

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

JUNE 30, 2004

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Table of Contents
 June 30, 2004

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-14
Basic Financial Statements	<u>Exhibit</u>
Government-wide Financial Statements	
Statement of Net Assets	A 16-17
Statement of Activities	B 18-19
Governmental Fund Financial Statements	
Balance Sheet	C 20-21
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D 22
Statement of Revenues, Expenditures and Changes in Fund Balances	E 23-24
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 25
Proprietary Fund Financial Statements	
Statement of Net Assets	G 26
Statement of Revenues, Expenses and Changes in Fund Net Assets	H 27
Statement of Cash Flows	I 28
Fiduciary Fund Financial Statements	
Statement of Fiduciary Net Assets	J 29
Statement of Changes in Fiduciary Net Asset	K 30
Notes to Financial Statements	31-43
Required Supplementary Information	
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Funds	45
Notes to Required Supplementary Information - Budgetary Reporting	46

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT

Table of Contents

June 30, 2004

	<u>Schedule</u>	<u>Page</u>
Other Supplementary Information		
Nonmajor Governmental Funds		
Combining Balance Sheet	1	48
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	49
Nonmajor Proprietary Funds		
Combining Statement of Net Assets	3	50
Combining Statement of Revenues, Expenditures and Changes in Fund Net Assets	4	51
Combining Statement of Cash Flows	5	52
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	6	53
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	7	54
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		55-58
Audit Staff		59

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Officials
 June 30, 2004

Name	Title	Term Expires
Board of Education		
(Before September 2003 Election)		
Mark Carroll	Board President	2003
Riley Padgett	Board Member	2003
David Bieri	Board Member	2004
Charles Clark	Board Member	2004
Angie Kemp	Board Member	2005
(After September 2003 Election)		
Charles Clark	Board President	2004
David Bieri	Board Member	2004
Angie Kemp	Board Member	2005
Randy Schlutz	Board Member	2006
Riley Padgett	Board Member	2006
School Officials		
John Dotson	Superintendent	2004
Karron Stineman	District Secretary/Treasurer	2004
Duane Goedken	Attorney	2004

KAY L. CHAPMAN, CPA PC

119 Sycamore Street, Suite 100

Muscatine, Iowa 52761

563-264-1385

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Louisa-Muscatine Community School District
Letts, Iowa

I have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Louisa-Muscatine Community School District, Letts, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I 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. I believe my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Louisa-Muscatine Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 10 to the financial statements, during the year ended June 30, 2004, Louisa-Muscatine 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 Disclosure; 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, I have also issued my reports dated October 14, 2004 on my consideration of Louisa-Muscatine Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations and contracts. 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 my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 14 and 45 through 46 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Louisa-Muscatine Community School District's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 7, 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 my audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.



Kay L. Chapman, CPA PC
October 14, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Louisa-Muscatine 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 decreased from \$6,684,929 in fiscal 2003 to \$5,975,647 in fiscal 2004, while General Fund expenditures increased from \$6,233,578 in fiscal 2003 to \$6,325,151 in fiscal 2004. The District's General Fund balance decreased from \$974,096 in fiscal 2003 to \$624,422 in fiscal 2004, a 36% decrease.
- The district's valuation decreased 6.3 million dollars (3.07%) overall between the two counties that make up the district, with a 19% decrease in ag land valuation alone.
- FY04 was the first year that income surtax was levied for instructional support, however the approximately \$218,000 generated will not be received until FY05.
- The decrease in General Fund revenues was attributable in part to the 2.25% cuts in state aid and state categorical grant funding during 2004.
- The increase in expenditures was due primarily to an increase in the negotiated salary and benefits. The District received 2% allowable growth, however salaries were increased by 4%. Other contributing factors were a \$70,000 special education deficit and higher than anticipated legal fees. As a result, the District used carryover fund balance.
- A decline in interest rates during the past three fiscal years, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone decreasing from \$23,966 in fiscal 2003 to \$15,197 in fiscal 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 Louisa-Muscatine 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 Louisa-Muscatine 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 Louisa-Muscatine Community School District acts solely as an agent or custodian for the benefit of those outside of District government.

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

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

Other Supplementary Information provides detailed information about the nonmajor Governmental Funds.

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

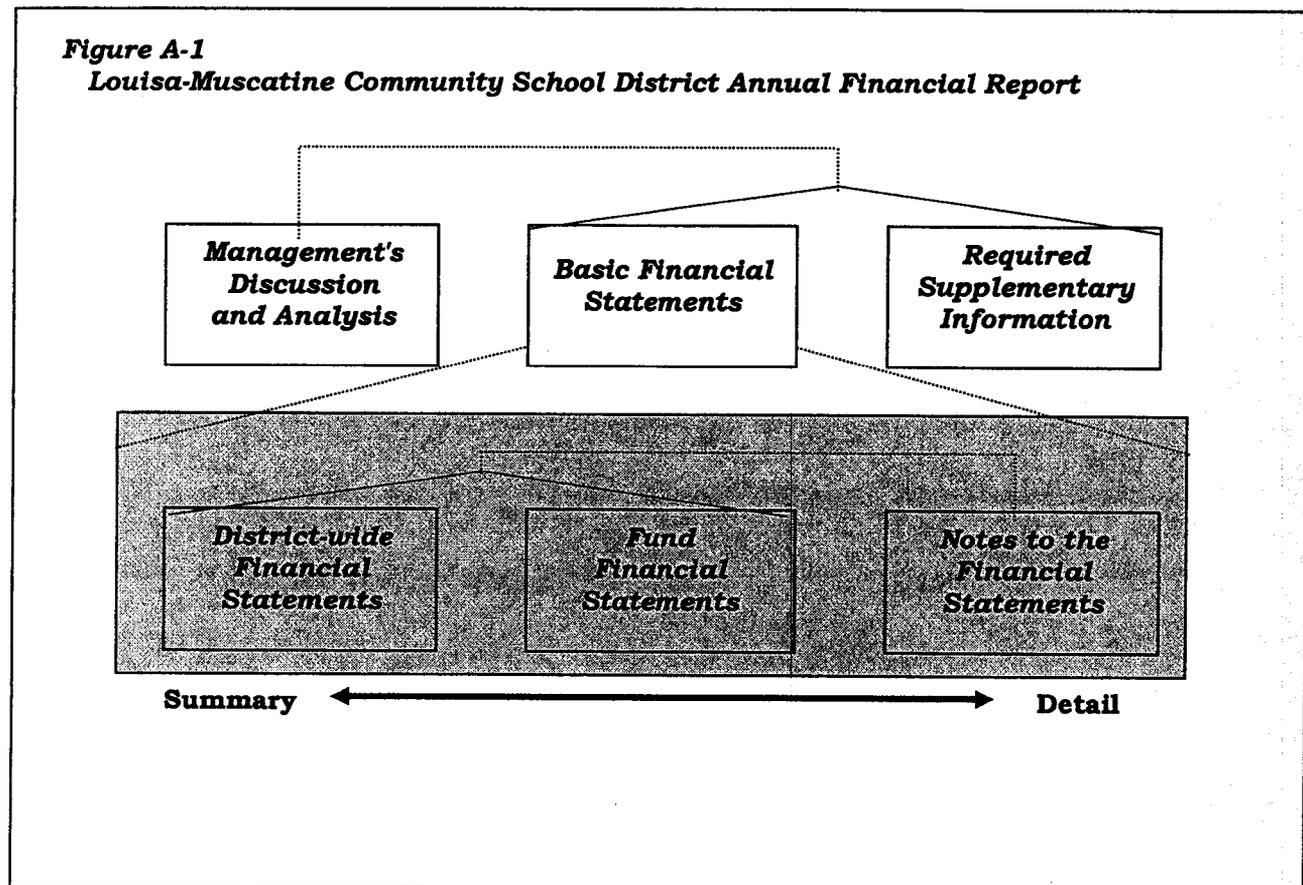


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-wide and Fund Financial Statements

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	Condensed Statement of Net Assets						
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2004	2003	2004	2003	2004	2003	2003-2004
Current and other assets	\$ 5,522,517	\$ 5,808,310	\$ 100,504	\$ 103,142	\$ 5,623,021	\$ 5,911,452	-4.88%
Capital assets	<u>8,341,468</u>	<u>8,652,138</u>	<u>20,348</u>	<u>28,481</u>	<u>8,361,816</u>	<u>8,680,619</u>	-3.67%
Total assets	<u>13,863,985</u>	<u>14,460,448</u>	<u>120,852</u>	<u>131,623</u>	<u>13,984,837</u>	<u>14,592,071</u>	-4.16%
Long-term obligations	3,562,820	4,094,193	-	-	3,562,820	4,094,193	-12.98%
Other liabilities	<u>3,932,821</u>	<u>4,071,017</u>	<u>25,030</u>	<u>24,854</u>	<u>3,957,851</u>	<u>4,095,871</u>	-3.37%
Total liabilities	<u>7,495,641</u>	<u>8,165,210</u>	<u>25,030</u>	<u>24,854</u>	<u>7,520,671</u>	<u>8,190,064</u>	-8.17%
Net assets							
Invested in capital assets, net of related debt	4,858,130	4,605,060	20,348	28,481	4,878,478	4,633,541	5.29%
Restricted	885,792	805,613	-	-	885,792	805,613	9.95%
Unrestricted	<u>624,422</u>	<u>884,565</u>	<u>75,474</u>	<u>78,288</u>	<u>699,896</u>	<u>962,853</u>	-27.31%
Total net assets	<u>\$ 6,368,344</u>	<u>\$ 6,295,238</u>	<u>\$ 95,822</u>	<u>\$ 106,769</u>	<u>\$ 6,464,166</u>	<u>\$ 6,402,007</u>	0.97%

The District's combined net assets increased by approximately .97%, or \$62,159, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$80,179, or 9.95% over the prior year. The increase was primarily a result of increased expenditures in the Physical Plant and Equipment Levy Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$262,957, or 27.3%. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

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

	Change in Net Assets		
	Governmental Activities	Business-type Activities	Total School District
Revenues			
Program revenues			
Charges for service and sales	\$ 854,970	\$ 284,132	\$ 1,139,102
Operating grants, contributions and restricted interest	479,834	138,362	618,196
General revenues			
Property tax	3,157,755	-	3,157,755
Unrestricted state grants	2,642,031	-	2,642,031
Unrestricted investment earnings	22,779	1,024	23,803
Interfund operating transfers	(525)	525	-
Other	193,008	-	193,008
Total revenues	<u>7,349,852</u>	<u>424,043</u>	<u>7,773,895</u>
Program expenses			
Governmental activities			
Instruction	4,513,080	-	4,513,080
Support services	2,033,347	-	2,033,347
Non-instructional programs	2,545	434,990	437,535
Other expenses	727,774	-	727,774
Total expenses	<u>7,276,746</u>	<u>434,990</u>	<u>7,711,736</u>
Change in net assets	<u>\$ 73,106</u>	<u>\$ (10,947)</u>	<u>\$ 62,159</u>

Property tax and unrestricted state grants account for 97% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 85% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$7,349,852 and expenses were \$7,276,746. Careful attention was given to the line-item budget to ensure that expenditures did not exceed expected revenues.

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

	<u>Total and Net Cost of Governmental Activities</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 4,513,080	\$ 3,232,622
Support services	2,033,347	2,023,841
Non-instructional programs	2,545	2,545
Other expenses	<u>727,774</u>	<u>682,934</u>
Total expenses	<u>\$ 7,276,746</u>	<u>\$ 5,941,942</u>

- The cost financed by users of the District's programs was \$854,970.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$479,834.
- The net cost of governmental activities was financed with \$3,157,755 in property and other taxes and \$2,642,031 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$424,043 and expenses were \$434,990. The District's business type activities include the School Nutrition Fund and Preschool/Daycare Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

For the year ended June 30, 2004, the Preschool/Daycare received tuition, at the state's cost per pupil rate, for three 5-year old students that attended the program. No increases were made in fees for either program, however salaries and benefits increased by 4% and the foodservice program purchased new ovens.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$1,670,360, just below last year's ending fund balances of \$1,779,709.

Governmental Fund Highlights

- The General Fund balance decreased from \$974,096 to \$624,422. The District's deteriorating General Fund financial position is due in part to reductions in state aid and categorical funding and existing expenditure commitments that required the District to use carryover fund balance to meet its financial obligations during the year. Revenues did not meet expectations, particularly in regard to budgeted machinery and equipment receipts.
- The Management (Special Revenue) Fund balance increased from \$79,497 to \$279,037. The District began accumulating funds for early retirement benefits in FY04.
- The Capital Project fund balance increased just slightly from \$322,638 to \$335,716. As the state's economy improved, more sales tax income was received.
- The Debt Service fund balance increased from \$265,685 to \$286,209. The District levies property tax for debt owed each year. Additionally, the district received machinery and equipment replacement funds over the past 10 years. The M&E funds have accumulated and will be used to reduce the final bond payment.

Proprietary Fund Highlights

Enterprise Fund net assets decreased from \$106,769 at June 30, 2003 to \$95,822 at June 30, 2004, representing a decrease of approximately 11%. While fees did not increase for fiscal 2004, salaries and benefits increased by 4%, along with the costs for supplies and food. Carryover fund balance was used for to offset these increases.

BUDGETARY HIGHLIGHTS

Over the course of the year, Louisa-Muscatine Community School District did not amend the annual budget.

The District's receipts were \$446,419 less than budgeted receipts, a variance of 6%. The most significant variance resulted from the District receiving less in state aid and machinery and equipment replacement funds than originally anticipated. For the first time, the district levied income surtax. The funds were included in the FY04 budget but would not be received until fiscal 05.

Overall total expenditures were \$55,059 less than budgeted due primarily to the District's budget in the instruction and support service areas. The other expenditures area was considerably more than budgeted due to the refinancing of general obligation bonds. The District budgets expenditures at the maximum authorized spending authority for the General Fund then controls spending through the line-item budget.

It was necessary to amend the certified budget in the non-instructional programs function for increased personnel and repair costs and in the other expenditures function due to the refinancing of general obligation bonds.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$8,361,816, 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 represents a net decrease of 4% from last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$453,010.

The original cost of the District's capital assets was \$14,875,389. Governmental funds account for \$14,695,151, with the remainder of \$180,238 accounted for in the Proprietary, School Nutrition Fund.

All categories of capital assets, except land, decreased in worth with the largest change in capital asset activity occurring in the furniture and equipment category. All of these changes can be attributed to the district hiring a firm to conduct an on-site appraisal of the district's fixed assets. Their valuation method was based upon proprietary indices rather than actual cost.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		
	2004	2003	2004	2003	2004	2003	2003-2004
Land	\$ 90,976	\$ 90,976	\$ -	\$ -	\$ 90,976	\$ 90,976	0.00%
Buildings and improvements	7,809,102	8,083,056	-	-	7,809,102	8,083,056	-3.39%
Improvements, other than buildings	261,666	283,319	-	-	261,666	283,319	-7.64%
Furniture and equipment	<u>179,724</u>	<u>194,787</u>	<u>20,348</u>	<u>28,481</u>	<u>200,072</u>	<u>223,268</u>	-10.39%
Totals	<u>\$8,341,468</u>	<u>\$8,652,138</u>	<u>\$20,348</u>	<u>\$28,481</u>	<u>\$8,361,816</u>	<u>\$8,680,619</u>	-3.67%

Long-Term Debt

At June 30, 2004, the District had \$3,562,820 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 13% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

The only increase in debt or long-term obligations in the fiscal year was for early retirement. The District phased out the early retirement incentive over a three-year period. Several staff members chose to take advantage of the incentive in 2004, the second year of the three-year phase out plan.

The general obligation bonds for the elementary school were re-financed at a savings of over \$100,000 to the taxpayers. At June 30th, 2004, the outstanding amount owed for them was \$2,470,000. This bond issue will be completely retired in fiscal 2011.

At June 30th, 2004, \$970,000 was outstanding for revenue bonds that were issued with the local option sales and services taxes to finance the junior-senior high addition. This bond issue will be completely retired in fiscal 2011.

Bank loan payments for copiers and a bus were paid from the Physical Plant and Equipment Levy. These were the second of three yearly payments.

Figure A-7
Outstanding Long-term Obligations

	Total		Total
	School District		
	<u>2004</u>	<u>2003</u>	<u>2003-2004</u>
Bank loans	\$ 43,338	\$ 84,078	-48.46%
General obligation bonds	2,470,000	2,860,000	-13.64%
Revenue bonds	970,000	1,085,000	-10.60%
Capital leases	-	18,000	-100.00%
Early retirement	<u>79,482</u>	<u>47,115</u>	68.70%
Total	<u>\$ 3,562,820</u>	<u>\$ 4,094,193</u>	-12.98%

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:

- Despite an increase in Muscatine County, valuations in Louisa County were again down from the previous year, netting an overall loss of over 2 million dollars of taxable valuation.
- Certified enrollment remained steady with a slight increase of 3.9 students. However, the number of open enrolled students into the district has decreased by 21 students.
- The roofing over a part of the junior-senior high has failed and must be replaced or extensively repaired. Major leaking has occurred and caused damaged to the building. The estimated cost, between \$300,000 and \$600,000, may be partially covered by warranty. The District has applied for grant funds, which will be used in combination with sales and service revenue to replace or fix the roof.
- A new contract will be negotiated for Fiscal 2005 with the Louisa-Muscatine Education Association (LMEA) after completion in FY04 of a two-year contract. Settlements in excess of the District's 4.46% "new money" or the 4% allowable growth in state funding would have adverse affect on the General Fund budget.

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 Karron Stineman, Board Secretary/Treasurer and Business Manager, Louisa-Muscatine Community School District, 14478 170th Street, Letts, Iowa 52754.

Basic Financial Statements

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2004

Exhibit A

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,140,292	\$ 90,628	\$ 2,230,920
Receivables			
Property tax			
Delinquent	44,205	-	44,205
Succeeding year	3,213,211	-	3,213,211
Accrued interest	85,968	-	85,968
Accounts receivable	38,841	-	38,841
Inventories	-	9,876	9,876
Capital assets, net of accumulated depreciation	8,341,468	20,348	8,361,816
 Total assets	 13,863,985	 120,852	 13,984,837
 LIABILITIES			
Accounts payable	4,750	-	4,750
Salaries and benefits payable	627,789	25,030	652,819
Accrued interest payable	80,664	-	80,664
Deferred revenue - succeeding year property tax	3,213,211	-	3,213,211
Deferred revenue - unspent grant proceeds	6,407	-	6,407
Long-term liabilities			
Portion due within one year			
Bonds payable	270,000	-	270,000
Revenue bonds payable	120,000	-	120,000
Notes payable	43,338	-	43,338
Early retirement payable	38,136	-	38,136
Portion due after one year			
Bonds payable	2,200,000	-	2,200,000
Revenue bonds payable	850,000	-	850,000
Early retirement payable	41,346	-	41,346
 Total liabilities	 7,495,641	 25,030	 7,520,671

See notes to financial statements and Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2004

Exhibit A

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 4,858,130	\$ 20,348	\$ 4,878,478
Restricted for			
Capital projects	335,716	-	335,716
Debt service	205,545	-	205,545
Management levy	199,555	-	199,555
Physical plant and equipment levy	43,270	-	43,270
Other special revenue purposes	101,706	-	101,706
Unrestricted	<u>624,422</u>	<u>75,474</u>	<u>699,896</u>
 Total net assets	 <u>\$ 6,368,344</u>	 <u>\$ 95,822</u>	 <u>\$ 6,464,166</u>

See notes to financial statements and Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2004

Exhibit B

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental activities							
Instruction							
Regular instruction	\$ 3,171,467	\$ 555,117	\$ 279,002	\$ -	\$ (2,337,348)	\$ -	\$ (2,337,348)
Special instruction	843,113	127,264	128,796	-	(587,053)	-	(587,053)
Other instruction	498,500	163,083	27,196	-	(308,221)	-	(308,221)
	<u>4,513,080</u>	<u>845,464</u>	<u>434,994</u>	<u>-</u>	<u>(3,232,622)</u>	<u>-</u>	<u>(3,232,622)</u>
Support services							
Student services	220,383	-	-	-	(220,383)	-	(220,383)
Instructional staff services	236,691	-	-	-	(236,691)	-	(236,691)
Administration services	610,537	-	-	-	(610,537)	-	(610,537)
Operation and maintenance of plant services	552,262	2,221	-	-	(550,041)	-	(550,041)
Transportation services	413,474	7,285	-	-	(406,189)	-	(406,189)
	<u>2,033,347</u>	<u>9,506</u>	<u>-</u>	<u>-</u>	<u>(2,023,841)</u>	<u>-</u>	<u>(2,023,841)</u>
Non-instructional programs	<u>2,545</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,545)</u>	<u>-</u>	<u>(2,545)</u>
Other expenditures							
Facilities acquisition	57,393	-	44,840	-	(12,553)	-	(12,553)
Long-term debt interest	309,382	-	-	-	(309,382)	-	(309,382)
Depreciation (unallocated) *	360,999	-	-	-	(360,999)	-	(360,999)
	<u>727,774</u>	<u>-</u>	<u>44,840</u>	<u>-</u>	<u>(682,934)</u>	<u>-</u>	<u>(682,934)</u>
Total governmental activities	<u>7,276,746</u>	<u>854,970</u>	<u>479,834</u>	<u>-</u>	<u>(5,941,942)</u>	<u>-</u>	<u>(5,941,942)</u>

See notes to financial statements and Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2004

Exhibit B

Functions/Programs (continued)	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Business-type activities							
Non-instructional programs							
Nutrition services	\$ 360,835	\$ 212,655	\$ 138,362	\$ -	\$ -	\$ (9,818)	\$ (9,818)
Daycare and preschool	74,155	71,477	-	-	-	(2,678)	(2,678)
Total business-type activities	<u>434,990</u>	<u>284,132</u>	<u>138,362</u>	<u>-</u>	<u>-</u>	<u>(12,496)</u>	<u>(12,496)</u>
Total	<u>\$ 7,711,736</u>	<u>\$1,139,102</u>	<u>\$ 618,196</u>	<u>\$ -</u>	<u>(5,941,942)</u>	<u>(12,496)</u>	<u>(5,954,438)</u>
General Revenues							
Property tax levied for							
General purposes					2,250,575	-	2,250,575
Debt service					476,613	-	476,613
Capital projects					430,567	-	430,567
Unrestricted state grants					2,642,031	-	2,642,031
Unrestricted investment earnings					22,779	1,024	23,803
Interfund operating transfers					(525)	525	-
Other					193,008	-	193,008
Total general revenues					<u>6,015,048</u>	<u>1,549</u>	<u>6,016,597</u>
Change in net assets					73,106	(10,947)	62,159
Net assets, beginning of year, as restated					<u>6,295,238</u>	<u>106,769</u>	<u>6,402,007</u>
Net assets, end of year					<u>\$ 6,368,344</u>	<u>\$ 95,822</u>	<u>\$ 6,464,166</u>

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

See notes to financial statements and Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Balance Sheet
 Governmental Funds
 June 30, 2004

Exhibit C

	<u>General</u>	<u>Special Revenue Management</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Nonmajor Special Revenue</u>	<u>Total</u>
ASSETS						
Cash and pooled investments	\$ 1,138,463	\$ 274,367	\$ 306,140	\$ 279,343	\$ 141,979	\$ 2,140,292
Receivables						
Property tax						
Delinquent	29,495	4,670	-	6,866	3,174	44,205
Succeeding year	2,383,797	200,000	-	423,989	205,425	3,213,211
Accounts receivable	38,777	-	-	-	-	38,777
Accrued interest	-	-	64	-	-	64
Due from other governments	56,456	-	29,512	-	-	85,968
Total assets	<u>\$ 3,646,988</u>	<u>\$ 479,037</u>	<u>\$ 335,716</u>	<u>\$ 710,198</u>	<u>\$ 350,578</u>	<u>\$ 5,522,517</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 4,573	\$ -	\$ -	\$ -	\$ 177	\$ 4,750
Salaries and benefits payable	627,789	-	-	-	-	627,789
Deferred revenue - Succeeding year property tax	2,383,797	200,000	-	423,989	205,425	3,213,211
Deferred revenue - other	6,407	-	-	-	-	6,407
Total liabilities	<u>3,022,566</u>	<u>200,000</u>	<u>-</u>	<u>423,989</u>	<u>205,602</u>	<u>3,852,157</u>

See notes to financial statements and Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Balance Sheet
 Governmental Funds
 June 30, 2004

Exhibit C

	<u>General</u>	<u>Special Revenue Management</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Nonmajor Special Revenue</u>	<u>Total</u>
Fund balances						
Designated for cash flows	\$ 500,000	\$ -	\$ -	\$ -	\$ -	\$ 500,000
Reserved for						
State grants	63,147	-	-	-	-	63,147
Debt sevice	-	-	-	286,209	-	286,209
Unreserved	<u>61,275</u>	<u>279,037</u>	<u>335,716</u>	<u>-</u>	<u>144,976</u>	<u>821,004</u>
Total fund balances	<u>624,422</u>	<u>279,037</u>	<u>335,716</u>	<u>286,209</u>	<u>144,976</u>	<u>1,670,360</u>
Total liabilities and fund balances	<u>\$ 3,646,988</u>	<u>\$ 479,037</u>	<u>\$ 335,716</u>	<u>\$ 710,198</u>	<u>\$ 350,578</u>	<u>\$ 5,522,517</u>

See notes to financial statements and Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2004

Exhibit D

Total fund balances of governmental funds	\$ 1,670,360
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	8,341,468
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(80,664)
Long-term liabilities, including early retirement, bonds payable, revenue bonds payable and notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(3,562,820)</u>
Net assets of governmental activities	<u>\$ 6,368,344</u>

See notes to financial statements and Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004

Exhibit E

	<u>General</u>	<u>Special Revenue Management</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Nonmajor Special Revenue</u>	<u>Total</u>
Revenues						
Local sources						
Local tax	\$ 1,906,201	\$ 324,350	\$ 206,073	\$ 450,147	\$ 212,359	\$ 3,099,130
Tuition	621,015	-	-	-	-	621,015
Other	98,924	1,356	926	4,162	166,306	271,674
State sources	3,189,684	18,897	-	26,466	12,135	3,247,182
Federal sources	159,823	-	-	-	44,840	204,663
Total revenues	<u>5,975,647</u>	<u>344,603</u>	<u>206,999</u>	<u>480,775</u>	<u>435,640</u>	<u>7,443,664</u>
Expenditures						
Current						
Instruction						
Regular instruction	3,011,966	49,116	-	-	68,805	3,129,887
Special instruction	843,113	-	-	-	-	843,113
Other instruction	355,538	-	-	-	141,393	496,931
	<u>4,210,617</u>	<u>49,116</u>	<u>-</u>	<u>-</u>	<u>210,198</u>	<u>4,469,931</u>
Support services						
Student services	219,432	704	-	-	-	220,136
Instructional staff services	231,888	4,803	-	-	-	236,691
Administration services	574,255	32,271	-	-	-	606,526
Operation and maintenance of plant services	513,297	35,155	-	-	1,278	549,730
Transportation services	334,409	20,469	-	-	61,105	415,983
	<u>1,873,281</u>	<u>93,402</u>	<u>-</u>	<u>-</u>	<u>62,383</u>	<u>2,029,066</u>

See notes to financial statements and Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004

Exhibit E

	<u>General</u>	<u>Special Revenue Management</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Nonmajor Special Revenue</u>	<u>Total</u>
Expenditures (continued)						
Non-instructional programs	\$ -	\$ 2,545	\$ -	\$ -	\$ -	\$ 2,545
Other expenditures						
Facilities acquisition	-	-	27,713	-	95,072	122,785
Long-term debt						
Principal	-	-	-	3,033,740	-	3,033,740
Interest and fiscal charges	-	-	-	271,131	-	271,131
AEA flowthrough	241,253	-	-	-	-	241,253
	<u>241,253</u>	<u>-</u>	<u>27,713</u>	<u>3,304,871</u>	<u>95,072</u>	<u>3,668,909</u>
Total expenditures	<u>6,325,151</u>	<u>145,063</u>	<u>27,713</u>	<u>3,304,871</u>	<u>367,653</u>	<u>10,170,451</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(349,504)</u>	<u>199,540</u>	<u>179,286</u>	<u>(2,824,096)</u>	<u>67,987</u>	<u>(2,726,787)</u>
Other financing sources (uses)						
Proceeds of long-term debt (\$147,058 premium)	-	-	-	2,617,058	-	2,617,058
Sale of real property	-	-	-	-	550	550
Sale of materials and supplies	355	-	-	-	-	355
Interfund operating transfers in	-	-	54,605	227,562	-	282,167
Interfund operating transfers (out)	(525)	-	(220,813)	-	(61,354)	(282,692)
Total other financing sources (uses)	<u>(170)</u>	<u>-</u>	<u>(166,208)</u>	<u>2,844,620</u>	<u>(60,804)</u>	<u>2,617,438</u>
Net change in fund balances	(349,674)	199,540	13,078	20,524	7,183	(109,349)
Fund balance, beginning of year	974,096	79,497	322,638	265,685	137,793	1,779,709
Fund balance, end of year	<u>\$ 624,422</u>	<u>\$ 279,037</u>	<u>\$ 335,716</u>	<u>\$ 286,209</u>	<u>\$ 144,976</u>	<u>\$ 1,670,360</u>

See notes to financial statements and Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances-
 Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2004

Exhibit F

Net change in fund balances - total governmental funds \$ (109,349)

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

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

Capital outlays	\$ 126,497	
Depreciation expense	<u>(437,167)</u>	(310,670)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 3,033,740

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

Early retirement	(32,364)
------------------	----------

Proceeds of long-term debt provide current financial resources to governmental funds but increase long-term liabilities in the Statement of Net Assets. (2,470,000)

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. (38,251)

Change in net assets of governmental activities	<u>\$ 73,106</u>
---	------------------

See notes to financial statements and Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
Proprietary Funds
June 30, 2004

Exhibit G

	<u>Nonmajor Enterprise</u>
ASSETS	
Cash and cash equivalents	\$ 90,628
Inventories	9,876
Capital assets, net of accumulated depreciation	<u>20,348</u>
Total assets	<u>120,852</u>
 LIABILITIES	
Salaries and benefits payable	<u>25,030</u>
 NET ASSETS	
Invested in capital assets	20,348
Unrestricted	<u>75,474</u>
Total net assets	<u>\$ 95,822</u>

See notes to financial statements and Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2004

Exhibit H

	<u>Nonmajor Enterprise</u>
Operating revenue	
Local sources	
Charges for service	<u>\$ 284,132</u>
 Operating expenses	
Non-instructional programs	
Salaries	200,339
Benefits	36,663
Purchased services	13,398
Supplies	168,747
Depreciation	<u>15,843</u>
Total operating expenses	<u>434,990</u>
 Operating loss	<u>(150,858)</u>
 Non-operating revenue	
Interest income	1,024
Interfund operating transfers in	525
State sources	4,964
Federal sources	<u>133,398</u>
Total non-operating revenue	<u>139,911</u>
 Change in net assets	<u>(10,947)</u>
 Net assets, beginning of year	<u>106,769</u>
 Net assets, end of year	<u>\$ 95,822</u>

See notes to financial statements and Independent Auditor's Report.

LOUISA-MUSCAITNE COMMUNITY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2004

Exhibit I

	<u>Nonmajor Enterprise</u>
Cash flows from operating activities	
Cash received from sale of meals	\$ 215,748
Cash received from sale of services	71,477
Cash payments to employees for services	(236,826)
Cash payments to suppliers for goods and services	<u>(163,177)</u>
Net cash used in operating activities	<u>(112,778)</u>
Cash flows from non-capital financing activities	
State grants received	4,964
Federal grants received	<u>114,805</u>
Net cash provided by non-capital financing activities	<u>119,769</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	<u>(7,710)</u>
Cash flows from investing activities	
Interfund operating transfers	525
Interest on investments	<u>1,024</u>
Net cash provided by investing activities	<u>1,549</u>
Net increase in cash and cash equivalents	830
Cash and cash equivalents, beginning of year	<u>89,798</u>
Cash and cash equivalents, end of year	<u>\$ 90,628</u>
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$(150,858)
Adjustments to reconcile operating loss to net cash used in operating activities	
Commodities used	18,593
Depreciation	15,843
Decrease in accounts receivable	3,093
Decrease in inventories	375
Increase (decrease) in accounts payable	<u>176</u>
Net cash used in operating activities	<u>\$(112,778)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$18,593 of federal commodities.

See notes to financial statements and Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

Exhibit J

	<u>Private Purpose Trust</u> <u>Scholarships</u>
Assets	
Cash and pooled investments	\$ 1,500
Liabilities	<u>-</u>
Net assets	
Reserved for scholarships	<u>\$ 1,500</u>

See notes to financial statements and Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2004

Exhibit K

	Private Purpose Trust <u>Scholarships</u>
Additions	
Local sources	
Gifts and contributions	\$ 1,500
Deductions	
Other instruction	
Scholarships	<u>750</u>
Change in net assets	750
Net assets, beginning of year	<u>750</u>
Net assets, end of year	<u>\$ 1,500</u>

See notes to financial statements and Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2004

Note 1. Summary of Significant Accounting Policies

The Louisa-Muscatine Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. The geographic area served includes the Cities of Letts, Grandview and Fruitland, Iowa, and the agricultural territory in Louisa and Muscatine Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

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

The District does not participate in any jointly governed organizations for which the District is financially accountable or that the nature and significance of the relationship with the District are such that exclusion would cause the District's financial statements to be misleading.

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental fund:

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

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

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

Management Levy Fund is a special revenue fund used to account for all financial transactions from the levy authorized by Iowa Code section 298.4. The purpose of this fund is to pay the costs of unemployment or early retirement benefits, and the costs of liability insurance and judgments or settlements relating to liability. This fund cannot be used for employee health, life, or disability insurance, even if the district is self-insured.

The District reports no major proprietary funds.

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

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

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and 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, early retirement and claims and judgments are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

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

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 governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year 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 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, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and 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.

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

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

<u>Asset Class</u>	<u>Useful Life</u>
Buildings and improvements	5-40 years
Improvements other than buildings	15-20 years
Furniture and equipment	3-20 years

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

Early Retirement - District employees meeting certain requirements are eligible for early retirement benefits. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2004. The early retirement liability attributable to the governmental activities will be paid primarily from the Management Fund.

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 represents the amount of assets that have been recognized, but the

related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds and property tax receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of unspent grant proceeds and 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 Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, expenditures in the Other Expenditures function exceeded the amount budgeted. However, the District did not exceed its General Fund unspent authorized budget.

Note 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 no investments at June 30, 2004.

Note 3. Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Enterprise Fund, Daycare & Preschool	General	\$ 525
Capital Projects	Physical Plant and Equipment Levy	54,605
Debt Service	Capital Projects	220,813
Debt Service	Physical Plant and Equipment Levy	<u>6,749</u>
Total		<u>\$ 282,692</u>

Note 4. Capital Assets

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

<u>Governmental activities</u>	<u>Balance, Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, End of Year</u>
Capital assets not being depreciated:				
Land	<u>\$ 90,976</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 90,976</u>
Capital assets being depreciated:				
Buildings and improvements	12,739,481	40,033	-	12,779,514
Improvements other than buildings	803,144	25,359	-	828,503
Furniture and equipment	<u>935,053</u>	<u>61,105</u>	<u>-</u>	<u>996,158</u>
Total capital assets being depreciated	<u>14,477,678</u>	<u>126,497</u>	<u>-</u>	<u>14,604,175</u>
Less accumulated depreciation for:				
Buildings and improvements	4,656,425	313,987	-	4,970,412
Improvements other than buildings	519,825	47,012	-	566,837
Furniture and equipment	<u>740,266</u>	<u>76,168</u>	<u>-</u>	<u>816,434</u>
Total accumulated depreciation	<u>5,916,516</u>	<u>437,167</u>	<u>-</u>	<u>6,353,683</u>
Total capital assets being depreciated, net	<u>8,561,162</u>	<u>(310,670)</u>	<u>-</u>	<u>8,250,492</u>
Governmental activities capital assets, net	<u>\$ 8,652,138</u>	<u>\$(310,670)</u>	<u>\$ -</u>	<u>\$ 8,341,468</u>
<u>Business-type activities</u>				
Furniture and equipment	\$ 172,528	\$ 7,710	\$ -	\$ 180,238
Less accumulated depreciation	<u>144,047</u>	<u>15,843</u>	<u>-</u>	<u>159,890</u>
Business-type activities capital assets, net	<u>\$ 28,481</u>	<u>\$(8,133)</u>	<u>\$ -</u>	<u>\$ 20,348</u>

Depreciation expense was charged to the following functions:

Governmental activities

Instruction	
Regular	\$ 9,213
Other	1,569
Support services	
Student	247
Administration	4,011
Operation and maintenance of plant	2,532
Transportation	58,596
Unallocated depreciation	<u>360,999</u>

Total governmental activities depreciation expense \$ 437,167

Business-type activities

Food services	<u>\$ 15,843</u>
---------------	------------------

During the year ended June 30, 2004, the District hired an outside company to perform a physical inventory of its capital assets. Also during the year ended June 30, 2004 the District changed its criteria for determining capitalized assets. Prior to the fiscal year ended June 30, 2004 the District included all assets costing more than \$500 in the General Fixed Asset Account Group. However, beginning in FY04 the District only includes items costing in excess of the limits summarized in Note 1, item D as capital assets. Due to these two changes, the District's beginning balance of capital assets in the year ended June 30, 2004 is more than the amounts reported on the financial statements of the prior fiscal year by \$207,016.

Note 5. Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
Bank loans	\$ 84,078	\$ -	\$ (40,740)	\$ 43,338	\$ 43,338
General obligation bonds	2,860,000	2,470,000	(2,860,000)	2,470,000	270,000
Revenue bonds	1,085,000	-	(115,000)	970,000	120,000
Capital leases	18,000	-	(18,000)	-	-
Early retirement	<u>47,115</u>	<u>68,314</u>	<u>(35,947)</u>	<u>79,482</u>	<u>38,136</u>
Totals	<u>\$ 4,094,193</u>	<u>\$ 2,538,314</u>	<u>\$(3,069,687)</u>	<u>\$ 3,562,820</u>	<u>\$ 471,474</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees, who meet certain eligibility guidelines. This voluntary early retirement plan is offered annually at the board's discretion. Eligible employees must have been at least age fifty-five and have completed fifteen years of consecutive service to the District. Employees must have completed an application, which was required to be approved by the Board of Education. Benefits can be received in a lump sum payment in the year following retirement, in two annual payments beginning in the year following retirement or by participation in the District's 125 cafeteria plan until the employee reaches age 65. Early retirement benefits paid during the year ended June 30, 2004 totaled \$35,947.

Bonds Payable

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

Year Ending June 30,	Bond issue of March 3, 2004			
	Interest Rates	Interest	Principal	Total
2005	5.00	\$ 153,689	\$ 270,000	\$ 423,689
2006	5.00	110,000	320,000	430,000
2007	5.00	94,000	340,000	434,000
2008	5.00	77,000	360,000	437,000
2009	5.00	59,000	375,000	434,000
2010	5.00	40,250	395,000	435,250
2011	5.00	<u>20,500</u>	<u>410,000</u>	<u>430,500</u>
Totals		<u>\$ 554,439</u>	<u>\$ 2,470,000</u>	<u>\$ 3,024,439</u>

Revenue Bonds Payable

On July 23, 2001, the District issued School Infrastructure Sales and Services Tax Revenue Bonds. The proceeds of the bonds are to be used to construct an addition to the high school building. The bonds will be repaid by the collection of the local option sales and services tax for school infrastructure. The bonds were for \$1,195,000 and are secured by a Reserve Fund, which was established under the Bond Resolution. A Sinking Fund has been established into which collections of the local option sales and services tax revenues will be deposited. Interest and principal on the bonds will be paid from the Sinking Fund. Details of the District's June 30, 2004 revenue bonded indebtedness are as follows:

Year		Bond issue of Sept 1, 1993		
Ending	Interest			
June 30,	Rates	Interest	Principal	Total
2005	5.00	\$ 43,833	\$ 120,000	\$ 163,833
2006	5.00	37,707	125,000	162,707
2007	5.00	31,332	130,000	161,332
2008	4.50	24,933	140,000	164,933
2009	4.65	18,411	145,000	163,411
2010	4.80	11,440	150,000	161,440
2011	4.90	<u>3,920</u>	<u>160,000</u>	<u>163,920</u>
Totals		<u>\$ 171,576</u>	<u>\$ 970,000</u>	<u>\$ 1,141,576</u>

Loans Payable

On July 10, 2001, the District entered into a loan agreement with Columbus Junction State Bank for \$61,151 for the purchase of a bus. Payments of \$21,521, including interest at 4 percent, are due annually, beginning November 30, 2002. The loan is scheduled to be repaid as follows:

Year Ending	Principal	Interest	Total
June 30, 2005	\$ 23,236	\$ 932	\$ 24,168

On September 18, 2001, the District entered into a loan agreement with Columbus Junction State Bank for \$58,424 for the purchase of two copiers. Payments of \$21,054, including interest at 4 percent, are due annually, beginning on August 28, 2002. The loan is scheduled to be repaid as follows:

Year Ending	Principal	Interest	Total
June 30, 2005	\$ 20,102	\$ 806	\$ 20,908

Note 7. Current Refunding of General Obligation Bonds

On March 3, 2004, the District issued general obligation bonds of \$2,470,000 (par value) with an interest rate of 5% to forward refund a 1993 issuance of general obligation bonds with interest rates varying from 5.1% to 5.4%. The 1993 issue became callable on June 1, 2004 and were called and redeemed on that date. The 1993 issue has been removed from the District's financial statements and the 2004 issue has been included in the financial statements. Total debt requirements for interest and principal payments over the remaining life of the bonds were decreased by \$562,684 as a result of the refunding.

Note 7. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$250,529, \$251,295 and \$257,921 respectively, equal to the required contributions for each year.

Note 8. Risk Management

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

Note 9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$241,253 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.

Note 10. Accounting Change and Restatements

Governmental Accounting Standards Board (GASB) 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 (GASB) 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; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences,

were implemented for the year ended June 30, 2004. The statements 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.

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

	Fund			Total	<u>Total</u>
	<u>General</u>	<u>Management</u>	<u>Capital Projects</u>	Nonmajor Special <u>Revenue</u>	
Net assets June 30, 2003, as previously reported	\$ 974,093	\$ 79,497	\$ 322,638	\$ 137,793	\$ 1,779,706
GASB Interpretation 6 adjustments	-	-	-	-	-
Net assets July 1, 2003, as restated for governmental funds	<u>\$ 974,093</u>	<u>\$ 79,497</u>	<u>\$ 322,638</u>	137,793	1,779,706
GASB 34 adjustments:					
Capital assets, net of accumulated depreciation of \$5,916,516					8,652,138
Long-term liabilities:					
General obligation bonds				\$ (2,860,000)	
Revenue bonds				(1,085,000)	
Loans				(84,078)	
Capital leases				(18,000)	
Early retirement				<u>(47,115)</u>	(4,094,193)
Accrued interest payable					<u>(42,413)</u>
Net assets July 1, 2003, as restated					<u>\$ 6,295,238</u>

Note 11. Related Party Transactions

During the year ended June 30, 2004, the District had business transactions between the District and a company owned by a district official and her spouse totaling \$3,921.

Note 12. Subsequent Event – Local Option Sales and Services Tax

Louisa County voters authorized the Local Option Sales and Services Tax beginning July 1, 2004. This tax is an additional sales tax of 1% on all taxable sales in Louisa County and will continue for 10 years. The revenue from this tax will be distributed to all school districts with students residing in Louisa County on a per student basis. Louisa-Muscatine Community School District anticipates receiving \$47,585 from Louisa County for this tax annually beginning with the fiscal year ending June 30, 2005. The District also expects to receive approximately \$172,180 from a shared pool established by the Code of Iowa, as supplemental revenue from this levy. However, this amount is subject to change depending upon the revenue generated throughout the state from the Local Option Sales and Services Tax.

Required Supplementary Information

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual
 All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 For the Year Ended June 30, 2004

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Total <u>Actual</u>	<u>Budgeted Amounts</u>		Final to Actual <u>Variance</u>
				<u>Original</u>	<u>Final</u>	
Revenues						
Local sources	\$ 3,991,819	\$ 285,156	\$ 4,276,975	\$ 4,433,188	\$ 4,433,188	\$ (156,213)
State sources	3,247,182	4,964	3,252,146	3,657,413	3,657,413	(405,267)
Federal sources	204,663	133,398	338,061	223,000	223,000	115,061
Total revenues	<u>7,443,664</u>	<u>423,518</u>	<u>7,867,182</u>	<u>8,313,601</u>	<u>8,313,601</u>	<u>(446,419)</u>
Expenditures						
Instruction	4,469,931	-	4,469,931	4,600,000	4,600,000	130,069
Support services	2,029,066	-	2,029,066	2,156,500	2,156,500	127,434
Non-instructional programs	2,545	434,990	437,535	430,459	454,000	16,465
Other expenditures	3,668,909	-	3,668,909	820,417	3,450,000	(218,909)
Total expenditures	<u>10,170,451</u>	<u>434,990</u>	<u>10,605,441</u>	<u>8,007,376</u>	<u>10,660,500</u>	<u>55,059</u>
Excess (deficiency) of revenues over (under) expenditures	(2,726,787)	(11,472)	(2,738,259)	306,225	(2,346,899)	(391,360)
Other financing sources, net	<u>2,617,438</u>	<u>525</u>	<u>2,617,963</u>	<u>(209,911)</u>	<u>2,260,089</u>	<u>357,874</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(109,349)	(10,947)	(120,296)	96,314	(86,810)	(33,486)
Balance, beginning of year	<u>1,779,709</u>	<u>106,769</u>	<u>1,886,478</u>	<u>1,390,231</u>	<u>1,390,231</u>	<u>496,247</u>
Balance, end of year	<u>\$ 1,670,360</u>	<u>\$ 95,822</u>	<u>\$ 1,766,182</u>	<u>\$ 1,486,545</u>	<u>\$ 1,303,421</u>	<u>\$ 462,761</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the 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 a basis consistent with U.S. generally accepted accounting principles.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$2,653,124.

During the year ended June 30, 2004, District expenditures exceeded the amount budgeted in the Other Expenditures function. However, the General Fund expenditures did not exceed the unspent authorized budget.

Other Supplementary Information

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Combining Balance Sheet
 Nonmajor Special Revenue Funds
 June 30, 2004

Schedule 1

	<u>Student Activity</u>	<u>Physical Plant and Equipment Levy</u>	<u>Total</u>
ASSETS			
Cash and pooled investments	\$ 101,706	\$ 40,273	\$ 141,979
Receivables			
Property tax			
Current year delinquent	-	3,174	3,174
Succeeding year	-	<u>205,425</u>	<u>205,425</u>
 Total assets	 <u>\$ 101,706</u>	 <u>\$ 248,872</u>	 <u>\$ 350,578</u>
 LIABILITIES AND FUND EQUITY			
Liabilities			
Accounts payable	\$ -	\$ 177	\$ 177
Deferred revenue			
Succeeding year property tax	-	<u>205,425</u>	<u>205,425</u>
Total liabilities	-	205,602	205,602
 Fund Equity			
Unreserved fund balances	<u>101,706</u>	<u>43,270</u>	<u>144,976</u>
 Total liabilities and fund equity	 <u>\$ 101,706</u>	 <u>\$ 248,872</u>	 <u>\$ 350,578</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2004

Schedule 2

	<u>Student Activity</u>	<u>Physical Plant and Equipment Levy</u>	<u>Total</u>
Revenues			
Local sources			
Local taxes	\$ -	\$ 212,359	\$ 212,359
Other	163,933	2,373	166,306
State sources	-	12,135	12,135
Federal sources	-	44,840	44,840
Total revenues	<u>163,933</u>	<u>271,707</u>	<u>435,640</u>
Expenditures			
Current			
Instruction			
Regular program instruction	-	68,805	68,805
Other instruction	141,393	-	141,393
Support services			
Operation and maintenance of plant services	-	1,278	1,278
Transportation services	-	61,105	61,105
Other expenditures			
Facilities acquisition and construction	-	95,072	95,072
Total expenditures	<u>141,393</u>	<u>226,260</u>	<u>367,653</u>
Excess of revenues over expenditures	<u>22,540</u>	<u>45,447</u>	<u>67,987</u>
Other financing sources (uses)			
Sale of real property	-	550	550
Interfund operating transfer out	-	(61,354)	(61,354)
Total other financing (uses)	<u>-</u>	<u>(60,804)</u>	<u>(60,804)</u>
Excess (deficiency) of revenues over (under) expenditures and other financing (uses)	<u>22,540</u>	<u>(15,357)</u>	<u>7,183</u>
Fund balances, beginning of year	<u>79,166</u>	<u>58,627</u>	<u>137,793</u>
Fund balances, end of year	<u>\$ 101,706</u>	<u>\$ 43,270</u>	<u>\$ 144,976</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Combining Statement of Net Assets
 Nonmajor Proprietary Funds
 June 30, 2004

Schedule 3

	Enterprise		<u>Total</u>
	<u>School Nutrition</u>	<u>Daycare & Preschool</u>	
ASSETS			
Cash and cash equivalents	\$90,594	\$ 34	\$90,628
Inventories	9,876	-	9,876
Capital assets, net of accumulated depreciation	20,348	-	20,348
Total assets	<u>120,818</u>	<u>34</u>	<u>120,852</u>
LIABILITIES			
Salaries and benefits payable	<u>25,003</u>	<u>27</u>	<u>25,030</u>
NET ASSETS			
Invested in capital assets	20,348	-	20,348
Unrestricted	<u>75,467</u>	<u>7</u>	<u>75,474</u>
Total net assets	<u>\$95,815</u>	<u>\$ 7</u>	<u>\$95,822</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Nonmajor Proprietary Funds
For the Year Ended June 30, 2004

Schedule 4

	Enterprise		<u>Total</u>
	<u>School Nutrition</u>	<u>Daycare & Preschool</u>	
Operating revenue			
Local sources			
Charges for service	<u>\$ 212,655</u>	<u>\$ 71,477</u>	<u>\$ 284,132</u>
Operating expenses			
Non-instructional programs			
Salaries	145,408	54,931	200,339
Benefits	24,462	12,201	36,663
Purchased services	10,968	2,430	13,398
Supplies	164,154	4,593	168,747
Depreciation	<u>15,843</u>	<u>-</u>	<u>15,843</u>
Total operating expenses	<u>360,835</u>	<u>74,155</u>	<u>434,990</u>
Operating loss	<u>(148,180)</u>	<u>(2,678)</u>	<u>(150,858)</u>
Non-operating revenue			
Interest income	1,004	20	1,024
Interfund operating transfers in	-	525	525
State sources	4,964	-	4,964
Federal sources	<u>133,398</u>	<u>-</u>	<u>133,398</u>
Total non-operating revenue	<u>139,366</u>	<u>545</u>	<u>139,911</u>
Change in net assets	(8,814)	(2,133)	(10,947)
Net assets, beginning of year	<u>104,629</u>	<u>2,140</u>	<u>106,769</u>
Net assets, end of year	<u>\$ 95,815</u>	<u>\$ 7</u>	<u>\$ 95,822</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2004

Schedule 5

	Enterprise		<u>Total</u>
	<u>School Nutrition</u>	<u>Daycare & Preschool</u>	
Cash flows from operating activities			
Cash received from sale of meals	\$ 215,748	\$ -	\$ 215,748
Cash received from sale of services	-	71,477	71,477
Cash payments to employees for services	(169,686)	(67,140)	(236,826)
Cash payments to suppliers for goods and services	(156,154)	(7,023)	(163,177)
Net cash used in operating activities	(110,092)	(2,686)	(112,778)
Cash flows from non-capital financing activities			
State grants received	4,964	-	4,964
Federal grants received	114,805	-	114,805
Net cash provided by non-capital financing activities	119,769	-	119,769
Cash flows from capital and related financing activities			
Acquisition of capital assets	(7,710)	-	(7,710)
Cash flows from investing activities			
Interfund operating transfers	-	525	525
Interest on investments	1,004	20	1,024
Net cash provided by investing activities	1,004	545	1,549
Net increase (decrease) in cash and cash equivalents	2,971	(2,141)	830
Cash and cash equivalents, beginning of year	87,623	2,175	89,798
Cash and cash equivalents, end of year	\$ 90,594	\$ 34	\$ 90,628

Reconciliation of operating loss to net cash used in operating activities

Operating loss	\$(148,180)	\$ (2,678)	\$(150,858)
Adjustments to reconcile operating loss to net cash used in operating activities			
Commodities used	18,593	-	18,593
Depreciation	15,843	-	15,843
Decrease in accounts receivable	3,093	-	3,093
Decrease in inventories	375	-	375
Increase (decrease) in accounts payable	184	(8)	176
Net cash used in operating activities	\$(110,092)	\$ (2,686)	\$(112,778)

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$18,593 of federal commodities.

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts
 For the Year Ended June 30, 2004

Schedule 6

Account	Balance, Beginning of Year	<u>Revenues</u>	<u>Expenditures</u>	Intrafund Transfers	Balance, End of Year
Athletics	\$ 798	\$ 44,616	\$ 40,951	\$ 150	\$ 4,613
Cheerleading	3,426	4,249	6,225	-	1,450
Athletic fundraising	-	1,623	-	-	1,623
Athletic resale	-	782	178	-	604
Ads and posters	-	140	130	-	10
Jr high	2,313	383	1,085	174	1,785
Elementary activity	8,151	3,578	1,499	(174)	10,056
Concessions	29,617	16,806	11,524	-	34,899
FFA	16,462	48,329	46,670	(250)	17,871
FFA vending	-	3,107	2,116	-	991
FFA greenhouse	-	299	-	-	299
Band	7,500	26,975	18,873	546	16,148
Speech	-	-	474	500	26
Drama	773	3,680	1,219	(2,461)	773
Student council	942	929	1,590	945	1,226
Yearbook	3,340	2,565	2,164	100	3,841
Vocal music	1,218	1,188	1,454	1,415	2,367
TAG	150	-	37	-	113
Senior class	1,891	2,430	3,339	350	1,332
Junior class	1,295	-	-	(1,295)	-
NHS	466	1,405	1,865	-	6
Interest	824	849	-	-	1,673
Totals	<u><u>\$ 79,166</u></u>	<u><u>\$ 163,933</u></u>	<u><u>\$ 141,393</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 101,706</u></u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds
For the Last Four Years

Schedule 7

	Modified Accrual Basis			
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues				
Local sources				
Local tax	\$ 3,099,130	\$ 3,522,994	\$ 3,311,135	\$ 3,179,045
Tuition	621,015	539,427	536,301	513,603
Other	271,674	321,710	423,104	380,080
State sources	3,247,182	3,491,187	3,340,857	3,384,456
Federal sources	<u>204,663</u>	<u>141,145</u>	<u>633,355</u>	<u>123,986</u>
Total revenues	<u>\$ 7,443,664</u>	<u>\$ 8,016,463</u>	<u>\$ 8,244,752</u>	<u>\$ 7,581,170</u>
Expenditures				
Instruction				
Regular instruction	3,129,887	3,102,802	3,178,144	3,170,172
Special instruction	843,113	676,892	596,071	615,805
Other instruction	496,931	482,769	489,949	526,403
Support services				
Student services	220,136	212,637	210,225	208,990
Instructional staff services	236,691	253,328	248,907	273,475
Administration services	606,526	587,014	659,387	608,430
Operation and maintenance of plant services	549,730	523,154	531,827	585,978
Transportation services	415,983	458,646	503,785	418,133
Central support services	-	-	-	1,244
Non-instructional programs	2,545	3,623	2,616	-
Other expenditures				
Facilities acquisition	122,785	266,312	1,674,418	199,901
Long-term debt				
Principal	3,033,740	863,813	362,715	451,259
Interest and other charges	271,131	249,195	221,382	214,084
AEA flowthrough	<u>241,253</u>	<u>253,388</u>	<u>254,232</u>	<u>265,018</u>
Total expenditures	<u>\$ 10,170,451</u>	<u>\$ 7,933,573</u>	<u>\$ 8,933,658</u>	<u>\$ 7,538,892</u>

See accompanying Independent Auditor's Report.

KAY L. CHAPMAN, CPA PC

119 Sycamore Street, Suite 100
Muscatine, Iowa 52761
563-264-1385

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Education
Louisa-Muscatine Community School District
Letts, Iowa

I have audited the financial statements of the Louisa-Muscatine Community School District as of and for the year ended June 30, 2004, and have issued my report thereon dated October 14, 2004. I conducted my 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 Louisa-Muscatine Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of noncompliance that are described below.

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 my audit of the financial statements of the District. Since my 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 not been resolved. Current year statutory comments are detailed as follows:

1. Official Depositories - A resolution naming official depositories has been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004. However, the name of the depositories used and maximum deposit amount for each were not included in the board minutes.

Recommendation - Section 12C of the Code of Iowa requires that the board minutes list each approved depository and specify the maximum amount authorized to be kept in each depository. The District should ensure that this information is included in the board minutes in the future.

Response - We will include the necessary information in the board minutes annually when depositories are approved.

Conclusion - Response accepted.

2. Certified Budget - Expenditures for the year ended June 30, 2004 exceeded the amount budgeted in the Other Expenditures function.

Recommendation - The District amended its budget, but not sufficiently to cover expenditures. The District should ensure that the budget amendment is for a sufficient amount or limit expenditures during the fiscal year to the amended amount.

Response - We will be more attentive of this in the future.

Conclusion - Response accepted.

3. Questionable Disbursements - I noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
4. 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.
5. Business Transactions - Business transactions between the District and District officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Description</u>	<u>Amount</u>
Angie Kemp, board member, part owner in Kemp & Son, Inc.	snow removal & repairs	\$3,921

The transactions with Board Member Kemp's business does not appear to represent a conflict of interest since the transactions for snow removal were competitively bid in accordance with Chapter 279.7A of the Code of Iowa and the transactions for the water line did not exceed \$2,500 during the fiscal year as allowed by Chapter 279.7A of the Code of Iowa.

6. 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.

7. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
8. Certified Enrollment - No variance in the basic enrollment data certified to the Department of Education were noted.
9. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
10. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely and I noted no significant deficiencies in the amounts reported.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Louisa-Muscatine Community School District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Louisa-Muscatine Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Prior year reportable conditions have not been resolved. Current year reportable conditions are as follows:

- A. Segregation of Duties - During my review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximized the accuracy of the District's financial statements. I noted that the same person reconciles the bank, enters cash receipts in the computer system, and prepares bank deposits.

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

Response - We have reviewed procedures and will make changes to improve internal control as we deem necessary.

Conclusion - Response accepted.

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. My 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, I believe the lack of segregation of duties 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 the Louisa-Muscatine Community School District and other parties to whom the District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by the personnel of the Louisa-Muscatine Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
October 14, 2004

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Audit Staff
June 30, 2004

This audit was performed by

Kay Chapman, CPA

KAY L. CHAPMAN, CPA PC
119 Sycamore Street, Suite 100
Muscatine, Iowa 52761
563-264-1385

February 23, 2005

State of Iowa
Office of Auditor of State
State Capitol Building
Des Moines, Iowa 50319

RE: June 30, 2004 Audit Report

Enclosed are the following for the audit performed by my office for the Louisa-Muscatine Community School District for the fiscal year ended June 30, 2004.

2 copies of the audit report
1 copy of the news release

For your information, the fee for this engagement was \$4,600.00 and the total hours expended were 57, which are allocated as follows:

Preliminary, planning, etc.	8 (average allocation)
Fieldwork and report writing	43
Office review, report processing and follow-up	6

The audit report filing fee was sent to you by the Board Secretary of the Louisa-Muscatine Community School District.

Respectfully submitted,



Kay L. Chapman, CPA PC

Enclosures

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT

14478 170TH STREET

LETTS IA 52754

John A. Dotson, Superintendent
319.726.3541

NEWS RELEASE

FOR RELEASE:

Kay L. Chapman, CPA PC of Muscatine, Iowa today released an audit report on the Louisa-Muscatine Community School District in Letts, Iowa.

The District has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements include a Statement of Net Assets and a Statement of Activities which provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Also included is Management's Discussion and Analysis of the District's financial statements.

The District's revenues totaled \$7,773,895 for the year ended June 30, 2004, a 8 percent decrease from the prior year. Revenues included \$3,157,755 in local tax, charges for service of \$1,139,102, operating grants, contributions and restricted interest of \$618,196, unrestricted state grants of \$2,642,031, unrestricted interest of \$22,779 and other general revenues of \$192,483.

Expenses for District operations totaled \$7,711,736, a 8 percent decrease from the prior year. Expenses included \$4,513,080 for instruction, \$2,033,347 for support services, \$437,535 for non-instructional programs and \$727,774 for other expenses.

A copy of the audit report is available for review in the office of the Auditor of State and the District Secretary's office.