,392
2015	3.70	145,000	2,683	147,683
Total		\$ 2,715,000	521,251	3,236,251

Year Ending June 30,	Interest Rate	Bond issue August 1, 2003		
		Principal	Interest	Total
2005	- % \$	-	55,258	55,258
2006	-	-	55,257	55,257
2007	-	-	55,258	55,258
2008	-	-	55,257	55,257
2009	-	-	55,258	55,258
2010	-	-	55,257	55,257
2011	-	-	55,258	55,258
2012	-	-	55,257	55,257
2013	-	-	55,258	55,258
2014	-	-	55,257	55,257
2015	-	-	55,258	55,258
2016	4.00	130,000	55,257	185,257
2017	4.10	140,000	50,058	190,058
2018	4.25	145,000	44,318	189,318
2019	4.40	150,000	38,155	188,155
2020	4.50	155,000	31,555	186,555
2021	4.60	165,000	24,580	189,580
2022	4.70	170,000	16,990	186,990
2023	5.00	180,000	9,000	189,000
Total		\$ 1,235,000	877,745	2,112,745

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement benefits paid during the year ended June 30, 2004, totaled \$6,371.

**(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 payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$167,231, \$161,998, and \$162,273, respectively, equal to the required contributions for each year.

**(8) Risk Management**

Logan-Magnolia 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 \$177,364 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) Accounting Change and Restatements**

Governmental Accounting Standards Board Interpretation No.6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No.38, Certain Financial Statement Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended June 30, 2004. The statement create new basic financial statements for reporting the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements separate the District's programs between governmental and business type activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

Beginning capital assets for governmental activities of \$7,699,902 were restated to \$6,515,353. The restatement primarily removed assets below the District's capitalization threshold.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund		Total
	General	Other Governmental Funds	
Net assets, June 30, 2003, as previously reported \$	1,257	323,909	325,166
GASB Interpretation 6 adjustments	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	\$ 1,257	323,909	325,166
GASB 34 adjustments:			
Capital assets, net of accumulated depreciation of \$2,077,939			4,437,414
Long-term liabilities:			
General obligation bonds		2,930,000	
Early retirement		21,165	(2,951,165)
Accrued interest			(7,372)
Net assets July 1, 2003, as restated			\$ 1,804,043

**(11) Construction Commitments**

The District entered into various contract totaling \$1,775,806 for a new improvements. At June 30, 2004, \$1,045,773 of the contracts were completed. The remaining amounts of the contracts will be paid as work on the project progresses.

REQUIRED SUPPLEMENTAL INFORMATION

LOGAN-MAGNOLIA COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON OF RECEIPTS, DISBURSEMENTS AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 2,479,340	179,582
State sources	2,666,363	4,253
Federal sources	137,255	113,986
Total receipts	<u>5,282,958</u>	<u>297,821</u>
Disbursements:		
Instruction	3,163,646	0
Support services	1,416,697	0
Non-instructional programs	170	300,516
Other expenditures	1,493,203	0
Total disbursements	<u>6,073,716</u>	<u>300,516</u>
Excess(deficiency) of receipts over(under) disbursements	(790,758)	(2,695)
Other financing sources, net	<u>1,256,647</u>	<u>0</u>
Excess(deficiency) of receipts and other financing sources over(under) disbursements	465,889	(2,695)
Balance beginning of year	<u>703,212</u>	<u>26,803</u>
Balance end of year	<u>\$ 1,169,101</u>	<u>24,108</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
2,658,922	2,562,640	2,562,640	96,282
2,670,616	2,705,391	2,705,391	(34,775)
251,241	240,000	240,000	11,241
5,580,779	5,508,031	5,508,031	72,748
3,163,646	3,701,501	3,701,501	537,855
1,416,697	1,567,336	1,567,336	150,639
300,686	284,469	284,469	(16,217)
1,493,203	495,108	1,750,000	256,797
6,374,232	6,048,414	7,303,306	929,074
(793,453)	(540,383)	(1,795,275)	1,001,822
1,256,647	0	0	1,256,647
463,194	(540,383)	(1,795,275)	2,258,469
730,015	639,588	639,588	90,427
1,193,209	99,205	(1,155,687)	2,348,896

LOGAN-MAGNOLIA COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE-  
 BUDGET TO GAAP RECONCILIATION  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types		
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 5,282,958	739,875	6,022,833
Expenses	6,073,716	327,993	6,401,709
Net	(790,758)	411,882	(378,876)
Other financing sources, net	1,256,647	0	1,256,647
Beginning fund balances	703,212	(378,046)	325,166
Ending fund balances	\$ 1,169,101	33,836	1,202,937

	Proprietary Fund Type		
	Enterprise		
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 297,821	1,444	299,265
Expenses	300,516	13,501	314,017
Net	(2,695)	(12,057)	(14,752)
Beginning retained earnings	26,803	25,884	52,687
Ending retained earnings	\$ 24,108	13,827	37,935

LOGAN-MAGNOLIA 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 cash basis. Encumbrances are not recognized on the cash 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 disbursements by \$1,254,892.

During the year ended June 30, 2004, disbursements in the non-instruction functional program area exceeded the amount budgeted.

OTHER SUPPLEMENTAL INFORMATION

LOGAN-MAGNOLIA COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2004

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Manage- ment	Physical Plant & Equipment Levy	Student Activity	Special Revenue- Total	Debt Service	
<b>ASSETS</b>						
Cash and pooled investments	\$ 46,978	109,346	107,745	264,069	50,244	314,313
Receivables:						
Property tax:						
Current year delinquent	1,274	579	0	1,853	4,437	6,290
Succeeding year	80,000	33,072	0	113,072	102,820	215,892
Accrued interest	27	63	40	130	0	130
<b>TOTAL ASSETS</b>	<b>\$ 128,279</b>	<b>143,060</b>	<b>107,785</b>	<b>379,124</b>	<b>157,501</b>	<b>536,625</b>
<b>LIABILITIES AND FUND EQUITY</b>						
Liabilities:						
Accounts payable	\$ 0	0	3,007	3,007	0	3,007
Deferred revenue:						
Succeeding year property tax	80,000	33,072	0	113,072	102,820	215,892
	80,000	33,072	3,007	116,079	102,820	218,899
Fund equity:						
Fund balances:						
Reserved:						
Reserved for debt service	0	0	0	0	54,681	54,681
Unreserved:						
Undesignated	48,279	109,988	104,778	263,045	0	263,045
Total fund balances	48,279	109,988	104,778	263,045	54,681	317,726
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 128,279</b>	<b>143,060</b>	<b>107,785</b>	<b>379,124</b>	<b>157,501</b>	<b>536,625</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LOGAN-MAGNOLIA 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	Physical Plant & Equipment Levy	Student Activity	Special Revenue- Total	Debt Service	
<b>REVENUES:</b>						
Local sources:						
Local tax	\$ 80,558	36,638	0	117,196	278,919	396,115
Other	6,309	867	224,317	231,493	712	232,205
State sources	39	18	0	57	138	195
<b>TOTAL REVENUES</b>	<b>86,906</b>	<b>37,523</b>	<b>224,317</b>	<b>348,746</b>	<b>279,769</b>	<b>628,515</b>
<b>EXPENDITURES:</b>						
Current:						
Instruction:						
Regular instruction	41,074	0	0	41,074	0	41,074
Other instruction	0	0	181,358	181,358	0	181,358
	41,074	0	181,358	222,432	0	222,432
Support services:						
Operation and maintenance of plant services	26,656	0	0	26,656	0	26,656
Transportation services	8,740	69,454	0	78,194	0	78,194
	35,396	69,454	0	104,850	0	104,850
Other expenditures:						
Facilities acquisition	0	4,716	0	4,716	0	4,716
Long-term debt:						
Principle	0	0	0	0	215,000	215,000
Interest and fiscal charges	0	0	0	0	133,748	133,748
	0	4,716	0	4,716	348,748	353,464
<b>TOTAL EXPENDITURES</b>	<b>76,470</b>	<b>74,170</b>	<b>181,358</b>	<b>331,998</b>	<b>348,748</b>	<b>680,746</b>
Excess (deficiency) of revenues over (under) expenditures	10,436	(36,647)	42,959	16,748	(68,979)	(52,231)
Other financing sources:						
Transfer in	0	0	0	0	46,048	46,048
Excess (deficiency) of revenues and other financing sources over (under) expenditures	10,436	(36,647)	42,959	16,748	(22,931)	(6,183)
Fund balance beginning of year	37,843	146,635	61,819	246,297	77,612	323,909
Fund balance end of year	\$ 48,279	109,988	104,778	263,045	54,681	317,726

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LOGAN-MAGNOLIA 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
Drama	\$ 892	5,543	4,953	1,482
Cross country	968	787	1,178	577
Golf	425	828	1,951	(698)
Drill team	877	1,325	1,307	895
Football cheerleading	670	1,429	798	1,301
Basketball cheerleading	221	402	364	259
Wrestling cheerleading	498	1,491	1,433	556
Basketball	5,719	8,783	6,763	7,739
Basketball fundraiser	136	2,572	1,647	1,061
JH uniforms fundraiser	469	127	614	(18)
Boys basketball	12,849	9,122	10,106	11,865
All sports activity pass	4,073	1,593	1,658	4,008
District football	594	1,600	596	1,598
Flag football	2,569	3,164	2,304	3,429
Boys baseball	0	5,240	5,525	(285)
Baseball fundraiser	658	2,661	1,863	1,456
Track	0	3,748	5,072	(1,324)
Girls track fundraiser	300	0	(150)	450
Wrestling	0	12,121	15,819	(3,698)
Wrestling fundraiser	1,250	2,925	2,136	2,039
Girls basketball	1,068	2,556	2,985	639
Volleyball	69	3,246	3,429	(114)
Volleyball fundraiser	1,663	2,087	2,647	1,103
Softball	93	5,393	2,464	3,022
Softball fundraiser	952	2,426	2,904	474
Concessions	2,729	36,385	30,168	8,946
Petty cash	400	0	0	400
Interest	5,370	419	507	5,282
Art club	272	0	(50)	322
Chess club fundraiser	92	190	173	109
Annual	713	7,918	4,809	3,822
Swing choir	(1,822)	1,573	661	(910)
Band uniform fundraise	30	0	0	30
Band fundraiser	(81)	21,391	20,240	1,070
Vocal music fundraiser	1,545	395	1,911	29
Instrumental music	464	0	0	464
Flag corp fundraiser	384	0	(50)	434
AMOL	1,092	175	51	1,216
Science club	337	1,617	270	1,684
Spanish club	345	30	18	357
Spanish class fundraiser	822	0	0	822
Student council	176	1,456	1,644	(12)
Community bank grant	0	1,001	1,001	0
Key club	520	90	144	466
JH key club	80	0	0	80
S.A.D.D.	586	0	0	586
FCCLA	2,834	17,670	17,977	2,527
HS class of 2004	1,208	88	836	460
HS class of 2005	580	19,163	14,764	4,979
HS class of 2006	115	0	0	115
HS class of 2007	(113)	0	30	(143)
HS class of 2008	590	0	3,727	(3,137)
Graduates	5,538	482	(489)	6,509
Washington D.C. trip	0	33,105	2,650	30,455
<b>Total</b>	<b>\$ 61,819</b>	<b>224,317</b>	<b>181,358</b>	<b>104,778</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LOGAN-MAGNOLIA 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
<b>Revenues:</b>				
Local sources:				
Local tax	\$ 1,794,768	1,647,583	1,534,509	1,433,146
Tuition	354,575	343,835	376,962	440,908
Other	318,645	281,241	295,308	244,651
State sources	2,666,137	2,662,263	2,492,814	2,615,687
Federal sources	888,708	132,939	176,244	97,280
Total	\$ 6,022,833	5,067,861	4,875,837	4,831,672
<b>Expenditures:</b>				
Instruction:				
Regular instruction	\$ 2,013,911	1,918,918	2,019,230	1,829,226
Special instruction	677,270	621,235	709,408	583,767
Other instruction	493,618	541,453	472,933	474,116
Support services:				
Student services	156,440	133,670	116,919	108,459
Instructional staff services	122,858	116,621	121,707	142,868
Administration services	521,660	488,533	449,768	413,133
Operation and maintenance of plant services	467,182	410,085	458,524	454,183
Transportation services	221,415	193,060	198,297	264,164
Other	0	14,448	3,411	17,595
Non-instructional	170	162	108	659
Other expenditures:				
Facilities acquisitions	1,201,073	13,419	52,425	78,018
Long Term Debt:				
Principal	215,000	170,000	145,000	135,000
Interest	133,748	137,365	173,550	181,525
AEA flow-through	177,364	187,784	181,887	191,426
Total	\$ 6,401,709	4,946,753	5,103,167	4,874,139

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LOGAN-MAGNOLIA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2004

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION (non-cash)	10.550	FY 04	\$ 22,340
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 04	17,847
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 04	73,799
			91,646
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	3798-G-O	51,816
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	3798-GC-O	15,254
			67,070
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 04	25,273
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 03	3,510
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 04	4,212
			7,722
FUND FOR THE IMPROVEMENT OF EDUCATION (IOWA DEMONSTRATION)	84.215	FY 04	661,725
DATA DRIVEN LEADERSHIP	84.348	FY 04	1,786
IOWA WESTERN COMMUNITY COLLEGE:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 04	4,660
TECH-PREP EDUCATION	84.243	FY 04	5,500
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 04	24,362
DEPARTMENT OF HUMAN SERVICES:			
MEDICAL ASSISTANCE PROGRAM	93.778	FY 04	90,608
TOTAL			\$ 1,002,692

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Logan-Magnolia 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 general-purpose 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  
Logan-Magnolia Community School District:

We have audited the financial statements of Logan-Magnolia Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated October 11, 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 Logan-Magnolia 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, we 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Logan-Magnolia 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. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior year reportable conditions have all been resolved, except II-A-04, II-B-04, II-C-04 and II-E-04.

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

October 11, 2004

**NOLTE, CORNMAN & JOHNSON P.C.**  
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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  
Logan-Magnolia Community School District

Compliance

We have audited the compliance of Logan-Magnolia 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. Logan-Magnolia 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 Logan-Magnolia Community School District's management. Our responsibility is to express an opinion on Logan-Magnolia 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 Logan-Magnolia 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 Logan-Magnolia Community School District's compliance with those requirements.

In our opinion, Logan-Magnolia 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 Logan-Magnolia 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 Logan-Magnolia 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.

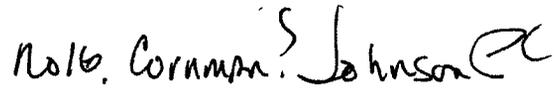
We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Logan-Magnolia Community School District's ability to administer a

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major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described as item III-A-04 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 non-compliance with applicable requirements of laws, regulation, 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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item III-A-04 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Logan-Magnolia Community School District and other parties to whom Logan-Magnolia Community School District may report. 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." with a stylized flourish at the end.

NOLTE, CORNMAN & JOHNSON, P.C.

October 11, 2004

LOGAN-MAGNOLIA 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, including a material weakness.
- (c) The audit did disclose noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did 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 program was as follows:
  - CFDA Number 84.215 - Iowa Demonstration Grant
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Logan-Magnolia Community School District did not qualify as a low-risk auditee.

LOGAN-MAGNOLIA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2004

Part II: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-04 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

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

Conclusion - Response accepted.

II-B-04 Fixed Assets - A record of fixed asset acquisitions and disbursements are kept, however details of fully depreciated items are not kept up to date.

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

Response - We are working on our fixed asset inventory in order to keep it updated.

Conclusion - Response accepted.

II-C-04 Gate Admissions - The gate admissions were not reconciled to pre-numbered tickets.

Recommendation - The District should establish reconciliation procedures for gate admissions. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the admissions to the number of tickets issued.

Response - We are working on our procedures.

Conclusion - Response accepted.

II-D-04 Student Activity Fund - We noted during our audit that the Student Activity fund included a graduate account and a class of 2004 account.

Recommendation - The receipts and expenditures made from these accounts appear to be more appropriately accounted for in the General fund. The District should review the transactions in these account and make the necessary transfers.

Response - We will comply.

Conclusion - Response accepted.

II-E-04 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year.

Recommendation - The District needs to forward these funds to the Treasurer of Iowa when completing the annual report for unclaimed property.

Response - We will comply.

Conclusion - Response accepted.

LOGAN-MAGNOLIA 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:

CFDA Number 84.215: Iowa Demonstration Grant

Federal Award Year: 2004

U.S. Department of Education

Passed Through the Iowa Department of Education

III-A-04 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

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

Conclusion - Response accepted.

LOGAN-MAGNOLIA 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 has been approved by the Board. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2004.

Recommendation - The district should increase their depository limits.

Response - We will increase our depository limits.

Conclusion - Response accepted.

IV-B-04 Certified Budget - District disbursements for the year ended June 30, 2004 exceeded the amount budgeted in the non-instruction functional program 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 watch our budget and amend as necessary.

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. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - We are working on publishing our minutes timely.

Conclusion - Response accepted.

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.