

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

JUNE 30, 2004

WEST LIBERTY COMMUNITY SCHOOL DISTRICT
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WEST LIBERTY COMMUNITY SCHOOL DISTRICT
 Officials
 June 30, 2004

Name	Title	Expires
Board of Education		
(Before September 2003 Election)		
Bill Laughlin	Board President	2005
Fay Cline	Board Member	2003
Scott Harvey	Board Member	2003
Karen Lathrop	Board Member	2004
Joe Stiff	Board Member	2005
(After September 2003 Election)		
Bill Laughlin	Board President	2005
Karen Lathrop	Board Member	2004
Joe Stiff	Board Member	2005
Fay Cline	Board Member	2006
Scott Harvey	Board Member	2006
School Officials		
Rebecca Rodocker	Superintendent	2004
Tom Anderson	District Secretary/Treasurer	2004
Brian Gruhn	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
West Liberty Community School District
West Liberty, Iowa

I have audited the accompanying financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of West Liberty Community School District, West Liberty, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. 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, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of West Liberty 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 12 to the financial statements, during the year ended June 30, 2004, West Liberty 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 September 24, 2004 on my consideration of West Liberty Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 14 and 46 through 47 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 West Liberty 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 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in 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
September 24, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

West Liberty 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 West Liberty Community School 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 \$7,821,180 in fiscal 2003 to \$7,784,049 in fiscal 2004, while General Fund expenditures increased from \$7,340,354 in fiscal 2003 to \$7,832,010 in fiscal 2004. The District's General Fund balance decreased from \$2,015,992 in fiscal 2003 to \$1,965,191 in fiscal 2004, a 2.5% decrease.
- The decrease in General Fund revenues was attributable to a decrease in property tax and state grant revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits, restricted grant expenditures, and the addition of 11 staff to add programs or grade sections. One reason the General Fund balance decreased is because the negotiated salary and benefits settlement was greater than the District's increase in General Fund revenue for fiscal 2004. As a result, the District funded a portion of the current year General Fund salaries and benefits from the 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 \$27,470 in fiscal 2003 to \$20,266 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 West Liberty 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 West Liberty 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 West Liberty 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 non-major Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

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

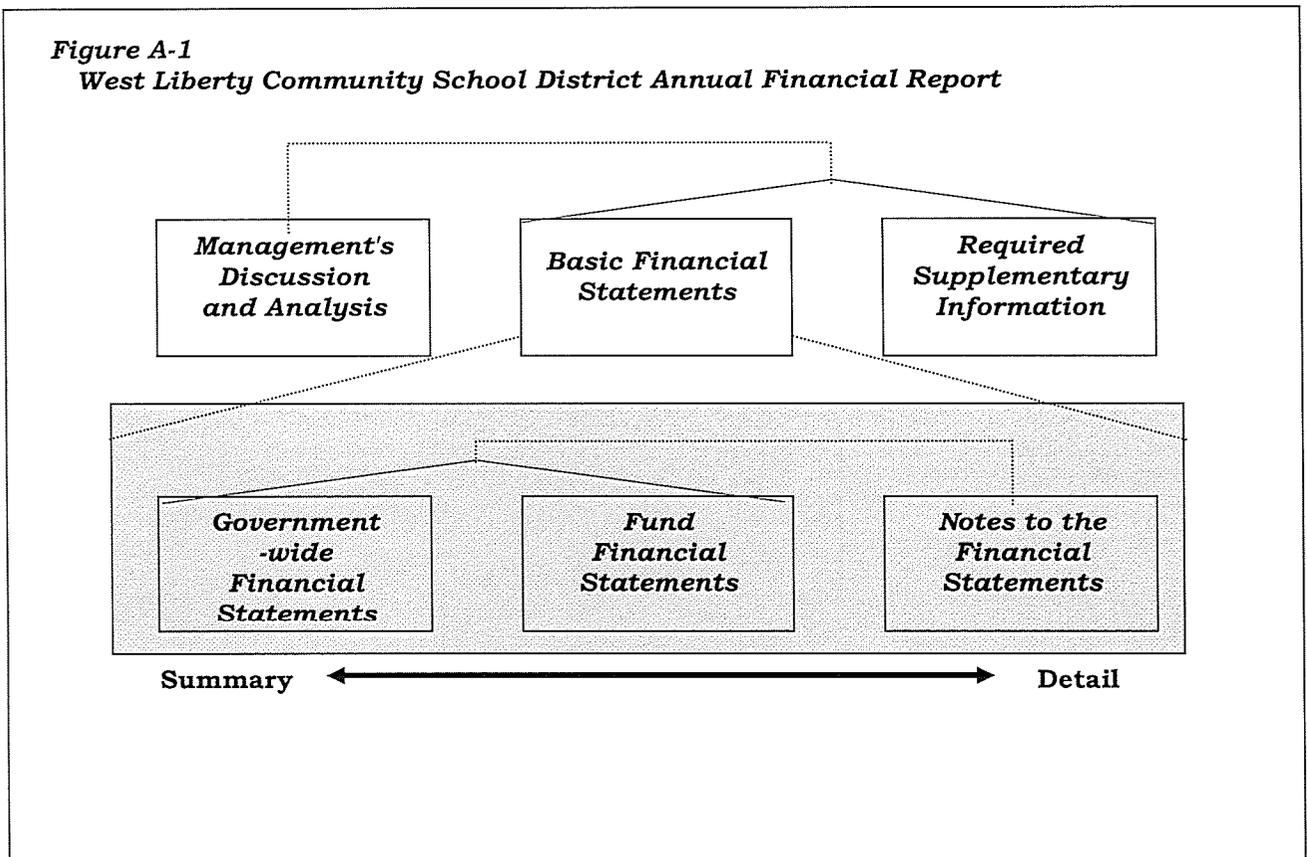


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses such as food services.	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 three categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.
- *Component Unit:* This includes the activities of the West Liberty Community School District Foundation. The District receives significant financial benefits from the Foundation although they are legally separate entities.

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 one Enterprise Fund, the School Nutrition Fund. Internal Service Funds, the other type of proprietary fund, are optional and available to report activities that provide supplies and services for other District programs and activities. The

District currently has one Internal Service Fund, the employee partial self-funding health insurance 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 and Agency Funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for past district employee’s on the district’s Group Health Insurance Program and related expenditures.

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.

Figure A-3

Condensed Statement of Net Assets

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2004	2003	2004	2003	2004	2003	2003-2004
Current and other assets	\$ 9,433,037	\$ 13,575,471	\$ 25,090	\$ 21,297	\$ 9,458,127	\$ 13,596,768	-30.44%
Capital assets	<u>9,253,012</u>	<u>4,569,094</u>	<u>33,951</u>	<u>44,194</u>	<u>9,286,963</u>	<u>4,613,288</u>	101.31%
Total assets	<u>18,686,049</u>	<u>18,144,565</u>	<u>59,041</u>	<u>65,491</u>	<u>18,745,090</u>	<u>18,210,056</u>	2.94%
Long-term obligations	8,436,675	8,872,270	-	-	8,436,675	8,872,270	0.00%
Other liabilities	<u>2,867,214</u>	<u>2,844,137</u>	<u>1,821</u>	<u>1,878</u>	<u>2,869,035</u>	<u>2,846,015</u>	0.81%
Total liabilities	<u>11,303,889</u>	<u>11,716,407</u>	<u>1,821</u>	<u>1,878</u>	<u>11,305,710</u>	<u>11,718,285</u>	-3.52%
Net assets							
Invested in capital assets, net of related debt	962,268	1,627,559	33,951	44,194	996,219	1,671,753	-40.41%
Restricted	4,462,212	2,784,607	-	-	4,462,212	2,784,607	60.25%
Unrestricted	<u>1,957,680</u>	<u>2,015,992</u>	<u>23,269</u>	<u>19,419</u>	<u>1,980,949</u>	<u>2,035,411</u>	-2.68%
Total net assets	<u>\$ 7,382,160</u>	<u>\$ 6,428,158</u>	<u>\$ 57,220</u>	<u>\$ 63,613</u>	<u>\$ 7,439,380</u>	<u>\$ 6,491,771</u>	14.60%

The District's combined net assets increased by nearly 15%, or \$947,609, over the prior year. The largest portion of the District's net assets is the investment 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 \$1,677,605, or approximately 60% over the prior year. The increase was primarily a result of the construction in progress of a new high school facility.

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 approximately \$54,462, or 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.

Figure A-4 Change in Net Assets			
	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total School</u> <u>District</u>
Revenues			
Program revenues			
Charges for service and sales	\$ 282,193	\$ 178,491	\$ 460,684
Operating grants, contributions and restricted interest	1,675,593	188,315	1,863,908
General revenues			
Property tax	3,762,079	-	3,762,079
Unrestricted state grants	3,949,492	-	3,949,492
Unrestricted investment earnings	133,356	190	133,546
Other	<u>54,515</u>	<u>-</u>	<u>54,515</u>
Total revenues	<u>9,857,228</u>	<u>366,996</u>	<u>10,224,224</u>
Program expenses			
Governmental activities			
Instruction	5,774,767	-	5,774,767
Support services	2,044,327	-	2,044,327
Non-instructional programs	-	373,389	373,389
Other expenses	<u>1,084,132</u>	<u>-</u>	<u>1,084,132</u>
Total expenses	<u>8,903,226</u>	<u>373,389</u>	<u>9,276,615</u>
Change in net assets	<u>\$ 954,002</u>	<u>\$ (6,393)</u>	<u>\$ 947,609</u>

Property tax and unrestricted state grants account for 75% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 84% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$9,857,228 and expenses were \$8,903,226.

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

Figure A-5
Total and Net Cost of Governmental Activities

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 5,774,767	\$ 4,538,787
Support services	2,044,327	2,035,505
Other expenses	<u>1,084,132</u>	<u>371,148</u>
Total expenses	<u>\$ 8,903,226</u>	<u>\$ 6,945,440</u>

- The cost financed by users of the District's programs was \$282,193.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,675,593.
- The net cost of governmental activities was financed with \$3,762,079 in property and other taxes and \$3,949,492 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$366,996 and expenses were \$373,389. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2004, the District had no increases in meal prices, however had to pay salary and benefit increases to food service staff. This increase resulted in increased using carryover funds to help pay ongoing salary and benefits.

INDIVIDUAL FUND ANALYSIS

As previously noted, West Liberty 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 \$6,482,973, well below last year's ending fund balances of \$10,623,350. The primary reason for the decrease in combined fund balances in fiscal 2004 is due to approximately \$4.8 million of expenditures from general obligation bond proceeds received in fiscal 2003.

Governmental Fund Highlights

- The District's General Fund financial position is the result of many factors. A decrease during the year in tax and grants resulted in a decrease in revenues. Additionally, the District's increase in General Fund expenditures required the District to use carryover fund balance to meet its financial obligations during the year.
- The General Fund balance decreased from \$2,015,992 to \$1,965,191, due in part to the negotiated salary and benefits settlement, the prior year reduction in state aid and existing expenditure commitments of the District.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$461,475 in fiscal 2003 to \$580,237 in fiscal 2004. While revenues slightly increased, the District encumbered funds for a major re-roof project at their middle school during the summer of 2004.
- The Capital Projects Fund balance decreased due to the expenditure of \$4,800,000 in general obligation and revenue bonds during fiscal 2004. The District ended fiscal 2003 with a balance of \$7,931,591 as a result of general obligation and revenue bond proceeds and preliminary project costs.
- The Debt Service Fund balance decreased from \$73,316 in fiscal year 2003 to \$9,696 in fiscal year 2004 in the districts attempt to use carryover funds to minimize the debt service property tax rate for fiscal year 2004.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$63,613 at June 30, 2003 to \$57,220 at June 30, 2004, representing a decrease of approximately .11%. For fiscal 2004, the District had no increase in meal prices and gave raises to food service staff resulting in the decrease in net assets.

BUDGETARY HIGHLIGHTS

Over the course of the year, West Liberty Community School District amended its annual budget one time to reflect additional expenditures.

The District's receipts were \$63,550 more than budgeted receipts, a variance of less than 1%. The most significant variance resulted from the District receiving more in federal aid than originally anticipated. However, the District received less state aid than anticipated due to an 2.5% across the board cut beginning in November 2003.

Total expenditures were less than budgeted. It is the Districts practice to budget the anticipated revenues and expenditures on a yearly basis. Therefore, the District had to amend its Instruction, Support Services, and Non-instructional programs components of Expenditures due to additional grant monies received, increase in Safety Group Insurance expenditures, purchase of a bus, and increase in school nutrition expenses.

In spite of the District amending the budget, the certified budget was exceeded in the non-instructional programs functional areas due to underestimating salary, benefits, and equipment purchases in the School Nutrition Fund.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$9.3 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 102% 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 \$246,783.

The original cost of the District's capital assets was \$8.9 million. Governmental funds account for \$8.7 million, with the remainder of \$0.2 million accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$5,639,622 at June 30, 2004, compared to \$802,603 reported at June 30, 2003. This significant increase resulted from construction activity financed by the issuance of voter approved general obligation bonds and revenue bonds totaling \$7,100,000 in fiscal 2003 for construction of a new high school.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2004	2003	2004	2003	2004	2003	2003-2004
Land	\$ 462,833	\$ 462,833	\$ -	\$ -	\$ 462,833	\$ 462,833	0.0
Construction in progress	5,639,622	802,603	-	-	5,639,622	802,603	602.6
Buildings and improvements	1,623,264	1,794,259	-	-	1,623,264	1,794,259	-9.5
Improvements, other than buildings	117,945	119,169	-	-	117,945	119,169	-1.0
Furniture and equipment	<u>1,409,348</u>	<u>1,390,230</u>	<u>33,951</u>	<u>44,194</u>	<u>1,443,299</u>	<u>1,434,424</u>	0.6
Totals	<u>\$9,253,012</u>	<u>\$4,569,094</u>	<u>\$33,951</u>	<u>\$44,194</u>	<u>\$9,286,963</u>	<u>\$4,613,288</u>	101.3

Long-Term Debt

At June 30, 2004, the District had \$8,436,675 in general obligation, revenue and other long-term debt outstanding. This represents a decrease of approximately 4.9% 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 District also had total outstanding Capital Lease debt payable from the Physical Plant and Equipment Levy Fund of \$20,744 at June 30, 2004.

Figure A-7
Outstanding Long-term Obligations

	Total		Total
	School District		Change
	2004	2003	2003-2004
General obligation bonds	\$ 6,430,000	\$ 6,570,000	-2.13%
Revenue bonds	1,840,000	2,100,000	-12.38%
Capital lease	20,744	38,932	-46.72%
Early retirement	120,420	136,529	-11.80%
Compensated absences	<u>25,511</u>	<u>26,809</u>	-4.84%
Total	<u>\$ 8,436,675</u>	<u>\$ 8,872,270</u>	-4.91%

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:

- Muscatine, Cedar, and Johnson Counties have advised the District that the District's total taxable valuation will decrease 20 percent for property tax collected in fiscal 2005, due primarily devaluation of farm land values.
- Iowa Legislatures have set allowable growth for 4% for 2005-2006.
- Due to 105 kindergarteners registering for 2004-2005, a fifth section of kindergarten had to be added before the start of the school year.
- The District expects a continued increase in enrollment due to new housing developments in progress within the District and a Desegregation Policy implemented July 1, 2004.
- Fiscal 2004 is the first year of a two-year contract with the West Liberty Education Association (WLEA). The District will negotiate a new agreement during fiscal 2005. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.
- During fiscal year 2005, the District will complete a major new construction project, a new high school.

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 Tom Anderson, Business Manager and Board Secretary/Treasurer, West Liberty Community School District, 823 N Elm St, West Liberty, Iowa, 52776.

Basic Financial Statements

WEST LIBERTY COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2004

Exhibit A

ASSETS	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Unit Foundation
Cash and cash equivalents	\$ 6,545,332	\$ 21,281	\$ 6,566,613	\$ 1,907,837
Receivables				
Property tax				
Delinquent	59,653	-	59,653	-
Succeeding year	2,696,123	-	2,696,123	-
Accounts receivable	3,755	-	3,755	-
Accrued interest	85	-	85	-
Due from other governments	128,089	-	128,089	-
Inventories	-	3,809	3,809	-
Capital assets, net of accumulated depreciation	9,253,012	33,951	9,286,963	-
Total assets	18,686,049	59,041	18,745,090	1,907,837
LIABILITIES				
Accounts payable	5,849	-	5,849	-
Salaries and benefits payable	94,927	1,821	96,748	-
Accrued interest payable	70,315	-	70,315	-
Deferred revenue - succeeding year property tax	2,696,123	-	2,696,123	-
Long-term liabilities				
Portion due within one year				
Bonds payable	250,000	-	250,000	-
Revenue bonds payable	495,000	-	495,000	-

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

WEST LIBERTY COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2004

Exhibit A

	Primary Government			Component Unit Foundation
	Governmental Activities	Business-type Activities	Total	
LIABILITIES (continued)				
Long-term liabilities (continued)				
Portion due within one year (continued)				
Capital lease payable	\$ 20,744	\$ -	\$ 20,744	\$ -
Compensated absences payable	25,511	-	25,511	-
Early retirement payable	94,338	-	94,338	-
Portion due after one year				
Bonds payable	6,180,000	-	6,180,000	-
Revenue bonds payable	1,345,000	-	1,345,000	-
Early retirement payable	26,082	-	26,082	-
Total liabilities	<u>11,303,889</u>	<u>1,821</u>	<u>11,305,710</u>	<u>-</u>
NET ASSETS				
Invested in capital assets, net of related debt	962,268	33,951	996,219	-
Restricted for				
Capital projects	3,812,389	-	3,812,389	-
Physical plant and equipment levy	580,237	-	580,237	-
Other special revenue purposes	69,586	-	69,586	-
Unrestricted	<u>1,957,680</u>	<u>23,269</u>	<u>1,980,949</u>	<u>1,907,837</u>
Total net assets	<u>\$ 7,382,160</u>	<u>\$ 57,220</u>	<u>\$ 7,439,380</u>	<u>\$ 1,907,837</u>

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

WEST LIBERTY COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2004

Exhibit B

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>	Primary Government			<u>Foundation</u>
					<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	
Primary Government								
Governmental activities								
Instruction								
Regular instruction	\$ 3,930,462	\$249,495	\$ 477,848	\$ -	\$(3,203,119)	\$ -	\$(3,203,119)	\$ -
Special instruction	1,374,987	25,652	451,479	-	(897,856)	-	(897,856)	-
Other instruction	<u>469,318</u>	<u>-</u>	<u>31,506</u>	<u>-</u>	<u>(437,812)</u>	<u>-</u>	<u>(437,812)</u>	<u>-</u>
	<u>5,774,767</u>	<u>275,147</u>	<u>960,833</u>	<u>-</u>	<u>(4,538,787)</u>	<u>-</u>	<u>(4,538,787)</u>	<u>-</u>
Support services								
Student services	198,062	-	-	-	(198,062)	-	(198,062)	-
Instructional staff services	304,630	4,585	1,461	-	(298,584)	-	(298,584)	-
Administration services	728,013	-	-	-	(728,013)	-	(728,013)	-
Operation and maintenance of plant services	513,234	73	-	-	(513,161)	-	(513,161)	-
Transportation services	288,963	2,388	315	-	(286,260)	-	(286,260)	-
Central support services	<u>11,425</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,425)</u>	<u>-</u>	<u>(11,425)</u>	<u>-</u>
	<u>2,044,327</u>	<u>7,046</u>	<u>1,776</u>	<u>-</u>	<u>(2,035,505)</u>	<u>-</u>	<u>(2,035,505)</u>	<u>-</u>
Other expenditures								
Facilities acquisition	64,566	-	399,353	-	334,787	-	334,787	-
Long-term debt interest	526,152	-	-	-	(526,152)	-	(526,152)	-
AEA flowthrough	313,631	-	-	-	(313,631)	-	(313,631)	-
Depreciation (unallocated)*	<u>179,783</u>	<u>-</u>	<u>313,631</u>	<u>-</u>	<u>133,848</u>	<u>-</u>	<u>133,848</u>	<u>-</u>
	<u>1,084,132</u>	<u>-</u>	<u>712,984</u>	<u>-</u>	<u>(371,148)</u>	<u>-</u>	<u>(371,148)</u>	<u>-</u>
Total governmental activities	<u>8,903,226</u>	<u>282,193</u>	<u>1,675,593</u>	<u>-</u>	<u>(6,945,440)</u>	<u>-</u>	<u>(6,945,440)</u>	<u>-</u>

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

WEST LIBERTY 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			Component Unit
Functions/Programs (continued)	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-type Activities	Total	Foundation
Primary Government (continued)								
Business-type activities								
Non-instructional programs								
Food service operations	\$ 373,389	\$178,491	\$ 188,315	\$ -	\$ -	\$ (6,583)	\$ (6,583)	\$ -
Total primary government	<u>\$ 9,276,615</u>	<u>\$460,684</u>	<u>\$1,863,908</u>	<u>\$ -</u>	<u>\$(6,945,440)</u>	<u>\$ (6,583)</u>	<u>\$(6,952,023)</u>	<u>\$ -</u>
Component Unit								
Foundation	\$ 49,664	\$556,793	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 507,129
General Revenues								
Property tax levied for								
General purposes					2,511,262	-	2,511,262	-
Debt service					270,852	-	270,852	-
Capital outlay					979,965	-	979,965	-
Unrestricted state grants					3,949,492	-	3,949,492	-
Unrestricted investment earnings					133,356	190	133,546	-
Other					54,515	-	54,515	-
Total general revenues					<u>7,899,442</u>	<u>190</u>	<u>7,899,632</u>	<u>-</u>
Change in net assets					954,002	(6,393)	947,609	507,129
Net assets, beginning of year, as restated					<u>6,428,158</u>	<u>63,613</u>	<u>6,491,771</u>	<u>1,400,708</u>
Net assets, end of year					<u>\$ 7,382,160</u>	<u>\$ 57,220</u>	<u>\$ 7,439,380</u>	<u>\$ 1,907,837</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.

WEST LIBERTY COMMUNITY SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2004

Exhibit C

	Capital Projects				
	General	High School Building	Local Option Sales and Services Tax	Nonmajor Governmental Funds	Total
ASSETS					
Cash and pooled investments	\$ 1,928,376	\$ 3,027,312	\$ 742,515	\$ 693,964	\$ 6,392,167
Receivables					
Property tax					
Delinquent	48,224	-	-	11,429	59,653
Succeeding year	2,193,666	-	-	502,457	2,696,123
Accounts receivable	3,755	-	-	-	3,755
Accrued interest	85	-	-	-	85
Due from other governments	84,934	-	43,155	-	128,089
Total assets and other debits	<u>\$ 4,259,040</u>	<u>\$ 3,027,312</u>	<u>\$ 785,670</u>	<u>\$ 1,207,850</u>	<u>\$ 9,279,872</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 5,256	\$ 593	\$ -	\$ -	\$ 5,849
Salaries and benefits payable	94,927	-	-	-	94,927
Deferred revenue - Succeeding year property tax	2,193,666	-	-	502,457	2,696,123
Total liabilities	<u>2,293,849</u>	<u>593</u>	<u>-</u>	<u>502,457</u>	<u>2,796,899</u>
Fund balances					
Reserved for					
Talented and gifted	3,218	-	-	-	3,218
Special purpose	10,749	-	-	59,600	70,349
Debt service	-	-	210,000	9,696	219,696
Unreserved, undesignated					
Special revenue funds	-	-	-	636,097	636,097
Other governmental	1,951,224	3,026,719	575,670	-	5,553,613
Total fund balances	<u>1,965,191</u>	<u>3,026,719</u>	<u>785,670</u>	<u>705,393</u>	<u>6,482,973</u>
Total liabilities and fund balances	<u>\$ 4,259,040</u>	<u>\$ 3,027,312</u>	<u>\$ 785,670</u>	<u>\$ 1,207,850</u>	<u>\$ 9,279,872</u>

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

WEST LIBERTY 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	\$ 6,482,973
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.	9,253,012
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.	(70,315)
Long-term liabilities, including early retirement, bonds payable, capital leases and compensated absences are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(8,436,675)
The Internal Service Fund is used by management to charge the costs of funding of the District's employee health insurance plan. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the Statement of Net Assets.	<u>153,165</u>
Net assets of governmental activities	<u><u>\$ 7,382,160</u></u>

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

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

Exhibit E

	Capital Projects				
	General	High School Building	Local Option Sales and Services Tax	Nonmajor Governmental Funds	Total
Revenues					
Local sources					
Local tax	\$ 2,344,101	\$ -	\$ 611,465	\$ 777,348	\$ 3,732,914
Tuition	84,354	-	-	-	84,354
Other	111,978	101,446	4,976	158,249	376,649
State sources	4,638,528	-	-	5,494	4,644,022
Federal sources	605,088	374,836	-	24,517	1,004,441
Total revenues	7,784,049	476,282	616,441	965,608	9,842,380
Expenditures					
Current					
Instruction					
Regular instruction	3,818,596	-	-	98,995	3,917,591
Special instruction	1,404,202	-	-	-	1,404,202
Other instruction	322,540	-	-	153,056	475,596
	5,545,338	-	-	252,051	5,797,389
Support services					
Student services	198,062	-	-	-	198,062
Instructional staff services	324,869	-	-	-	324,869
Administration services	729,971	-	-	-	729,971
Operation and maintenance of plant services	487,184	-	-	32,401	519,585
Transportation services	232,955	-	-	33,213	266,168
Central support services	-	-	-	11,425	11,425
	1,973,041	-	-	77,039	2,050,080

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

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

Exhibit E

		Capital Projects			
	General	High School Building	Local Option Sales and Services Tax	Nonmajor Governmental Funds	Total
Expenditures (continued)					
Other expenditures					
Facilities acquisition	\$ -	\$ 4,800,519	\$ -	\$ 101,661	\$ 4,902,180
Long-term debt					
Principal	-	-	-	418,188	418,188
Interest and fiscal charges	-	-	-	501,289	501,289
AEA flowthrough	313,631	-	-	-	313,631
	313,631	4,800,519	-	1,021,138	6,135,288
Total expenditures	7,832,010	4,800,519	-	1,350,228	13,982,757
Excess (deficiency) of revenues over (under) expenditures	(47,961)	(4,324,237)	616,441	(384,620)	(4,140,377)
Other financing sources (uses)					
Interfund operating transfers in (out)	(5,000)	-	(411,406)	416,406	-
Net change in fund balances	(52,961)	(4,324,237)	205,035	31,786	(4,140,377)
Fund balance, beginning of year	2,018,152	7,350,956	580,635	673,607	10,623,350
Fund balance, end of year	\$ 1,965,191	\$ 3,026,719	\$ 785,670	\$ 705,393	\$ 6,482,973

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

WEST LIBERTY 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 \$ (4,140,377)

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 not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 4,917,658	
Depreciation expense	<u>(233,740)</u>	4,683,918

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. 418,188

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	16,109	
Compensated absences	<u>1,298</u>	17,407

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. (24,863)

The Internal Service Fund is used by management to charge the costs of the District's employee health insurance plan. The change in net assets of the Internal Service Fund is reported with governmental activities. (271)

Change in net assets of governmental activities \$ 954,002

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

WEST LIBERTY COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
Proprietary Funds
June 30, 2004

Exhibit G

	<u>Business-type Activity</u>	<u>Governmental Activity</u>	
	<u>Nonmajor Enterprise</u>	<u>Internal Service</u>	<u>Total</u>
ASSETS			
Cash and pooled investments	\$ 21,281	\$ 153,165	\$ 174,446
Inventories	3,809	-	3,809
Capital assets, net of accumulated depreciation	<u>33,951</u>	<u>-</u>	<u>33,951</u>
Total assets	<u>59,041</u>	<u>153,165</u>	<u>212,206</u>
LIABILITIES			
Salaries and benefits payable	<u>1,821</u>	<u>-</u>	<u>1,821</u>
NET ASSETS			
Invested in capital assets, net of related debt	33,951	-	33,951
Unrestricted	<u>23,269</u>	<u>153,165</u>	<u>176,434</u>
Total net assets	<u>\$ 57,220</u>	<u>\$ 153,165</u>	<u>\$ 210,385</u>

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

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

Exhibit H

	<u>Business-type</u> <u>Activity</u> <u>Nonmajor</u> <u>Enterprise</u>	<u>Governmental</u> <u>Activity</u> <u>Internal</u> <u>Service</u>	<u>Total</u>
Operating revenue			
Local sources			
Charges for service	\$ 178,491	\$ -	\$ 178,491
Employee contributions	-	85,424	85,424
Total operating revenue	<u>178,491</u>	<u>85,424</u>	<u>263,915</u>
Operating expenses			
Non-instructional programs			
Salaries	149,745	-	149,745
Benefits	58,594	77,297	135,891
Purchased services	3,859	8,398	12,257
Supplies	148,002	-	148,002
Miscellaneous	146	-	146
Depreciation	13,043	-	13,043
Total operating expenses	<u>373,389</u>	<u>85,695</u>	<u>459,084</u>
Operating loss	<u>(194,898)</u>	<u>(271)</u>	<u>(195,169)</u>
Non-operating revenues			
Interest income	190	-	190
State sources	5,783	-	5,783
Federal sources	182,532	-	182,532
Total non-operating revenues	<u>188,505</u>	<u>-</u>	<u>188,505</u>
Change in net assets	(6,393)	(271)	(6,664)
Net assets, beginning of year, as restated	<u>63,613</u>	<u>153,436</u>	<u>217,049</u>
Net assets, end of year	<u>\$ 57,220</u>	<u>\$153,165</u>	<u>\$ 210,385</u>

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

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

Exhibit I

	Business-type Activity Nonmajor Enterprise	Governmental Activity Internal Service	Total
Cash flows from operating activities			
Cash received from sale of lunches and breakfasts	\$ 178,491	\$ -	\$ 178,491
Cash received from miscellaneous operating activities	-	85,424	85,424
Cash payments to employees for services	(208,125)	(77,297)	(285,422)
Cash payments to suppliers for goods and services	(129,896)	(8,398)	(138,294)
Net cash used in operating activities	(159,530)	(271)	(159,801)
Cash flows from non-capital financing activities			
State grants received	5,783	-	5,783
Federal grants received	162,290	-	162,290
Net cash provided by non-capital financing activities	168,073	-	168,073
Cash flows from capital and related financing activities			
Acquisition of capital assets	(2,800)	-	(2,800)
Cash flows from investing activities			
Interest on investments	190	-	190
Net increase (decrease) in cash and cash equivalents	5,933	(271)	5,662
Cash and cash equivalents, beginning of year	15,348	153,436	168,784
Cash and cash equivalents, end of year	\$ 21,281	\$ 153,165	\$ 174,446
 Reconciliation of operating loss to net cash used in operating activities			
Operating loss	\$(194,898)	\$ (271)	\$(195,169)
Adjustments to reconcile operating loss to net cash used in operating activities			
Commodities used	20,242	-	20,242
Depreciation	13,043	-	13,043
Decrease in inventories	1,869	-	1,869
Increase in salaries and benefits payable	214	-	214
Net cash used in operating activities	\$(159,530)	\$ (271)	\$(159,801)

Non-cash investing, capital and financing activities

During the year ended June 30, 2004, the District received \$20,242 of federal commodities.

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

WEST LIBERTY COMMUNITY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

Exhibit J

	<u>Private Purpose Trust</u>	<u>Agency</u>
	<u>Student Groups</u>	
Assets		
Cash and pooled investments	\$ 4,520	\$ 1,977
Accrued interest receivable	79	-
Total assets	<u>4,599</u>	<u>1,977</u>
Liabilities		
Due to others	<u>-</u>	<u>1,977</u>
Net assets		
Reserved	<u>\$ 4,599</u>	<u>\$ -</u>

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

WEST LIBERTY COMMUNITY SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2004

Exhibit K

	<u>Private Purpose Trust</u> <u>Student Groups</u>
Additions	
Local sources	
Gifts and contributions	\$ 5,291
Other	817
Interest	43
Total additions	<u>6,151</u>
 Deductions	
Instruction	
Supplies	2,268
Support services	
Salaries	88
Benefits	12
Purchased services	1,000
Supplies	106
Non-instructional programs	
Salaries	720
Benefits	97
Total deductions	<u>4,291</u>
 Change in net assets	 1,860
Net assets, beginning of year, as restated	<u>2,739</u>
 Net assets, end of year	 <u>\$ 4,599</u>

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

WEST LIBERTY COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2004

Note 1. Summary of Significant Accounting Policies

The West Liberty 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 City of West Liberty, Iowa, and the agricultural territory in Cedar, Johnson 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, West Liberty 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.

These financial statements present the West Liberty Community School District (the primary government) and its component unit. The component unit discussed below is included in the District's reporting entity because of the significance of its operational or financial relationship with the District.

Discretely Presented Component Unit

The West Liberty Community School District Foundation was created to raise money through contributions and fundraisers to benefit the District. The Foundation is a separate legal entity with its own accounting records and board of trustees. The Foundation does not produce separately prepared financial statements. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be discretely presented. The Foundation is accounted for as a Governmental Fund in these financial statements.

Jointly Governed Organizations

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 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 Capital Projects Funds are used to account for all resources used in the acquisition and construction of capital facilities.

The District reports no proprietary funds as major. However, the District reports a nonmajor proprietary fund. The Internal Service Fund is utilized to account for employee health insurance benefits.

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 various student groups.

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

C. Measurement Focus and Basis of Accounting

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

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, early retirement benefits, compensated absences 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	\$25,000
Improvements other than buildings	\$25,000
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	50 years
Site improvements	15 years
Improvements to buildings	20 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Teacher contracts and payroll for hourly employees are paid at June 30; however, the benefits on these payments are not paid until July. Therefore, these benefits have been accrued as liabilities.

Compensated Absences - District employees receive specified amounts of vacation and sick leave benefits annually, to be used by the end of the fiscal year. Vacation and sick leave benefits do not accumulate from year to year. However, the benefits are payable upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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 property tax receivables not collected within sixty days after year end.

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

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

Designated Fund Balances - In the fund financial statements the District has designated a portion of its fund balance for special purposes as designated by the Board.

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 exceeded the amount budgeted in the non-instructional programs function. 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 investments in the Iowa Schools Joint Investment Trust, which are valued at an amortized cost of \$147,374 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>
Physical Plant and Equipment Levy	General	\$ 5,000
Capital Projects	Physical Plant and Equipment Levy	36,500
Debt Service	Capital Projects	411,406
Debt Service	Physical Plant and Equipment Levy	<u>172,617</u>
		<u>\$ 625,523</u>

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

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	\$ 462,833	\$ -	\$ -	\$ 462,833
Construction in progress	<u>802,603</u>	<u>4,837,019</u>	-	<u>5,639,622</u>
Total capital assets, not being depreciated	<u>1,265,436</u>	<u>4,837,019</u>	-	<u>6,102,455</u>
Capital assets being depreciated:				
Buildings and improvements	6,587,193	-	-	6,587,193
Improvements other than buildings	128,662	-	-	128,662
Furniture and equipment	<u>2,020,861</u>	<u>80,639</u>	-	<u>2,101,500</u>
Total capital assets being depreciated	<u>8,736,716</u>	<u>80,639</u>	-	<u>8,817,355</u>
Less accumulated depreciation for:				
Buildings and improvements	4,792,934	170,995	-	4,963,929
Improvements other than buildings	9,493	1,224	-	10,717
Furniture and equipment	<u>630,631</u>	<u>61,521</u>	-	<u>692,152</u>
Total accumulated depreciation	<u>5,433,058</u>	<u>233,740</u>	-	<u>5,666,798</u>
Total capital assets being depreciated, net	<u>3,303,658</u>	<u>(153,101)</u>	-	<u>3,150,557</u>
Governmental activities capital assets, net	<u>\$ 4,569,094</u>	<u>\$ 4,683,918</u>	<u>\$ -</u>	<u>\$ 9,253,012</u>

Business-type activities

Furniture and equipment	\$ 167,936	\$ 2,800	\$ -	\$ 170,736
Less accumulated depreciation	<u>123,742</u>	<u>13,043</u>	<u>-</u>	<u>136,785</u>
Business-type activities capital assets, net	<u>\$ 44,194</u>	<u>\$ (10,243)</u>	<u>\$ -</u>	<u>\$ 33,951</u>

Depreciation expense was charged to the following functions:

Governmental activities

Instruction	
Regular	\$ 19,422
Special	5,668
Other	3,136
Support services	
Instructional staff	1,476
Administration	1,800
Operation and maintenance of plant	44
Transportation	22,411
Unallocated depreciation	<u>179,783</u>

Total governmental activities depreciation expense \$ 233,740

Business-type activities

Food services	<u>\$ 13,043</u>
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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 \$771,138. Also, the beginning balance of the Enterprise, School Nutrition Fund was increased by \$31,176 to reflect capital assets, net of accumulated depreciation that had not been previously reported.

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
General obligation bonds	\$ 6,570,000	\$ -	\$(140,000)	\$ 6,430,000	\$ 250,000
Revenue bonds	2,100,000	-	(260,000)	1,840,000	235,000
Capital lease	38,932	-	(18,188)	20,744	20,744
Early retirement	136,529	52,164	(68,273)	120,420	94,338
Compensated absences	26,809	-	(1,298)	25,511	-
Totals	<u>\$ 8,872,270</u>	<u>\$ 52,164</u>	<u>\$(487,759)</u>	<u>\$ 8,436,675</u>	<u>\$ 500,082</u>

Early retirement

A certified District employee is eligible for this program when a) the sum of his/her total years of teaching and age equals eighty-eight with at least twelve years of continuous service to the District or b) the employee is fifty-five or older with at least twelve years of continuous service to the District. The benefit amount is equivalent to fifty percent of the employee's base salary at the time of retirement. The following terms apply to the first, second and third years of eligibility:

Eligibility Year 1	100% of 50% of base
Eligibility Year 2	50% of 50% of base
Eligibility Year 3	33% of 50% of base

The employee must notify the Board by March 1st to receive the early retirement benefit. At June 30, 2004 the maximum accumulated early retirement pay is \$120,420 and eleven individuals are receiving the benefit. Early retirement expenditures for the year ended June 30, 2004 totaled \$68,273.

Compensated Absences

District employees accumulate vacation and compensatory hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as expenditures by the District until used or paid. The District's approximate maximum liability for unrecognized accrued employee benefits at June 30, 2004 is \$25,511.

Capital Lease

The District has entered into a contractual agreement for musical instruments in the amount of \$62,592. This agreement represents a lease-purchase agreement and, in substance, is a capital lease as ownership of the property transfers to the District at the end of the lease term. The agreement has no stated interest rate. The lease had a balance of \$20,744 at June 30, 2004 and is scheduled to be repaid during the year ending June 30, 2005, with implied interest of \$2,916.

Bonds Payable

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

Year Ending June 30,	<u>October 1, 1997</u>				<u>December 2, 2002</u>			
	Interest Rates	Principal	Interest	Total	Interest Rates	Principal	Interest	Total
2005	4.55 %	\$ 150,000	\$ 69,335	\$ 219,335	3.500 %	\$ 100,000	\$ 217,400	\$ 317,400
2006	4.65	160,000	62,510	222,510	3.500	100,000	213,900	313,900
2007	4.75	160,000	55,070	215,070	3.500	100,000	210,400	310,400
2008	4.80	175,000	47,470	222,470	3.625	100,000	206,900	306,900
2009	4.90	180,000	39,070	219,070	3.750	100,000	203,276	303,276
2010	5.00	190,000	30,250	220,250	4.000	100,000	199,526	299,526
2011	5.00	200,000	20,750	220,750	4.000	105,000	195,526	300,526
2012	5.00	215,000	10,750	225,750	4.000	110,000	191,326	301,326
2013		-	-	-	4.000	345,000	186,926	531,926
2014		-	-	-	4.100	360,000	173,126	533,126
2015		-	-	-	4.200	375,000	158,366	533,366
2016		-	-	-	4.300	390,000	142,616	532,616
2017		-	-	-	4.400	405,000	125,846	530,846
2018		-	-	-	4.500	425,000	108,026	533,026
2019		-	-	-	4.600	440,000	88,900	528,900
2020		-	-	-	4.700	460,000	68,660	528,660
2021		-	-	-	4.750	480,000	47,040	527,040
2022		-	-	-	4.800	505,000	24,240	529,240
Totals		<u>\$ 1,430,000</u>	<u>\$ 335,205</u>	<u>\$ 1,765,205</u>		<u>\$ 5,000,000</u>	<u>\$ 2,762,000</u>	<u>\$ 7,762,000</u>

Year Ending June 30.	Total		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 250,000	\$ 286,735	\$ 536,735
2006	260,000	276,410	536,410
2007	260,000	265,470	525,470
2008	275,000	254,370	529,370
2009	280,000	242,346	522,346
2010	290,000	229,776	519,776
2011	305,000	216,276	521,276
2012	325,000	202,076	527,076
2013	345,000	186,926	531,926
2014	360,000	173,126	533,126
2015	375,000	158,366	533,366
2016	390,000	142,616	532,616
2017	405,000	125,846	530,846
2018	425,000	108,026	533,026
2019	440,000	88,900	528,900
2020	460,000	68,660	528,660
2021	480,000	47,040	527,040
2022	<u>505,000</u>	<u>24,240</u>	<u>529,240</u>
Totals	<u>\$ 6,430,000</u>	<u>\$ 3,097,205</u>	<u>\$ 9,527,205</u>

Revenue Bonds Payable

Details of the District's June 30, 2004 local option sales and services tax revenue bonded indebtedness are as follows:

Year Ending June 30.	November 12, 2002			
	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	4.50	\$ 235,000	\$ 81,720	\$ 316,720
2006	4.25	240,000	71,332	311,332
2007	4.50	250,000	60,608	310,608
2008	4.75	260,000	48,808	308,808
2009	4.75	275,000	36,101	311,101
2010	5.20	285,000	22,160	307,160
2011	5.00	<u>295,000</u>	<u>7,375</u>	<u>302,375</u>
Totals		<u>\$ 1,840,000</u>	<u>\$ 328,104</u>	<u>\$ 2,168,104</u>

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

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 \$285,482, \$207,186 and \$287,275 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 \$313,631 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. Deficit Balance

The District's Student Activity Fund had several deficits accounts at June 30, 2004.

Note 10. Subsequent Event – Local Option Sales and Services Tax

Cedar 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 Cedar County and will continue for 10 years. The revenue from this tax will be distributed to all school districts with students residing in Cedar County on a per student basis. West Liberty Community School District anticipates receiving approximately \$4,900 from this tax annually beginning with the fiscal year ending June 30, 2005.

Note 11. Correction of Beginning Balances

During the year ended June 30, 2004 errors in the classification of one of the trust accounts was noted. It was noted that one of the trust accounts would be more appropriately reported in the General Fund. Therefore, a transfer of \$2,160 from the Expendable Trust Fund to the General Fund was made as of June 30, 2003. The beginning balance of the Expendable Trust Fund was decreased by \$2,160 and the beginning balance of the General Fund was increased by \$2,160 for fiscal 2004.

Note 12. 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>		Total	
	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Net assets June 30, 2003, as previously reported	\$ 2,018,152	\$ 7,931,591	\$ 673,607	\$ 10,623,350
GASB Interpretation 6 adjustments	-	-	-	-
Net assets July 1, 2003, as restated for governmental funds	<u>\$ 2,018,152</u>	<u>\$ 7,931,591</u>	673,607	10,623,350
GASB 34 adjustments:				
Capital assets, net of accumulated depreciation of \$5,433,058				4,569,094
Long-term liabilities:				
General obligation bonds			\$ (6,570,000)	
Revenue bonds			(2,100,000)	
Capital leases			(38,932)	
Compensated absences			(26,809)	
Early retirement			<u>(136,529)</u>	(8,872,270)
Accrued interest payable				(45,452)
Internal Service Fund				<u>153,436</u>
Net assets July 1, 2003, as restated				<u>\$ 6,428,158</u>

Note 13. Construction Commitments

The District has entered into contracts totaling \$10,708,580 for the construction of a high school building. As of June 30, 2004, costs of \$5,511,635 had been incurred against the project. The balance of \$5,196,945 remaining at June 30, 2004 will be paid as work on the project progresses. Construction started in the spring of 2003 and is expected to be completed in the winter of 2004.

The District will begin another construction project during the summer of 2004 for construction of a VoAg greenhouse and building. At June 30, 2004, the District had not entered into any construction contracts for this project. Costs of \$36,500 had been incurred for architect fees as of June 30, 2004.

Required Supplementary Information

WEST LIBERTY 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	Less Funds Not Required to be Budgeted	Net	Budgeted Amounts		Final to Actual Variance
	Funds Actual	Funds Actual				Actual	Original	
Revenues								
Local sources	\$ 4,193,917	\$ 264,105	\$ 4,458,022	\$ (85,424)	\$ 4,372,598	\$ 4,241,420	\$ 4,241,420	\$ 131,178
Intermediary sources	-	-	-	-	-	502,500	502,500	(502,500)
State sources	4,644,022	5,783	4,649,805	-	4,649,805	4,862,191	4,862,191	(212,386)
Federal sources	1,004,441	182,532	1,186,973	-	1,186,973	539,715	539,715	647,258
Total revenues	<u>9,842,380</u>	<u>452,420</u>	<u>10,294,800</u>	<u>(85,424)</u>	<u>10,209,376</u>	<u>10,145,826</u>	<u>10,145,826</u>	<u>63,550</u>
Expenditures								
Instruction	5,797,389	-	5,797,389	-	5,797,389	5,902,605	5,968,000	170,611
Support services	2,050,080	-	2,050,080	-	2,050,080	2,112,816	2,167,986	117,906
Non-instructional programs	-	459,084	459,084	(85,695)	373,389	356,300	360,818	(12,571)
Other expenditures	6,135,288	-	6,135,288	-	6,135,288	8,804,983	8,804,983	2,669,695
Total expenditures	<u>13,982,757</u>	<u>459,084</u>	<u>14,441,841</u>	<u>(85,695)</u>	<u>14,356,146</u>	<u>17,176,704</u>	<u>17,301,787</u>	<u>2,945,641</u>
Excess (deficiency) of revenues over (under) expenditures	(4,140,377)	(6,664)	(4,147,041)	271	(4,146,770)	(7,030,878)	(7,155,961)	3,009,191
Net other financing sources	-	-	-	-	-	495,101	495,101	(495,101)
Net change in fund balance	(4,140,377)	(6,664)	(4,147,041)	271	(4,146,770)	(6,535,777)	(6,660,860)	2,514,090
Balance, beginning of year, as restated	10,623,350	217,049	10,840,399	(153,436)	10,686,963	8,775,920	8,775,920	1,911,043
Balance, end of year	<u>\$ 6,482,973</u>	<u>\$ 210,385</u>	<u>\$ 6,693,358</u>	<u>\$ (153,165)</u>	<u>\$ 6,540,193</u>	<u>\$ 2,240,143</u>	<u>\$ 2,115,060</u>	<u>\$ 4,425,133</u>

See accompanying Independent Auditor's Report.

WEST LIBERTY 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 \$125,083.

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

Other Supplementary Information

WEST LIBERTY COMMUNITY SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004

Schedule 1

	<u>Special Revenue</u>				
	<u>Management</u>	<u>Student Activity</u>	<u>Physical Plant and Equipment Levy</u>	<u>Debt Service</u>	<u>Total</u>
ASSETS					
Cash and pooled investments	\$ 42,788	\$ 69,586	\$ 577,764	\$ 3,826	\$ 693,964
Receivables					
Property tax					
Delinquent	3,086	-	2,473	5,870	11,429
Succeeding year	169,338	-	78,861	254,258	502,457
Total assets	<u>\$ 215,212</u>	<u>\$ 69,586</u>	<u>\$ 659,098</u>	<u>\$ 263,954</u>	<u>\$ 1,207,850</u>
LIABILITIES AND FUND EQUITY					
Liabilities					
Deferred revenue					
Succeeding year property tax	\$ 169,338	\$ -	\$ 78,861	\$ 254,258	\$ 502,457
Fund equity					
Reserved for special purpose	-	-	59,600	-	59,600
Reserved for debt service	-	-	-	9,696	9,696
Unreserved fund balances	45,874	69,586	520,637	-	636,097
Total fund equity	<u>45,874</u>	<u>69,586</u>	<u>580,237</u>	<u>9,696</u>	<u>705,393</u>
Total liabilities and fund equity	<u>\$ 215,212</u>	<u>\$ 69,586</u>	<u>\$ 659,098</u>	<u>\$ 263,954</u>	<u>\$ 1,207,850</u>

See accompanying Independent Auditor's Report.

WEST LIBERTY 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

	<u>Special Revenue</u>			<u>Capital Projects VoAg Greenhouse</u>	<u>Debt Service</u>	<u>Total</u>
	<u>Management Levy</u>	<u>Student Activity</u>	<u>Physical Plant and Equipment Levy</u>			
Revenues						
Local sources						
Local taxes	\$ 141,975	\$ -	\$ 367,321	\$ -	\$ 268,052	\$ 777,348
Other	75	152,346	4,845	-	983	158,249
State sources	1,515	-	1,180	-	2,799	5,494
Federal sources	-	-	24,517	-	-	24,517
Total revenues	<u>143,565</u>	<u>152,346</u>	<u>397,863</u>	<u>-</u>	<u>271,834</u>	<u>965,608</u>
Expenditures						
Current instruction						
Regular program instruction	98,995	-	-	-	-	98,995
Other instruction	-	153,056	-	-	-	153,056
Support services						
Administration services	32,401	-	-	-	-	32,401
Operation and maintenance of plant services	23,390	-	9,823	-	-	33,213
Transportation services	11,425	-	-	-	-	11,425

See accompanying Independent Auditor's Report.

WEST LIBERTY 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					<u>Total</u>
	<u>Management Levy</u>	<u>Student Activity</u>	<u>Physical Plant and Equipment Levy</u>	<u>Capital Projects VoAg Greenhouse</u>	<u>Debt Service</u>	
Expenditures (continued)						
Other expenditures						
Facilities acquisition and construction	\$ -	\$ -	\$ 65,161	\$ 36,500	\$ -	\$ 101,661
Long-term debt: Principal	-	-	-	-	418,188	418,188
Interest and fiscal charges	-	-	-	-	501,289	501,289
Total expenditures	166,211	153,056	74,984	36,500	919,477	1,350,228
Excess (deficiency) of revenues over (under) expenditures	(22,646)	(710)	322,879	(36,500)	(647,643)	(384,620)
Other financing sources (uses)						
Interfund operating transfers in	-	-	5,000	36,500	584,023	625,523
Interfund operating transfers (out)	-	-	(209,117)	-	-	(209,117)
Total other financing sources (uses)	-	-	(204,117)	36,500	584,023	416,406
Net change in fund balances	(22,646)	(710)	118,762	-	(63,620)	31,786
Fund balances, beginning of year	68,520	70,296	461,475	-	73,316	673,607
Fund balances, end of year	\$ 45,874	\$ 69,586	\$ 580,237	\$ -	\$ 9,696	\$ 705,393

See accompanying Independent Auditor's Report.

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

Schedule 3

Account	Balance, Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance, End of Year
District wide					
Interest	\$ 1,008	\$ 763	\$ -	\$ (1,008)	\$ 763
Miscellaneous	181	242	221	141	343
Adult activity tickets	1,600	1,408	-	(1,600)	1,408
Student pictures	1,302	1,286	-	(1,302)	1,286
Student transportation fees	-	1,433	1,367	-	66
Cultural diversity fund	872	-	-	-	872
Booster club reimbursement	-	13,811	13,966	-	(155)
Elementary					
Activity tickets	350	242	-	(350)	242
Miscellaneous/Gardner	2,218	1,712	927	-	3,003
Middle school					
5th and 6th grade choir	-	370	398	-	(28)
Activity tickets	1,995	1,989	-	(1,995)	1,989
MS misc.	2,315	1,102	401	-	3,016
Vending machines	539	1,208	812	-	935
Junior high					
Vocal music	136	730	717	-	149
Music	45	102	-	-	147
Honor band	115	-	65	-	50
Athletics	1,790	-	10	10	1,790
Boys' basketball	(743)	-	765	743	(765)
Football	(688)	-	550	688	(550)
Boys' track	(220)	330	787	220	(457)
Wrestling	(180)	-	200	180	(200)
Girls' track	(815)	-	690	815	(690)
Girls' volleyball	(464)	405	789	464	(384)
Girls' track	(207)	225	400	207	(175)
Softball	(250)	-	168	250	(168)
Eighth grade	1,040	-	-	(40)	1,000
Magazines	2,454	4,476	2,681	(2,454)	1,795
Student council	534	-	-	-	534
Science club	418	-	234	-	184

See accompanying Independent Auditor's Report.

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

Schedule 3

Account	Balance, Beginning of <u>Year</u>	<u>Revenues</u>	<u>Expenditures</u>	Intrafund <u>Transfers</u>	Balance, End of <u>Year</u>
High school					
Drama	\$ 1,447	\$ 1,121	\$ 1,370	\$ -	\$ 1,198
Vocal music	(62)	3,352	4,720	1,662	232
Vocal music fundraiser	371	50	345	-	76
Instrumental music	372	366	1,258	1,228	708
Athletics	3,333	6,634	13,078	4,289	1,178
Activity tickets	3,112	2,785	-	(3,112)	2,785
Cross country	160	-	465	(160)	(465)
Boys' basketball	2,474	5,582	4,738	(2,474)	844
Boys' basketball fundraiser	938	-	-	-	938
Football	4,326	7,622	5,050	(4,326)	2,572
Football fundraiser	709	-	-	-	709
Football resale	-	1,989	754	-	1,235
Baseball	(2,891)	1,474	5,165	2,891	(3,691)
Baseball fundraiser	4,119	9,306	1,194	-	12,231
Baseball resale	-	236	482	-	(246)
Baseball freshman fund	94	-	94	-	-
Boys' track	210	2,805	3,684	(210)	(879)
KRNA/boys' track fundraiser	(6)	112	103	-	3
Boys' golf	(338)	280	730	338	(450)
Wrestling	(742)	1,939	3,558	742	(1,619)
Wrestling fundraiser	-	250	-	-	250
Girls' basketball	512	3,979	4,917	(512)	(938)
Girls' basketball fundraiser	58	-	-	-	58
Girls' basketball resale	-	950	950	-	-
Volleyball	321	2,356	2,199	(321)	157
Volleyball fundraiser	1,651	-	992	-	659
Volleyball resale	20	-	-	-	20
Softball	(741)	2,974	3,612	741	(638)
Softball fundraiser	7,631	10,266	13,737	-	4,160
Girls' track resale	(23)	-	-	-	(23)
Girls' track	(905)	2,846	3,026	905	(180)
Girls' track fundraiser	-	1,168	-	-	1,168

See accompanying Independent Auditor's Report.

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

Schedule 3

Account	Balance, Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance, End of Year
High school (continued)					
Riley special fund	\$ 1,399	\$ 1,124	\$ 2,231	\$ -	\$ 292
Softball resale	40	844	1,188	-	(304)
Vocal music fundraiser	9	-	-	-	9
Girls' golf fundraiser	294	398	659	-	33
Instrumental music fundraiser	193	646	793	-	46
Girls' golf	(835)	-	585	835	(585)
Seniors	141	15	53	1,445	1,548
Juniors	1,586	2,535	3,261	(102)	758
Sophomore	1,484	10	116	257	1,635
Freshmen	1,742	-	162	298	1,878
FHA	(547)	133	50	-	(464)
FFA	(534)	5,270	8,259	-	(3,523)
Cheerleaders	1,106	1,811	498	-	2,419
Color guard	2,305	3,833	5,290	-	848
Dance team	-	586	786	700	500
Forensics	309	-	289	200	220
National Honor Society	2,676	183	34	-	2,825
Student council	1,109	7,207	6,636	-	1,680
Yearbook #2	11,789	9,478	12,397	-	8,870
Video productions	274	-	200	-	74
Students in need of assistance	663	498	59	-	1,102
Boys' soccer	281	1,510	1,577	(283)	(69)
Soccer fundraiser	-	400	-	-	400
KCRG athletics	231	-	-	-	231
Boys' soccer resale	192	-	-	-	192
FHA/FCCLA fundraisers	940	-	-	-	940
FFA resale	(7)	307	402	-	(102)
FFA fundraiser	1,961	13,282	5,162	-	10,081
Totals	<u>\$ 70,296</u>	<u>\$ 152,346</u>	<u>\$ 153,056</u>	<u>\$ -</u>	<u>\$ 69,586</u>

See accompanying Independent Auditor's Report.

WEST LIBERTY COMMUNITY SCHOOL DISTRICT
 Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund
 For the Year Ended June 30, 2004

Schedule 4

	Balance, Beginning of <u>Year</u>	<u>Additions</u>	<u>Deductions</u>	Balance, End of <u>Year</u>
Assets				
Cash	<u>\$ 2,023</u>	<u>\$ 49,188</u>	<u>\$ 49,234</u>	<u>\$ 1,977</u>
Liabilities				
Due to others	<u>\$ 2,023</u>	<u>\$ 49,188</u>	<u>\$ 49,234</u>	<u>\$ 1,977</u>

See accompanying Independent Auditor's Report.

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

Schedule 5

	Modified Accrual Basis			
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues				
Local sources				
Local tax	\$ 3,732,914	\$ 3,403,374	\$ 3,451,923	\$ 3,160,647
Tuition	84,354	139,424	70,402	48,156
Other	376,649	350,733	318,159	444,779
Intermediate sources	-	1,452	2,664	29,410
State sources	4,644,022	4,822,440	4,741,526	4,879,080
Federal sources	1,004,441	446,349	613,679	711,113
Total revenues	<u>\$ 9,842,380</u>	<u>\$ 9,163,772</u>	<u>\$ 9,198,353</u>	<u>\$ 9,273,185</u>
Expenditures				
Instruction				
Regular instruction	3,917,591	3,626,622	3,594,762	3,641,607
Special instruction	1,404,202	1,312,977	1,515,492	1,595,053
Other instruction	475,596	439,884	515,470	549,844
Support services				
Student services	198,062	131,774	131,854	160,593
Instructional staff services	324,869	316,899	280,892	322,574
Administration services	729,971	728,877	770,859	727,042
Operation and maintenance of plant services	519,585	488,431	480,546	529,271
Transportation services	266,168	227,285	296,305	263,264
Central support services	11,425	-	-	-
Other expenditures				
Facilities acquisition	4,902,180	891,244	106,231	516,046
Long-term debt				
Principal	418,188	158,660	130,000	1,890,000
Interest and other charges	501,289	99,002	88,212	204,738
AEA flowthrough	313,631	336,203	336,583	348,708
Total expenditures	<u>\$ 13,982,757</u>	<u>\$ 8,757,858</u>	<u>\$ 8,247,206</u>	<u>\$ 10,748,740</u>

See accompanying Independent Auditor's Report.

WEST LIBERTY COMMUNITY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2004

Schedule 6

Grantor/Program	<u>CFDA</u> <u>Number</u>	Agency or <u>Pass-through</u> <u>Number</u>	<u>Program</u> <u>Expenditures</u>
Indirect			
U.S. Department of Agriculture			
Iowa Department of Education			
Food distribution program (non-cash)	10.550	FY04	\$ 20,242
National School Breakfast Program	*10.553	FY04	17,286
National School Lunch Program	*10.555	FY04	<u>145,004</u>
Total U.S. Department of Agriculture			<u>182,532</u>
U.S. Department of Education			
Iowa Department of Education			
Title I Grants to Local Educational Agencies			
Educational Agencies	84.010	FY03	22,439
Educational Agencies	84.010	FY04	126,860
Total Title I Grants to Local Educational Agencies			<u>171,619</u>
Federal, State and Local Partnerships for Educational Improvements			
Title V Program	84.298	FY04	7,954
Title VI A - State Assessment	84.369	FY04	12,111
Safe and Drug-free Schools and Communities	84.186	FY04	10,718
Title IIA - Federal Teach Quality Programs	84.367	FY04	18,472
Fund for Improvement of Education - Construction Comprehensive School Reform	*84.215	FY04	500,000
Demonstration grant	84.332	FY04	35,183
Special Education Grants to States-Part B	84.027	FY04	44,765
Fund for Improvement of Education-Fire Safety	84.215	FY04	<u>24,517</u>
Total Iowa Department of Education			<u>825,339</u>

See accompanying Independent Auditor's Report.

WEST LIBERTY COMMUNITY SCHOOL DISTRICT
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2004

Schedule 6

Grantor/Program	<u>CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Program Expenditures</u>
Indirect (continued)			
U.S. Department of Education			
Area Education Agency			
Eisenhower Math and Science Grants	84.319	FY04	\$ 5,519
Reading First State Grants	84.357	FY04	15,307
Special Educaiton - Grants to States - Success 4	84.196	FY04	8,736
Title III - Goals 2000	84.276A	FY04	<u>18,172</u>
Total Area Education Agency			<u>47,734</u>
Total U.S. Department of Education			<u>873,073</u>
U.S. Department of Health and Human Services			
Iowa East Central T.R.A.I.N.			
Head Start	93.600	FY04	<u>58,280</u>
Total federal awards			<u><u>\$1,113,885</u></u>

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

See accompanying Independent Auditor's Report.

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
West Liberty Community School District
West Liberty, Iowa

I have audited the financial statements of the West Liberty Community School District as of and for the year ended June 30, 2004, and have issued my report thereon dated September 24, 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 West Liberty Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

2. Certified Budget - Expenditures for the year ended June 30, 2004 exceeded the amounts budgeted in the Non-instructional Programs function.

Recommendation - The budget was amended in accordance with Chapter 24.9 of the Code of Iowa , but not in sufficient amounts to allow for necessary expenditures. The District should ensure that the budget is amended sufficiently in the future.

Response - We will amend the budget to a sufficient amount, if necessary, 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 - No business transactions between the District and District officials 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 - The number of basic resident students reported to the Iowa Department of Education on line 7 of the Certified Enrollment Certification Form for September 2003 was overstated. The District's certified enrollment count included 17 open enrolled in students on line 1.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Iowa Department of Education and the Department of Management.

Conclusion - Response accepted.

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 fiscal Certified Annual Report was filed with the Department of Education timely and I noted no significant deficiencies in the amounts reported.
11. Financial Condition - The District's Student Activity Fund had several deficit accounts at June 30, 2004.

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

Response - We will make a transfer from the General Athletics account to each individual athletic account at the beginning of the next fiscal year to allocate the revenues from ticket and activity pass sales.

Conclusion - Response accepted.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered West Liberty 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 judgement, could adversely affect West Liberty Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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. Prior year reportable conditions have not been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the West Liberty 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 West Liberty 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.

A handwritten signature in cursive script that reads "Kay L. Chapman, CPA PC".

Kay L. Chapman, CPA PC
September 24, 2004

KAY L. CHAPMAN, CPA PC

119 Sycamore Street, Suite 100

Muscatine, Iowa 52761

563-264-1385

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE

To the Board of Education
West Liberty Community School District
West Liberty, Iowa

Compliance

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

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

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

Internal Control Over Compliance

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

I noted certain matters involving the internal control over compliance 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 compliance that, in my judgment, could adversely affect West Liberty Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. There were no reportable conditions noted in Part III of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. I noted no material weakness relating to major federal programs.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the West Liberty 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.



Kay L. Chapman, CPA PC
September 24, 2004

WEST LIBERTY COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2004

Part I. Summary of the Independent Auditor's Results

1. An unqualified opinion was issued on the financial statements.
2. Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
3. The audit did not disclose any noncompliance which is material to the financial statements.
4. A reportable condition in internal control over major programs was disclosed by the audit of the financial statements, including a material weakness.
5. An unqualified opinion was issued on compliance with requirements applicable to each major program.
6. The audit disclosed an audit finding, which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
7. Major programs were as follows:
 - CFDA Number 84.215 Fund for the Improvement of Education – Iowa Demonstration Construction Grant
 - Clustered programs
 - CFDA Number 10.553 – School Breakfast Program
 - CFDA Number 10.555 – National School Lunch Program
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. West Liberty Community School District did not qualify as a low-risk auditee.

WEST LIBERTY COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2004

Part II. Findings Related to the General Purpose Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were noted

REPORTABLE CONDITIONS

04-II-A Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts and disbursements, bank deposits and bank account reconciliations were all handled 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 the operating procedures of the District to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned - We will review our procedures and implement changes to improve internal control, as we deem necessary.

Conclusion - Response accepted.

WEST LIBERTY COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2004

Part III. Findings and Questioned Costs for Federal Awards

INSTANCES OF NON-COMPLIANCE

No matters were noted.

MATERIAL WEAKNESSES

There were no material weaknesses relating to federal awards noted.

WEST LIBERTY COMMUNITY SCHOOL DISTRICT

Audit Staff
June 30, 2004

This audit was performed by

Kay Chapman, CPA