

MORNING SUN COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

JUNE 30, 2004

MORNING SUN COMMUNITY SCHOOL DISTRICT

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MORNING SUN COMMUNITY SCHOOL DISTRICT

OFFICIALS  
June 30, 2004

<b>Name</b>	<b>Board of Education</b>	<b>Term Expires</b>
	(Before September 2003 Election)	
Andy Meader	Board President	2005
Michael Vance	Board Member	2003
Robert Fletcher	Board Member	2003
Brenda Harris	Board Member	2004
Jason Hagge	Board Member	2005
	(After September 2003 Election)	
Andy Meader	Board President	2005
Brenda Harris	Board Member	2004
Jason Hagge	Board Member	2005
Roxanne Bappe	Board Member	2006
Robert Fletcher	Board Member	2006
	<b>School Officials</b>	
Doug Graber	Superintendent	2004
Kim Booth	District Secretary	2004
Sue Bryant	District Treasurer	2004
Gruhn Law Firm	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  
Morning Sun Community School District  
Morning Sun, 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 Morning Sun Community School District, Morning Sun 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 Morning Sun 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 9 to the financial statements, during the year ended June 30, 2004, Morning Sun 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 August 3, 2004 on my consideration of Morning Sun 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 13 and 37 and 38 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 Morning Sun 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, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 6, 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*

Kay L. Chapman, CPA PC  
August 3, 2004

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Morning Sun 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.

### Financial Highlights

- General Fund revenues decreased from \$2,485,035 in fiscal 2003 to \$2,315,127 in fiscal 2004, also General Fund expenditures decreased from \$2,293,466 in fiscal 2003 to \$2,151,086 in fiscal 2004. This resulted in an increase in the District's General Fund balance from \$661,777 in fiscal 2003 to \$758,423 in fiscal 2004, a 15 percent increase from the prior year.
- The decrease in General Fund revenues was attributable to reduced property tax collections, tuition received and state funding in fiscal year 2004. The decrease in expenditures was due primarily to a decrease in the employee benefits and purchased services.

### Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.

- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.

The financial statements also include notes that explain some of the information in the statements for the year.

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

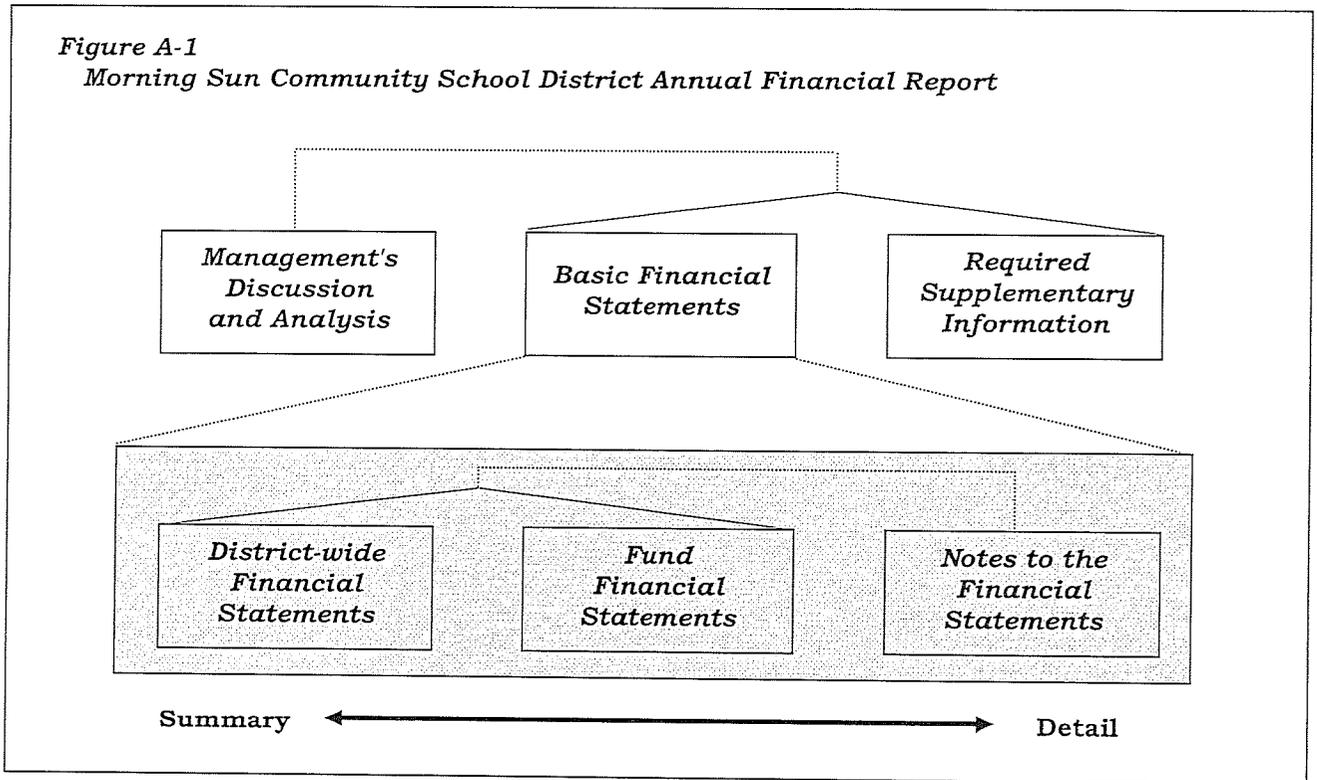


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

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

	District-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 and student activities monies
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## Reporting the District's Financial Activities

### District-wide Statements

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

In the District-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 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 two kinds of funds:

- *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. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.

- The District's governmental funds include the General Fund, Special Revenue Funds and Capital Projects Fund.
- *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 District-wide statements.
  - The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and the Daycare/Preschool Fund.

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

Reconciliations between the district-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.

Figure A-3

#### Condensed Statement of Net Assets

	Governmental		Business-type		Total		Total Change 2003-2004
	Activities		Activities		School District		
	2004	2003	2004	2003	2004	2003	
Current and other assets	\$ 1,826,804	\$ 1,852,970	\$ 25,453	\$ 25,756	\$ 1,852,257	\$ 1,878,726	-1.41%
Capital assets	<u>410,461</u>	<u>364,809</u>	<u>3,256</u>	<u>3,784</u>	<u>413,717</u>	<u>368,593</u>	12.24%
Total assets	<u>2,237,265</u>	<u>2,217,779</u>	<u>28,709</u>	<u>29,540</u>	<u>2,265,974</u>	<u>2,247,319</u>	0.83%
Long-term obligations	-	-	-	-	-	-	0.00%
Other liabilities	<u>951,036</u>	<u>1,086,404</u>	<u>-</u>	<u>348</u>	<u>951,036</u>	<u>1,086,752</u>	-12.49%
Total liabilities	<u>951,036</u>	<u>1,086,404</u>	<u>-</u>	<u>348</u>	<u>951,036</u>	<u>1,086,752</u>	-12.49%
Net assets							
Invested in capital assets, net of related debt	410,461	364,809	3,256	3,784	413,717	368,593	12.24%
Restricted	117,345	104,789	-	-	117,345	104,789	11.98%
Unrestricted	<u>758,423</u>	<u>661,777</u>	<u>25,453</u>	<u>25,408</u>	<u>783,876</u>	<u>687,185</u>	14.07%
Total net assets	<u>\$ 1,286,229</u>	<u>\$ 1,131,375</u>	<u>\$ 28,709</u>	<u>\$ 29,192</u>	<u>\$ 1,314,938</u>	<u>\$ 1,160,567</u>	13.30%

The District's combined net assets increased by 13%, or approximately \$154,000, 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.

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 by \$12,556, or 12% over the prior year. The increase was primarily a result of the PPEL levy being implemented in FY04.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased by \$96,682, or 14%. This increase in unrestricted net assets was a result of the District receiving more revenue than expenditures for the fiscal year.

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

	Figure A-4 Change in Net Assets		
	Governmental <u>Activities</u>	Business-type <u>Activities</u>	Total School <u>District</u>
Revenues			
Program revenues			
Charges for service and sales	\$ 679,709	\$ 56,053	\$ 735,762
Operating grants, contributions and restricted interest	140,188	34,360	174,548
Capital grants, contributions and restricted interest	50,000	-	50,000
General revenues			
Property tax	663,123	-	663,123
Unrestricted state grants	858,101	-	858,101
Unrestricted investment earnings	1,940	110	2,050
Other	<u>50,008</u>	<u>67,395</u>	<u>117,403</u>
Total revenues	<u>2,443,069</u>	<u>157,918</u>	<u>2,600,987</u>
Program expenses			
Governmental activities			
Instruction	1,666,150	-	1,666,150
Support services	433,303	-	433,303
Non-instructional programs	-	158,401	158,401
Other expenses	<u>188,762</u>	<u>-</u>	<u>188,762</u>
Total expenses	<u>2,288,215</u>	<u>158,401</u>	<u>2,446,616</u>
Change in net assets	<u>\$ 154,854</u>	<u>\$ (483)</u>	<u>\$ 154,371</u>

Property tax and unrestricted state grants account for 59 percent of the total revenue. The District's expenses primarily relate to instruction and support services which account for 86 percent of the total expenses.

**Governmental Activities**

Revenues for governmental activities were \$2,325,674 and expenses were \$2,220,820. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available 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.

Figure A-5

	<u>Total and Net Cost of Governmental Activities</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 1,666,150	\$ 997,344
Support services	433,303	348,233
Non-instructional programs	-	-
Other expenses	<u>121,367</u>	<u>5,346</u>
Total expenses	<u>\$ 2,220,820</u>	<u>\$ 1,350,923</u>

- The cost financed by users of the District's programs was \$679,709.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$140,188.
- The net cost of governmental activities was financed with \$663,123 in property tax, \$858,101 in unrestricted state grants.

**Business-Type Activities**

Revenues of the District's business-type activities were \$157,918 and expenses were \$158,401. The District's business-type activities include the School Nutrition Fund and Enterprise Fund (Daycare/Preschool Program). Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

**Financial Analysis of the District's Funds**

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$875,768, well above last year's ending fund balances of \$766,566.

### **Governmental Fund Highlights**

- The District's increased General Fund financial position is the product of many factors. The District was very conservative with expenditures knowing that revenues would be down in FY04.
- The General Fund balance increased from \$661,777 to \$758,423 due in part to the decreased expenditures.

### **Proprietary Fund Highlights**

The Proprietary Funds balances decreased from \$29,192 at June 30, 2003 to \$28,709 at June 30, 2004, representing a decrease of approximately 2 percent. Both revenues and expenditures increased slightly during the year ended June 30, 2004.

### **Budgetary Highlights**

Over the course of the year, the Morning Sun Community School District amended its annual budget one time to reflect additional revenue and expenditures associated with a grant received and other necessary expenditures.

The District's revenues were \$137,465 less than budgeted receipts, a variance of 6%. The most significant variance resulted from the District receiving less in state aid than originally anticipated.

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

The District's expenditures did not exceed the certified budget in any of the functional areas nor did expenditures exceed the District's authorized spending authority.

### **Capital Asset and Debt Administration**

#### **Capital Assets**

At June 30, 2004, the District had invested \$410,461, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 12 percent from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was approximately \$41,000.

The original cost of the District's capital assets was \$1,325,981. Governmental funds account for \$1,260,836 with the remainder of \$65,145 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the buildings and improvements category. The District's buildings and improvements totaled \$610,250 at June 30, 2004, compared to \$523,687 reported at June 30, 2003. This significant increase resulted from a construction project financed by a grant received.

Figure A-6

	Capital Assets, Net of Depreciation						
	Governmental		Business-type		Total		Total Change 2003- 2004
	Activities		Activities		School District		
2004	2003	2004	2003	2004	2003		
Land	\$227,000	\$227,000	\$ -	\$ -	\$227,000	\$227,000	0.00%
Buildings and improvements	132,622	50,015	-	-	132,622	50,015	165.16%
Improvements, other than buildings	3,001	7,503	-	-	3,001	7,503	-60.00%
Furniture and equipment	<u>47,838</u>	<u>80,291</u>	<u>3,256</u>	<u>3,784</u>	<u>51,094</u>	<u>84,075</u>	-39.23%
Totals	<u>\$410,461</u>	<u>\$364,809</u>	<u>\$3,256</u>	<u>\$3,784</u>	<u>\$413,717</u>	<u>\$368,593</u>	12.24%

### Long-Term Debt

At June 30, 2004, the District did not have any outstanding debt.

### Economic Factors Bearing on the District's Future

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

- The District's assessed valuation has dropped \$4,679,509 (10.6%) in Jan. 2004 due to rollbacks and re-valuation of agriculture land. This affects revenue for operating along with PPEL Funds.
- The passing of the SILO Tax on March 2, 2004 was a positive fiscal highlight for FY04 for the Morning Sun Community School District. Bringing in revenue for the Capital Project Fund of approximately \$15,000 each year. Because the election was held after May 30, 2003, funds can be used according to PPEL Guidelines.
- The District has experienced stable enrollment for the past several years and expects this to continue.

## **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 Kim Booth, District Secretary/ Business Manager, Morning Sun Community School District, 311 Division Street, Morning Sun, Iowa 52640.

## Basic Financial Statements

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2004

Exhibit A

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents			
ISCAP	\$ 328,772	\$ -	\$ 328,772
Other	855,029	23,161	878,190
Receivables			
Property tax			
Delinquent	11,799	-	11,799
Succeeding year	611,609	-	611,609
Accrued interest	294	-	294
Accounts receivable	9,446	510	9,956
Due from other governments	9,855	-	9,855
Inventories	-	1,782	1,782
Capital assets, net of accumulated depreciation	410,461	3,256	413,717
Total assets	2,237,265	28,709	2,265,974
<b>LIABILITIES</b>			
Accounts payable	7,892	-	7,892
Deferred revenue - succeeding year property tax	611,609	-	611,609
ISCAP warrants payable	327,000	-	327,000
ISCAP unamortized premium	4,535	-	4,535
Total liabilities	951,036	-	951,036
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	410,461	3,256	413,717
Restricted for			
Management levy	22,805	-	22,805
Physical plant and equipment levy	30,973	-	30,973
Capital projects	63,567	-	63,567
Unrestricted	758,423	25,453	783,876
Total net assets	\$ 1,286,229	\$ 28,709	\$ 1,314,938

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

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2004

Exhibit B

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</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	\$ 1,616,924	\$ 342,571	\$ 25,923	\$ -	\$ (1,248,430)	\$ -	\$ (1,248,430)
Special instruction	49,226	259,138	41,174	-	251,086	-	251,086
	<u>1,666,150</u>	<u>601,709</u>	<u>67,097</u>	<u>-</u>	<u>(997,344)</u>	<u>-</u>	<u>(997,344)</u>
Support services							
Student services	87,282	-	-	-	(87,282)	-	(87,282)
Instructional staff services	21,409	-	-	-	(21,409)	-	(21,409)
Administration services	212,033	78,000	-	-	(134,033)	-	(134,033)
Operation and maintenance of plant services	72,531	-	7,070	-	(65,461)	-	(65,461)
Transportation services	40,048	-	-	-	(40,048)	-	(40,048)
	<u>433,303</u>	<u>78,000</u>	<u>7,070</u>	<u>-</u>	<u>(348,233)</u>	<u>-</u>	<u>(348,233)</u>
Other expenditures							
Facilities acquisition	46,625	-	-	50,000	3,375	-	3,375
AEA flowthrough	66,021	-	66,021	-	-	-	-
Depreciation (unallocated) *	8,721	-	-	-	(8,721)	-	(8,721)
	<u>121,367</u>	<u>-</u>	<u>66,021</u>	<u>50,000</u>	<u>(5,346)</u>	<u>-</u>	<u>(5,346)</u>
Total governmental activities	<u>2,220,820</u>	<u>679,709</u>	<u>140,188</u>	<u>50,000</u>	<u>(1,350,923)</u>	<u>-</u>	<u>(1,350,923)</u>

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

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2004

Exhibit B

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-type Activities	Total
Business-type activities							
Non-instructional programs							
Nutrition services	\$ 59,202	\$ 21,726	\$ 34,360	\$ -	\$ -	\$ (3,116)	\$ (3,116)
Daycare and preschool services	99,199	34,327	-	-	-	(64,872)	(64,872)
Total business-type activities	158,401	56,053	34,360	-	-	(67,988)	(67,988)
Total	<u>\$ 2,379,221</u>	<u>\$ 735,762</u>	<u>\$ 174,548</u>	<u>\$ 50,000</u>	<u>(1,350,923)</u>	<u>(67,988)</u>	<u>(1,418,911)</u>
<b><u>General Revenues</u></b>							
Property tax levied for							
General purposes					631,155	-	631,155
Capital outlay					31,968	-	31,968
Unrestricted state grants					858,101	-	858,101
Unrestricted investment earnings					1,940	110	2,050
Transfers					(67,395)	67,395	-
Gain on sale of capital assets					26,000	-	26,000
Other					24,008	-	24,008
Total general revenues					<u>1,505,777</u>	<u>67,505</u>	<u>1,573,282</u>
Change in net assets					154,854	(483)	154,371
Net assets, beginning of year, as restated					<u>1,131,375</u>	<u>29,192</u>	<u>1,160,567</u>
Net assets, end of year					<u>\$ 1,286,229</u>	<u>\$ 28,709</u>	<u>\$ 1,314,938</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.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
 Balance Sheet  
 Governmental Funds  
 June 30, 2004

Exhibit C

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and pooled investments			
ISCAP	\$ 328,772	\$ -	\$ 328,772
Other	741,007	114,022	855,029
Receivables			
Property tax			
Delinquent	11,131	668	11,799
Succeeding year	573,345	38,264	611,609
Accounts receivable	9,446	-	9,446
Accrued interest	294	-	294
Local option sales and services tax	-	2,655	2,655
Due from other governments	<u>7,200</u>	<u>-</u>	<u>7,200</u>
 Total assets and other debits	 <u>\$ 1,671,195</u>	 <u>\$ 155,609</u>	 <u>\$ 1,826,804</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts payable	\$ 7,892	\$ -	\$ 7,892
ISCAP warrants payable	327,000	-	327,000
ISCAP unamortized premium	4,535	-	4,535
Deferred revenue - Succeeding year property tax	<u>573,345</u>	<u>38,264</u>	<u>611,609</u>
Total liabilities	<u>912,772</u>	<u>38,264</u>	<u>951,036</u>
 Fund balances			
Unreserved, undesignated			
Special revenue fund types	-	53,778	53,778
Other governmental fund types	<u>758,423</u>	<u>63,567</u>	<u>821,990</u>
Total fund balances	<u>758,423</u>	<u>117,345</u>	<u>875,768</u>
 Total liabilities and fund balances	 <u>\$ 1,671,195</u>	 <u>\$ 155,609</u>	 <u>\$ 1,826,804</u>

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

MORNING SUN 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	\$ 875,768
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.	<u>410,461</u>
Net assets of governmental activities	<u>\$ 1,286,229</u>

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

MORNING SUN 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>Nonmajor Governmental Funds</u>	<u>Total</u>
<b>Revenues</b>			
Local sources			
Local tax	\$ 610,860	\$ 34,261	\$ 645,121
Local option sales and services tax	-	17,511	17,511
Tuition	529,136	-	529,136
Other	105,006	142	105,148
State sources	995,958	50,028	1,045,986
Federal sources	74,167	-	74,167
Total revenues	<u>2,315,127</u>	<u>101,942</u>	<u>2,417,069</u>
<b>Expenditures</b>			
Current			
Instruction			
Regular instruction	1,594,243	2,495	1,596,738
Special instruction	49,226	-	49,226
	<u>1,643,469</u>	<u>2,495</u>	<u>1,645,964</u>
Support services			
Student services	84,787	2,495	87,282
Instructional staff services	21,409	-	21,409
Administration services	186,595	25,438	212,033
Operation and maintenance of plant services	120,761	-	120,761
Transportation services	28,044	-	28,044
	<u>441,596</u>	<u>27,933</u>	<u>469,529</u>
Other expenditures			
Facilities acquisition	-	84,958	84,958
AEA flowthrough	66,021	-	66,021
	<u>66,021</u>	<u>84,958</u>	<u>150,979</u>
Total expenditures	<u>2,151,086</u>	<u>115,386</u>	<u>2,266,472</u>
Excess (deficiency) of revenues over (under) expenditures	<u>164,041</u>	<u>(13,444)</u>	<u>150,597</u>

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

MORNING SUN 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>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Other financing sources (uses)			
Proceeds from sale of real property	\$ -	\$ 26,000	\$ 26,000
Interfund operating transfers	<u>(67,395)</u>	<u>-</u>	<u>(67,395)</u>
Total other financing sources (uses)	<u>(67,395)</u>	<u>26,000</u>	<u>(41,395)</u>
Net change in fund balances	96,646	12,556	109,202
Fund balance, beginning of year	<u>661,777</u>	<u>104,789</u>	<u>766,566</u>
Fund balance, end of year	<u>\$ 758,423</u>	<u>\$ 117,345</u>	<u>\$ 875,768</u>

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

MORNING SUN 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 \$ 109,202

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	\$ 86,563	
Depreciation expense	<u>(40,911)</u>	<u>45,652</u>

Change in net assets of governmental activities \$ 154,854

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

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
Proprietary Funds  
June 30, 2004

Exhibit G

	Nonmajor Enterprise <u>Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 23,161
Accounts receivable	510
Inventories	1,782
Capital assets, net of accumulated depreciation	<u>3,256</u>
Total assets	<u>28,709</u>
<b>LIABILITIES</b>	
	<u>-</u>
<b>NET ASSETS</b>	
Invested in capital assets	3,256
Unrestricted	<u>25,453</u>
Total net assets	<u>\$ 28,709</u>

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

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended June 30, 2004

Exhibit H

	<u>Nonmajor Enterprise Funds</u>
Operating revenue	
Local sources	
Charges for service	<u>\$ 56,053</u>
Operating expenses	
Non-instructional programs	
Salaries	104,357
Benefits	23,596
Purchased services	5,705
Supplies	24,215
Depreciation	<u>528</u>
Total operating expenses	<u>158,401</u>
Operating loss	<u>(102,348)</u>
Non-operating revenues	
Interest income	110
Interfund operating transfer	67,395
State sources	893
Federal sources	<u>33,467</u>
Total non-operating revenues	<u>101,865</u>
Change in net assets	(483)
Net assets, beginning of year	<u>29,192</u>
Net assets, end of year	<u><u>\$ 28,709</u></u>

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

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2004

Exhibit I

	<u>Nonmajor Enterprise Funds</u>
Cash flows from operating activities	
Cash received from sale of lunches and breakfasts	\$ 21,726
Cash received from sale of other services	33,817
Cash payments to employees for services	(127,953)
Cash payments to suppliers for goods and services	<u>(25,766)</u>
Net cash used in operating activities	<u>(98,176)</u>
Cash flows from non-capital financing activities	
State grants received	893
Federal grants received	<u>27,859</u>
Net cash provided by non-capital financing activities	<u>28,752</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities	
Interfund operating transfers	67,395
Interest on investments	<u>110</u>
Net cash provided by investing activities	<u>67,505</u>
Net decrease in cash and cash equivalents	(1,919)
Cash and cash equivalents, beginning of year	<u>25,080</u>
Cash and cash equivalents, end of year	<u>\$ 23,161</u>
 <b>Reconciliation of operating loss to net cash used in operating activities</b>	
Operating loss	\$ (102,348)
Adjustments to reconcile operating loss to net cash used in operating activities	
Commodities used	5,608
Depreciation	528
Increase in accounts receivable	(510)
Increase in inventories	(1,106)
Decrease in accounts payable	<u>(348)</u>
Net cash used in operating activities	<u>\$ (98,176)</u>

**Non-cash investing, capital and financing activities**

During the year ended June 30, 2004, the District received \$5,608 of federal commodities.

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

# MORNING SUN COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2004

### **Note 1. Summary of Significant Accounting Policies**

The Morning Sun Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Students in grades 7-12 attend other local school districts under whole-grade sharing agreements with neighboring districts. The geographic area served includes the City of Morning Sun, Iowa, and the agricultural territory in Des Moines and Louisa 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, Morning Sun 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 Morning Sun 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 that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

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

The District reports the following major governmental funds:

The General Fund is the 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 District reports no major proprietary funds.

### C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the

current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

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

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

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

The proprietary 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.

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:

Buildings	50 years
Improvements to buildings	20-50 years
Furniture and equipment	4-12 years

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

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

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 did not exceed the amounts budgeted nor did the District 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 investments in the Iowa Schools Joint Investment Trust, which are valued at an amortized cost of \$558,756 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement Number 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

**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, Daycare & Preschool	General	\$ 67,395

These transfers were to move state foundation aid received for preschool students from the General Fund to the Enterprise Fund where expenditures for these students were recorded.

**Note 4. Iowa Schools Cash Anticipation Program (ISCAP)**

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

Series	Warrant Date	Final Warrant Maturity	Investments	Warrants Payable	Unamortized Premium
2004-05A	6/30/04	6/30/05	\$ 328,772	\$ 327,000	\$ 4,535

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In additions, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no ISCAP advance activity for the year ended June 30, 2004.

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

Series	Interest Rates on Warrants	Interest Rates on Investments
2003-04A	2.000%	2.6030%
2003-04B	2.000%	1.3920%
2004-05A	3.000%	2.4600%

### Note 5. Capital Assets

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

	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 227,000	\$ -	\$ -	\$ 227,000
Total capital assets, not being depreciated	<u>227,000</u>	<u>-</u>	<u>-</u>	<u>227,000</u>
Capital assets being depreciated:				
Buildings and improvements	523,687	86,563	-	610,250
Improvements other than buildings	102,868	-	-	102,868
Furniture and equipment	<u>320,718</u>	<u>-</u>	<u>-</u>	<u>320,718</u>
Total capital assets being depreciated	<u>947,273</u>	<u>86,563</u>	<u>-</u>	<u>1,033,836</u>
Less accumulated depreciation for:				
Buildings and improvements	473,672	3,956	-	477,628
Improvements other than buildings	95,365	4,502	-	99,867
Furniture and equipment	<u>240,427</u>	<u>32,453</u>	<u>-</u>	<u>272,880</u>
Total accumulated depreciation	<u>809,464</u>	<u>40,911</u>	<u>-</u>	<u>850,375</u>
Total capital assets being depreciated, net	<u>137,809</u>	<u>45,652</u>	<u>-</u>	<u>183,461</u>
Governmental activities capital assets, net	<u>\$ 364,809</u>	<u>\$ 45,652</u>	<u>\$ -</u>	<u>\$ 410,461</u>
<u>Business-type activities</u>				
Furniture and equipment	\$ 65,145	\$ -	\$ -	\$ 65,145
Less accumulated depreciation	<u>61,361</u>	<u>528</u>	<u>-</u>	<u>61,889</u>
Business-type activities capital assets, net	<u>\$ 3,784</u>	<u>\$ 528</u>	<u>\$ -</u>	<u>\$ 3,256</u>

Depreciation expense was charged to the following functions:

**Governmental activities**

Instruction	
Regular	\$ 20,186
Support services	
Transportation	12,004
Unallocated depreciation	<u>8,721</u>
Total governmental activities depreciation expense	<u>\$ 40,911</u>

**Business-type activities**

Food services	<u>\$ 528</u>
---------------	---------------

**Note 6. 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 \$72,012, \$57,238 and \$46,787 respectively, equal to the required contributions for each year.

**Note 7. 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 8. 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 \$66,021 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 9. 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:

	<u>Fund</u>		
	<u>General</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Net assets June 30, 2003, as previously reported	\$ 661,777	\$ 104,789	\$ 766,566
GASB Interpretation 6 adjustments	-	-	-
Net assets July 1, 2003, as restated for governmental funds	<u>\$ 661,777</u>	<u>\$ 104,789</u>	766,566
GASB 34 adjustments:			
Capital assets, net of accumulated depreciation of \$809,464			<u>364,809</u>
Net assets July 1, 2003, as restated			<u>\$ 1,131,375</u>

**Note 10. 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 additional sales tax of 1% of 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. Morning Sun Community School District anticipates receiving \$15,000 from this tax annually beginning with the fiscal year ending June 30, 2005.

Required Supplementary Information

MORNING SUN 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	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Funds Actual	Funds Actual		Original	Final	
Revenues						
Local sources	\$ 1,296,916	\$ 56,163	\$ 1,353,079	\$ 1,298,468	\$ 1,298,468	\$ 54,611
State sources	1,045,986	893	1,046,879	1,101,589	1,101,589	(54,710)
Federal sources	74,167	33,467	107,634	245,000	245,000	(137,366)
Total revenues	<u>2,417,069</u>	<u>90,523</u>	<u>2,507,592</u>	<u>2,645,057</u>	<u>2,645,057</u>	<u>(137,465)</u>
Expenditures						
Instruction	1,645,964	-	1,645,964	2,204,233	2,500,000	854,036
Support services	469,529	-	469,529	448,000	600,000	130,471
Non-instructional programs	-	158,401	158,401	143,391	250,000	91,599
Other expenditures	150,979	-	150,979	141,765	175,000	24,021
Total expenditures	<u>2,266,472</u>	<u>158,401</u>	<u>2,424,873</u>	<u>2,937,389</u>	<u>3,525,000</u>	<u>1,100,127</u>
Excess (deficiency) of revenues over (under) expenditures	150,597	(67,878)	82,719	(292,332)	(879,943)	962,662
Other financing sources, net	<u>(41,395)</u>	<u>67,395</u>	<u>26,000</u>	<u>-</u>	<u>-</u>	<u>26,000</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	109,202	(483)	108,719	(292,332)	(879,943)	988,662
Balance, beginning of year	<u>766,566</u>	<u>29,192</u>	<u>795,758</u>	<u>816,149</u>	<u>816,149</u>	<u>(20,391)</u>
Balance, end of year	<u>\$ 875,768</u>	<u>\$ 28,709</u>	<u>\$ 904,477</u>	<u>\$ 523,817</u>	<u>\$ (63,794)</u>	<u>\$ 968,271</u>

See accompanying Independent Auditor's Report.

MORNING SUN 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. Encumbrances are not recognized and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$587,611.

During the year ended June 30, 2004, District expenditures did not exceed the amounts budgeted in any of the four functions nor did the General Fund expenditures exceed the unspent authorized budget.

Other Supplementary Information

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2004

Schedule 1

	Special Revenue			
	Management	Physical Plant and Equipment	Capital Projects	Total
	Levy	Levy		
<b>ASSETS</b>				
Cash and pooled investments	\$ 22,419	\$ 30,691	\$ 60,912	\$ 114,022
Receivables				
Property tax				
Current year delinquent	386	282	-	668
Succeeding year	25,000	13,264	-	38,264
Local option sales and services tax	-	-	2,655	2,655
 Total assets	 \$ 47,805	 \$ 44,237	 \$ 63,567	 \$ 155,609
 <b>LIABILITIES AND FUND EQUITY</b>				
Liabilities				
Deferred revenue				
Succeeding year property tax	\$ 25,000	\$ 13,264	\$ -	\$ 38,264
 Fund Equity				
Unreserved fund balances	22,805	30,973	63,567	117,345
 Total liabilities and fund equity	 \$ 47,805	 \$ 44,237	 \$ 63,567	 \$ 155,609

See accompanying Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2004

Schedule 2

	Special Revenue			
		Physical Plant and Equipment	Capital Projects	
	Management Levy	Levy		Total
Revenues				
Local sources				
Local taxes	\$ 19,804	\$ 14,457	\$ -	\$ 34,261
Local sales and services tax	-	-	17,511	17,511
Other	41	101	-	142
State sources	16	50,012	-	50,028
Total revenues	19,861	64,570	17,511	101,942
Expenditures				
Current				
Instruction				
Regular program instruction	2,495	-	-	2,495
Support services				
Student support services	2,495	-	-	2,495
Administration services	25,438	-	-	25,438
Other expenditures				
Facilities acquisition and construction	-	80,379	4,579	84,958
Total expenditures	30,428	80,379	4,579	115,386
Excess (deficiency) of revenue over (under) expenditures	(10,567)	(15,809)	12,932	(13,444)
Other financing sources				
Proceeds from sale of real property	-	26,000	-	26,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(10,567)	10,191	12,932	12,556
Fund balances, beginning of year	33,372	20,782	50,635	104,789
Fund balances, end of year	\$ 22,805	\$ 30,973	\$ 63,567	\$ 117,345

See accompanying Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
 Combining Statement of Net Assets  
 Nonmajor Proprietary Funds  
 June 30, 2004

Schedule 3

	School Nutrition	Daycare & Preschool	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$17,837	\$ 5,324	\$23,161
Accounts receivable	-	510	510
Inventories	1,782	-	1,782
Capital assets, net of accumulated depreciation	<u>3,256</u>	<u>-</u>	<u>3,256</u>
Total assets	<u>22,875</u>	<u>5,834</u>	<u>28,709</u>
<b>LIABILITIES</b>			
	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET ASSETS</b>			
Invested in capital assets	3,256	-	3,256
Unrestricted	<u>19,619</u>	<u>5,834</u>	<u>25,453</u>
Total net assets	<u>\$22,875</u>	<u>\$ 5,834</u>	<u>\$28,709</u>

See accompanying Independent Auditor's Report.

MORNING SUN 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

	School Nutrition	Daycare & Preschool	Total
Operating revenue			
Local sources			
Charges for service	<u>\$ 21,726</u>	<u>\$ 34,327</u>	<u>\$ 56,053</u>
Operating expenses			
Non-instructional programs			
Salaries	27,993	76,364	104,357
Benefits	3,751	19,845	23,596
Purchased services	5,705	-	5,705
Supplies	21,225	2,990	24,215
Depreciation	<u>528</u>	<u>-</u>	<u>528</u>
Total operating expenses	<u>59,202</u>	<u>99,199</u>	<u>158,401</u>
Operating loss	<u>(37,476)</u>	<u>(64,872)</u>	<u>(102,348)</u>
Non-operating revenue			
Interest income	82	28	110
Interfund transfers	-	67,395	67,395
State sources	893	-	893
Federal sources	<u>33,467</u>	<u>-</u>	<u>33,467</u>
Total non-operating revenue	<u>34,442</u>	<u>67,423</u>	<u>101,865</u>
Change in net assets	(3,034)	2,551	(483)
Net assets, beginning of year	<u>25,909</u>	<u>3,283</u>	<u>29,192</u>
Net assets, end of year	<u>\$ 22,875</u>	<u>\$ 5,834</u>	<u>\$ 28,709</u>

See accompanying Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Combining Statement of Cash Flows  
Nonmajor Enterprise Funds  
For the Year Ended June 30, 2004

Schedule 5

	School Nutrition	Daycare & Preschool	Total
Cash flows from operating activities			
Cash received from sale of meals	\$ 21,726	\$ -	\$ 21,726
Cash received from sale of services	-	33,817	33,817
Cash payments to employees for services	(31,744)	(96,209)	(127,953)
Cash payments to suppliers for goods and services	<u>(22,776)</u>	<u>(2,990)</u>	<u>(25,766)</u>
Net cash used in operating activities	<u>(32,794)</u>	<u>(65,382)</u>	<u>(98,176)</u>
Cash flows from non-capital financing activities			
State grants received	893	-	893
Federal grants received	<u>27,859</u>	<u>-</u>	<u>27,859</u>
Net cash provided by non-capital financing activities	<u>28,752</u>	<u>-</u>	<u>28,752</u>
Cash flows from investing activities			
Interfund operating transfers	-	67,395	67,395
Interest on investments	<u>82</u>	<u>28</u>	<u>110</u>
Net cash provided by investing activities	<u>82</u>	<u>67,423</u>	<u>67,505</u>
Net increase (decrease) in cash and cash equivalents	(3,960)	2,041	(1,919)
Cash and cash equivalents, beginning of year	21,797	3,283	25,080
Cash and cash equivalents, end of year	<u>\$ 17,837</u>	<u>\$ 5,324</u>	<u>\$ 23,161</u>
Reconciliation of operating loss to net cash used in operating activities			
Operating loss	\$(37,476)	\$(64,872)	\$(102,348)
Adjustments to reconcile operating loss to net cash used in operating activities			
Commodities used	5,608	-	5,608
Depreciation	528	-	528
Increase in accounts receivable	-	(510)	(510)
Increase in inventories	(1,106)	-	(1,106)
Decrease in accounts payable	<u>(348)</u>	<u>-</u>	<u>(348)</u>
Net cash used in operating activities	<u>\$(32,794)</u>	<u>\$(65,382)</u>	<u>\$(98,176)</u>
Cash and cash equivalents, end of year	<u>\$ 17,837</u>	<u>\$ 5,324</u>	<u>\$ 23,161</u>

Non-cash investing, capital and financing activities: During the year ended June 30, 2004, the District received Federal commodities valued at \$5,608.

See accompanying Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Schedule of Revenues by Source and Expenditures by Function  
All Governmental Funds  
For the Last Four Years

Schedule 6

	Modified Accrual Basis			
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues				
Local sources				
Local tax	\$ 645,121	\$ 679,406	\$ 591,745	\$ 528,855
Local option sales and services tax	17,511	14,461	15,156	10,848
Tuition	529,136	674,768	521,082	105,391
Other	105,148	54,122	48,563	93,019
State sources	1,045,986	1,009,235	987,457	1,060,901
Federal sources	74,167	78,084	44,457	36,961
 Total revenues	 <u>\$ 2,417,069</u>	 <u>\$ 2,510,076</u>	 <u>\$ 2,208,460</u>	 <u>\$ 1,835,975</u>
 Expenditures				
Instruction				
Regular instruction	\$ 1,596,738	\$ 1,681,820	\$ 1,424,017	\$ 1,209,945
Special instruction	49,226	51,849	52,011	53,726
Support services				
Student services	87,282	98,222	92,030	88,907
Instructional staff services	21,409	17,465	19,291	15,636
Administration services	212,033	204,532	153,741	149,010
Operation and maintenance of plant services	120,761	110,803	102,835	121,008
Transportation services	28,044	25,007	22,246	19,089
Other expenditures				
Facilities acquisition	84,958	23,055	21,331	45,913
Long-term debt				
AEA flowthrough	66,021	70,551	71,675	74,421
 Total expenditures	 <u>\$ 2,266,472</u>	 <u>\$ 2,283,304</u>	 <u>\$ 1,959,177</u>	 <u>\$ 1,777,655</u>

See accompanying Independent Auditor's Report.

## KAY L. CHAPMAN, CPA PC

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Muscataine, Iowa 52761

563-264-1385

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

To the Board of Education  
Morning Sun Community School District  
Morning Sun, Iowa

I have audited the financial statements of the Morning Sun Community School District as of and for the year ended June 30, 2004, and have issued my report thereon dated August 3, 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 Morning Sun 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 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.
2. Certified Budget - Expenditures for the year ended June 30, 2004, did not exceed the amended amounts budgeted.

3. Questionable Disbursements - I noted no expenditures 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 - No business transactions between the District and District officials or employees were noted.
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 variances in the basic enrollment data certified to the Iowa 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 Morning Sun 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 Morning Sun 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 - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that the bank deposits, bank reconciliations, the posting of cash journals, payroll and payroll records are all done by the same person.

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

Response - We will investigate available alternatives and implement as deemed 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 Morning Sun 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 Morning Sun 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  
August 3, 2004

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Audit Staff  
June 30, 2004

This audit was performed by

Kay Chapman, CPA