

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
AND SCHEDULE OF FINDINGS

JUNE 30, 2005

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
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LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Officials
 June 30, 2005

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2004 Election)		
Charles Clark	Board President	2004
David Bieri	Board Member	2004
Angie Kemp	Board Member	2005
Randy Schlutz	Board Member	2006
Riley Padgett	Board Member	2006
(After September 2004 Election)		
Charles Clark	Board President	2007
Angie Kemp	Board Member	2005
Randy Schlutz	Board Member	2006
Riley Padgett	Board Member	2006
David Bieri	Board Member	2007
School Officials		
John Dotson	Superintendent	2005
Karron Stineman	District Secretary/Treasurer	2005
Duane Goedken	Attorney	2005

KAY L. CHAPMAN, CPA PC

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Muscatine, Iowa 52761
563-264-1385

Independent Auditor's Report

To the Board of Education
Louisa-Muscatine Community School District

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of Louisa-Muscatine Community School District, Letts, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Louisa-Muscatine Community School District as of June 30, 2005, 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.

In accordance with Government Auditing Standards, I have also issued my report dated October 14, 2005 on my consideration of Louisa-Muscatine Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations and contracts. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 41 through 42 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 required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Louisa-Muscatine Community School District's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Kay L. Chapman, CPA PC
October 14, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Louisa-Muscatine Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,975,647 in fiscal 2004 to \$6,985,710 in fiscal 2005 and General Fund expenditures increased from \$6,325,151 in fiscal 2004 to \$6,457,030 in fiscal 2005. The District's General Fund balance increased from \$624,422 in fiscal 2004 to \$1,153,433 in fiscal 2005, an 85% increase.
- The district enjoyed 4% allowable growth and continued the trend of having a slight increase in student enrollment. Enrollment stability is a critical element in maintaining a sound financial foundation.
- The district realized just over \$220,000 in income surtaxes for the first time since levying for the funds in FY04.
- In FY04 the district applied for modified allowable growth for Services for Returning Drop-Outs and Drop-Out Prevention for the first time. Approximately \$210,000 of new allowable growth was levied for and received beginning in FY05.
- The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Louisa-Muscatine Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Louisa-Muscatine Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Louisa-Muscatine Community School District acts solely as an agent or custodian for the benefit of those outside of District government.

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

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

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

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

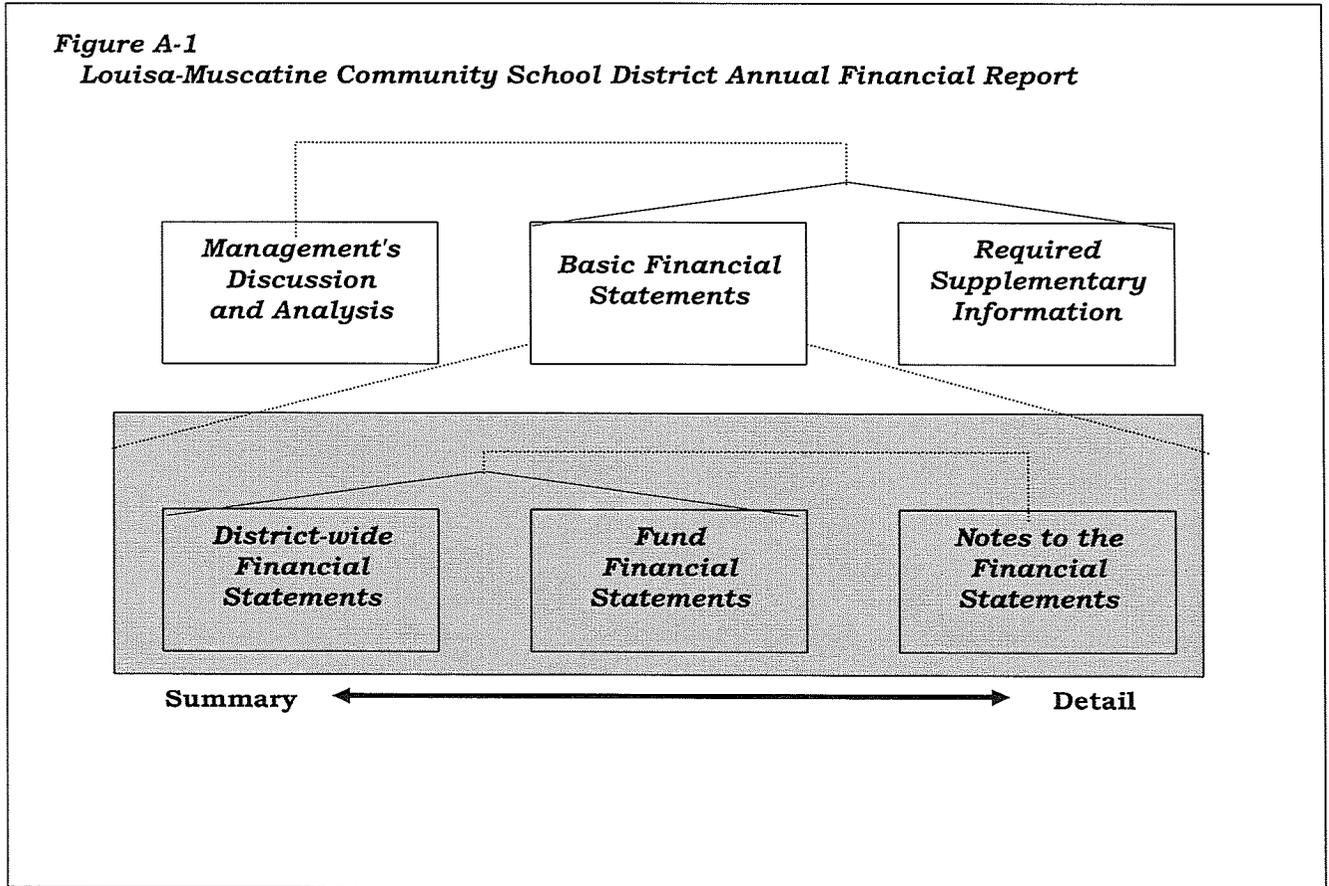


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District’s net assets at June 30, 2005 compared to June 30, 2004.

Figure A-3

	Condensed Statement of Net Assets						
	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2004-2005</u>
Current and other assets	\$ 6,339,086	\$ 5,522,517	\$ 118,373	\$ 100,504	\$ 6,457,459	\$ 5,623,021	14.84%
Capital assets	<u>8,037,905</u>	<u>8,341,468</u>	<u>4,505</u>	<u>20,348</u>	<u>8,042,410</u>	<u>8,361,816</u>	-3.82%
Total assets	<u>14,376,991</u>	<u>13,863,985</u>	<u>122,878</u>	<u>120,852</u>	<u>14,499,869</u>	<u>13,984,837</u>	3.68%
Long-term obligations	3,206,435	3,562,820	-	-	3,206,435	3,562,820	-10.00%
Other liabilities	<u>3,933,616</u>	<u>3,932,821</u>	<u>26,043</u>	<u>25,030</u>	<u>3,959,659</u>	<u>3,957,851</u>	0.05%
Total liabilities	<u>7,140,051</u>	<u>7,495,641</u>	<u>26,043</u>	<u>25,030</u>	<u>7,166,094</u>	<u>7,520,671</u>	-4.71%
Net assets							
Invested in capital assets, net of related debt	4,987,905	4,858,130	4,505	20,348	4,992,410	4,878,478	2.34%
Restricted	1,146,021	885,792	-	-	1,146,021	885,792	29.38%
Unrestricted	<u>1,103,014</u>	<u>624,422</u>	<u>92,330</u>	<u>75,474</u>	<u>1,195,344</u>	<u>699,896</u>	70.79%
Total net assets	<u>\$ 7,236,940</u>	<u>\$ 6,368,344</u>	<u>\$ 96,835</u>	<u>\$ 95,822</u>	<u>\$ 7,333,775</u>	<u>\$ 6,464,166</u>	13.45%

The District’s combined net assets increased by approximately 13%, or \$869,609, over the prior year. The largest portion of the District’s net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$260,229, or 29.38% over the prior year. The increase was primarily a result of one-cent sales tax revenue. The funds accumulated in expectation of a roof project for the junior-senior high school.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$495,448, or approximately 71%. This increase in unrestricted net assets was primarily a result of the increased ending cash balance in the General Fund. Efforts to prudently fund the district's unspent balance to continue the district's direction to a strong financial position are apparent.

Figure A-4 shows the change in net assets for the years ended June 30, 2005 and 2004.

Revenues	Change in Net Assets					
	Governmental Activities		Business Type Activities		Total District	
	2005	2004	2005	2004	2005	2004
Program revenues						
Charges for service and sales	\$ 791,543	\$ 854,970	\$ 291,450	\$ 284,132	\$ 1,082,993	\$ 1,139,102
Operating grants, contributions and restricted interest	672,377	479,834	151,401	138,362	823,778	618,196
General revenues						
Property tax	3,767,944	3,157,755	-	-	3,767,944	3,157,755
Unrestricted state grants	3,153,008	2,642,031	-	-	3,153,008	2,642,031
Unrestricted investment earnings	23,539	22,779	1,074	1,024	24,613	23,803
Contributions and donations	8,343	-	-	-	8,343	-
Interfund operating transfers	-	(525)	-	525	-	-
Loss on disposal of capital assets	(19,002)	-	-	-	(19,002)	-
Other	-	193,008	-	-	-	193,008
Total revenues	<u>8,397,752</u>	<u>7,349,852</u>	<u>443,925</u>	<u>424,043</u>	<u>8,841,677</u>	<u>7,773,895</u>
Program expenses						
Governmental activities						
Instruction	4,593,520	4,513,080	-	-	4,593,520	4,513,080
Support services	2,145,323	2,033,347	-	-	2,145,323	2,033,347
Non-instructional programs	4,049	2,545	442,912	434,990	446,961	437,535
Other expenses	<u>786,264</u>	<u>727,774</u>	<u>-</u>	<u>-</u>	<u>786,264</u>	<u>727,774</u>
Total expenses	<u>7,529,156</u>	<u>7,276,746</u>	<u>442,912</u>	<u>434,990</u>	<u>7,972,068</u>	<u>7,711,736</u>
Change in net assets	<u>\$ 868,596</u>	<u>\$ 73,106</u>	<u>\$ 1,013</u>	<u>\$ (10,947)</u>	<u>\$ 869,609</u>	<u>\$ 62,159</u>

Property tax and unrestricted state grants account for 78% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 85% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$8,397,752 and expenses were \$7,529,156. Careful attention was given to the line-item budget to ensure that expenditures did not exceed expected revenues.

The following table presents the total and net cost of the District’s major governmental activities for fiscal 2005: 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	\$ 4,593,520	\$ 3,392,129
Support services	2,145,323	2,131,651
Non-instructional programs	4,049	4,049
Other expenses	<u>786,264</u>	<u>537,407</u>
Total expenses	<u>\$ 7,529,156</u>	<u>\$ 6,065,236</u>

- The cost financed by users of the District’s programs was \$791,543.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$672,377.
- The net cost of governmental activities was financed with \$3,767,944 in property and other taxes and \$3,153,008 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$443,925 and expenses were \$442,912. The District’s business type activities include the School Nutrition Fund and Preschool/Daycare Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

Lower than usual participation in the Preschool/Daycare program in FY05 caused the district to shift some personnel in an effort to reduce the cost of providing the program. There were no increases made in the fees for either program, however salaries and benefits increased by 4%.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$2,436,780, well above last year’s ending fund balances of \$1,670,360.

Governmental Fund Highlights

- The General Fund balance increased from \$624,422 in 2004 to \$1,153,433 in fiscal 2005. A number of factors helped to increase the General Fund's ending balance. In FY04 the district applied for \$210,000 in modified allowable growth for Services for Returning Drop-Outs and Drop-Out Prevention that was received in fiscal 2005. Nearly half of the funds were carried over. Additionally, over \$200,000 was designated as carry-over funds from various grants and special education funds. The District has been careful to levy cash reserve, when appropriate, to fund its unspent balance.
- The Management (Special Revenue) Fund balance increased from \$279,037 to \$320,130. The District continued to accumulate funds for the expected high number of early retirements in FY05. The Board phased out the early retirement plan over three years, with FY05 being the final year.
- The Capital Project fund balance increased from \$335,716 in fiscal 2004 to \$548,372 in fiscal 2005. As the state's economy improved, more sales tax income was received. Additionally, the district received \$125,345 from the one-cent sales tax state pool, greatly supplementing the Louisa County local option sales taxes.

Proprietary Fund Highlights

Enterprise Fund net assets increased slightly from \$95,822 at June 30, 2004 to \$96,835 at June 30, 2005, representing an increase of approximately 1%. The Preschool/Daycare program experienced low enrollment in FY05 causing the district to transfer some of the personnel from the program in an effort to reduce the costs. There were no increases made in the fees for either program, however salaries and benefits increased by 4%.

BUDGETARY HIGHLIGHTS

During the fiscal year, Louisa-Muscatine Community School District did not amend the annual budget.

The District's receipts were \$76,996 more than budgeted receipts, a variance of approximately 1%. The budget is certified in the spring prior to the beginning of the fiscal year. At that time a number of items are estimated, including grant allocations. The majority of the 1% variance can be attributed to Federal and State grant receipts.

Overall total expenditures were \$765,671 less than budgeted. The District budgets expenditures at the maximum authorized spending authority for the General Fund then controls spending through the line-item budget. The district expended less in grants than budgeted resulting in carry-over balances.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$8,042,410, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of almost 4% from last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$454,538.

The original cost of the District's capital assets was \$14,930,135. Governmental funds account for \$14,749,897, with the remainder of \$180,238 accounted for in the Proprietary, School Nutrition Fund.

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

Figure A-6

	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2004-2005</u>
Land	\$ 90,976	\$ 90,976	\$ -	\$ -	\$ 90,976	\$ 90,976	0.00%
Buildings and improvements	7,516,951	7,809,102	-	-	7,516,951	7,809,102	-3.74%
Improvements, other than buildings	292,404	261,666	-	-	292,404	261,666	11.75%
Furniture and equipment	<u>137,574</u>	<u>179,724</u>	<u>4,505</u>	<u>20,348</u>	<u>142,079</u>	<u>200,072</u>	-28.99%
Totals	<u>\$8,037,905</u>	<u>\$8,341,468</u>	<u>\$ 4,505</u>	<u>\$20,348</u>	<u>\$8,042,410</u>	<u>\$8,361,816</u>	-3.82%

Long-Term Debt

At June 30, 2005, the District had \$3,206,435 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 10% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

The only increase in debt or long-term obligations in the fiscal year was for early retirement. The District phased out the early retirement incentive over a three-year period. Several staff members chose to take advantage of the incentive in 2005, the last year of the three-year phase out plan.

The general obligation bonds for the elementary school were re-financed during fiscal 2004 at a savings of over \$100,000 to the taxpayers. At June 30, 2005, the outstanding amount owed on the general obligation bonds was \$2,200,000. This bond issue will be completely retired in fiscal 2011.

At June 30, 2005, \$850,000 was outstanding for revenue bonds that were issued with the local option sales and services taxes to finance the junior-senior high addition. This bond issue will be completely retired in fiscal 2011.

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

Figure A-7

	Outstanding Long-term Obligations		
	Total		Total
	School District		Change
	<u>2005</u>	<u>2004</u>	<u>2004-2005</u>
Bank loans	\$ -	\$ 43,338	-100.00%
General obligation bonds	2,200,000	2,470,000	-10.93%
Revenue bonds	850,000	970,000	-12.37%
Early retirement	<u>156,435</u>	<u>79,482</u>	96.82%
Total	<u>\$ 3,206,435</u>	<u>\$ 3,562,820</u>	-10.00%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District's certified enrollment continues to remain somewhat steady. The enrollment in September 2005 was 2.2 students less than the previous year. Under Iowa's school funding formula, District funding is highly dependant upon District enrollments. Future enrollment stability is a critical element in maintaining a sound financial foundation.
- The roof of the junior-senior high has failed and must be replaced. Bids were solicited in the late fall of 2005 for Phase I of the project. The board chose to install a metal roofing system at a cost of \$260,000 for the first phase. The remaining areas will be replaced over the next two to three years as funds allow. Local revenues have been earmarked for this project.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Karron Stineman, Board Secretary/Treasurer and Business Manager, Louisa-Muscatine Community School District, 14478 170th Street, Letts, Iowa 52754.

Basic Financial Statements

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2005

Exhibit A

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,806,832	\$ 110,066	\$ 2,916,898
Receivables			
Property tax			
Delinquent	44,274	-	44,274
Succeeding year	3,216,188	-	3,216,188
Accounts receivable	45,123	50	45,173
Inventories	-	8,257	8,257
Due from other governments	226,669	-	226,669
Capital assets, net of accumulated depreciation	8,037,905	4,505	8,042,410
 Total assets	 14,376,991	 122,878	 14,499,869
 LIABILITIES			
Accounts payable	29,215	-	29,215
Salaries and benefits payable	649,643	26,043	675,686
Accrued interest payable	31,310	-	31,310
Deferred revenue - succeeding year property tax	3,216,188	-	3,216,188
Deferred revenue - unspent grant proceeds	7,260	-	7,260
Long-term liabilities			
Portion due within one year			
Bonds payable	320,000	-	320,000
Revenue bonds payable	125,000	-	125,000
Early retirement payable	97,430	-	97,430
Portion due after one year			
Bonds payable	1,880,000	-	1,880,000
Revenue bonds payable	725,000	-	725,000
Early retirement payable	59,005	-	59,005
 Total liabilities	 7,140,051	 26,043	 7,166,094

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

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2005

Exhibit A

	Governmental Activities	Business Type Activities	Total
NET ASSETS			
Invested in capital assets, net of related debt	\$ 4,987,905	\$ 4,505	\$ 4,992,410
Restricted for			
Phase I & II	3,854	-	3,854
Phase III	11,183	-	11,183
Reading Recovery	33,441	-	33,441
Mentoring	219	-	219
Teacher compensation	1,722	-	1,722
Capital projects	548,372	-	548,372
Debt service	247,731	-	247,731
Management levy	163,695	-	163,695
Physical plant and equipment levy	47,119	-	47,119
Other special revenue purposes	88,685	-	88,685
Unrestricted	1,103,014	92,330	1,195,344
Total net assets	\$ 7,236,940	\$ 96,835	\$ 7,333,775

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

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2005

Exhibit B

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs							
Governmental activities							
Instruction							
Regular instruction	\$ 3,142,263	\$ 493,997	\$ 270,280	\$ -	\$ (2,377,986)	\$ -	\$ (2,377,986)
Special instruction	804,476	82,969	149,297	-	(572,210)	-	(572,210)
Other instruction	646,781	204,848	-	-	(441,933)	-	(441,933)
	4,593,520	781,814	419,577	-	(3,392,129)	-	(3,392,129)
Support services							
Student services	259,097	-	-	-	(259,097)	-	(259,097)
Instructional staff services	373,511	-	3,943	-	(369,568)	-	(369,568)
Administration services	605,096	-	-	-	(605,096)	-	(605,096)
Operation and maintenance of plant services	535,666	2,639	-	-	(533,027)	-	(533,027)
Transportation services	371,953	7,090	-	-	(364,863)	-	(364,863)
	2,145,323	9,729	3,943	-	(2,131,651)	-	(2,131,651)
	4,049	-	-	-	(4,049)	-	(4,049)
Non-instructional programs							
Other expenditures							
Facilities acquisition	20,111	-	-	-	(20,111)	-	(20,111)
Long-term debt interest	152,556	-	-	-	(152,556)	-	(152,556)
AEA flowthrough	248,857	-	248,857	-	-	-	-
Depreciation (unallocated) *	364,740	-	-	-	(364,740)	-	(364,740)
	786,264	-	248,857	-	(537,407)	-	(537,407)
	7,529,156	791,543	672,377	-	(6,065,236)	-	(6,065,236)
Total governmental activities							

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

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2005

Exhibit B

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<u>Functions/Programs (continued)</u>						
Business type activities						
Non-instructional programs						
Nutrition services	\$ 378,680	\$ 225,821	\$ 151,401	\$ -	\$ (1,458)	\$ (1,458)
Daycare and preschool	64,232	65,629	-	-	1,397	1,397
Total business type activities	442,912	291,450	151,401	-	(61)	(61)
Total	\$ 7,972,068	\$ 1,082,993	\$ 823,778	\$ -	(61)	(6,065,297)
<u>General Revenues</u>						
Property tax levied for						
General purposes						2,519,831
Debt service						640,195
Capital projects						607,918
Unrestricted state grants						3,153,008
Unrestricted investment earnings					1,074	24,613
Contributions and donations						8,343
Loss on disposal of capital assets						(19,002)
Total general revenues					1,074	6,934,906
Change in net assets						869,609
Net assets, beginning of year						6,464,166
Net assets, end of year						\$ 7,333,775

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

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

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT

Exhibit C

Balance Sheet
Governmental Funds
June 30, 2005

	<u>General</u>	<u>Special Revenue Management</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
ASSETS					
Cash and pooled investments	\$ 1,722,183	\$ 318,657	\$ 360,027	\$ 405,965	\$ 2,806,832
Receivables					
Property tax					
Delinquent	32,642	2,752	-	8,880	44,274
Succeeding year	2,508,846	100,000	-	607,342	3,216,188
Accounts receivable	45,123	-	-	-	45,123
Due from other governments	38,324	-	188,345	-	226,669
Total assets	<u>\$ 4,347,118</u>	<u>\$ 421,409</u>	<u>\$ 548,372</u>	<u>\$ 1,022,187</u>	<u>\$ 6,339,086</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 27,936	\$ 1,279	\$ -	\$ -	\$ 29,215
Salaries and benefits payable	649,643	-	-	-	649,643
Deferred revenue - Succeeding year property tax	2,508,846	100,000	-	607,342	3,216,188
Deferred revenue - other	7,260	-	-	-	7,260
Total liabilities	<u>3,193,685</u>	<u>101,279</u>	<u>-</u>	<u>607,342</u>	<u>3,902,306</u>

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

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT

Exhibit C

Balance Sheet

Governmental Funds

June 30, 2005

	<u>General</u>	<u>Special Revenue Management</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Fund balances					
Designated for cash flows	\$ 150,000	-	-	-	\$ 150,000
Designated for other board-approved purpose	500,000	-	-	-	500,000
Reserved for					
State grants	50,419	-	-	-	50,419
Debt service	-	-	-	279,041	279,041
Unreserved					
Special revenue funds	-	320,130	-	135,804	455,934
Other governmental funds	453,014	-	548,372	-	1,001,386
Total fund balances	<u>1,153,433</u>	<u>320,130</u>	<u>548,372</u>	<u>414,845</u>	<u>2,436,780</u>
Total liabilities and fund balances	<u>\$ 4,347,118</u>	<u>\$ 421,409</u>	<u>\$ 548,372</u>	<u>\$ 1,022,187</u>	<u>\$ 6,339,086</u>

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

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2005

Exhibit D

Total fund balances of governmental funds	\$ 2,436,780
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	8,037,905
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.	(31,310)
Long-term liabilities, including early retirement, bonds payable, revenue bonds payable and notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(3,206,435)</u>
Net assets of governmental activities	<u>\$ 7,236,940</u>

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

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Year Ended June 30, 2005

	<u>General</u>	<u>Special Revenue Management</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Revenues					
Local sources					
Local tax	\$2,550,803	\$194,683	\$410,607	\$610,015	\$3,766,108
Tuition	508,531	-	-	-	508,531
Other	99,628	2,410	3,158	209,698	314,894
State sources	3,661,089	114	-	359	3,661,562
Federal sources	165,659	-	-	-	165,659
Total revenues	<u>6,985,710</u>	<u>197,207</u>	<u>413,765</u>	<u>820,072</u>	<u>8,416,754</u>
Expenditures					
Current					
Instruction					
Regular instruction	3,030,075	52,192	-	-	3,082,267
Special instruction	804,476	-	-	-	804,476
Other instruction	426,575	-	-	218,637	645,212
	<u>4,261,126</u>	<u>52,192</u>	<u>-</u>	<u>218,637</u>	<u>4,531,955</u>
Support services					
Student services	232,180	500	-	-	232,680
Instructional staff services	302,882	464	-	70,165	373,511
Administration services	568,624	32,461	-	-	601,085
Operation and maintenance of plant services	498,420	34,714	-	-	533,134
Transportation services	344,941	31,734	-	51,431	428,106
	<u>1,947,047</u>	<u>99,873</u>	<u>-</u>	<u>121,596</u>	<u>2,168,516</u>

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

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Exhibit E

For the Year Ended June 30, 2005

	<u>General</u>	<u>Special Revenue Management</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Expenditures (continued)					
Non-instructional programs	-	\$ 4,049	-	-	\$ 4,049
Other expenditures					
Facilities acquisition	-	-	29,499	33,315	62,814
Long-term debt					
Principal	-	-	-	433,338	433,338
Interest and fiscal charges	-	-	-	201,910	201,910
AEA flowthrough	248,857	-	-	-	248,857
	<u>248,857</u>	<u>-</u>	<u>29,499</u>	<u>668,563</u>	<u>946,919</u>
Total expenditures	6,457,030	156,114	29,499	1,008,796	7,651,439
Excess (deficiency) of revenues over (under) expenditures	<u>528,680</u>	<u>41,093</u>	<u>384,266</u>	<u>(188,724)</u>	<u>765,315</u>
Other financing sources (uses)					
Sale of real property	-	-	-	774	774
Sale of materials and supplies	331	-	-	-	331
Interfund operating transfers in	-	-	32,744	216,686	249,430
Interfund operating transfers (out)	-	-	(204,354)	(45,076)	(249,430)
Total other financing sources (uses)	<u>331</u>	<u>-</u>	<u>(171,610)</u>	<u>172,384</u>	<u>1,105</u>
Net change in fund balances	529,011	41,093	212,656	(16,340)	766,420
Fund balance, beginning of year	624,422	279,037	335,716	431,185	1,670,360
Fund balance, end of year	<u>\$ 1,153,433</u>	<u>\$ 320,130</u>	<u>\$ 548,372</u>	<u>\$ 414,845</u>	<u>\$ 2,436,780</u>

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

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances-
 Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2005

Exhibit F

Net change in fund balances - total governmental funds \$ 766,420

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

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

Capital outlays	\$ 155,239	
Depreciation expense	(438,695)	
Loss on disposal of capital assets	<u>(20,107)</u>	(303,563)

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. 433,338

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		(76,953)
------------------	--	----------

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. 49,354

Change in net assets of governmental activities \$ 868,596

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

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
Proprietary Funds
June 30, 2005

Exhibit G

	<u>Nonmajor Enterprise</u>
ASSETS	
Cash and cash equivalents	\$ 110,066
Accounts receivable	50
Inventories	8,257
Capital assets, net of accumulated depreciation	<u>4,505</u>
Total assets	<u>122,878</u>
LIABILITIES	
Salaries and benefits payable	<u>26,043</u>
NET ASSETS	
Invested in capital assets	4,505
Unrestricted	<u>92,330</u>
Total net assets	<u>\$ 96,835</u>

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

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2005

Exhibit H

	<u>Nonmajor Enterprise</u>
Operating revenue	
Local sources	
Charges for service	<u>\$ 291,450</u>
Operating expenses	
Non-instructional programs	
Food service operations	
Salaries	154,220
Benefits	26,289
Purchased services	7,328
Supplies	174,760
Equipment repairs	240
Depreciation	<u>15,843</u>
	<u>378,680</u>
Preschool and daycare operations	
Salaries	48,246
Benefits	11,108
Purchased services	2,110
Supplies	<u>2,768</u>
	<u>64,232</u>
Total operating expenses	<u>442,912</u>
Operating loss	<u>(151,462)</u>
Non-operating revenue	
Interest income	1,074
State sources	5,003
Federal sources	<u>146,398</u>
Total non-operating revenue	<u>152,475</u>
Change in net assets	1,013
Net assets, beginning of year	<u>95,822</u>
Net assets, end of year	<u><u>\$ 96,835</u></u>

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

LOUISA-MUSCAITNE COMMUNITY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005

Exhibit I

	<u>Nonmajor Enterprise</u>
Cash flows from operating activities	
Cash received from sale of meals	\$ 225,821
Cash received from sale of services	65,579
Cash payments to employees for services	(238,850)
Cash payments to suppliers for goods and services	<u>(167,337)</u>
Net cash used in operating activities	<u>(114,787)</u>
Cash flows from non-capital financing activities	
State grants received	5,003
Federal grants received	<u>128,148</u>
Net cash provided by non-capital financing activities	<u>133,151</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities	
Interest on investments	<u>1,074</u>
Net cash provided by investing activities	<u>1,074</u>
Net increase in cash and cash equivalents	19,438
Cash and cash equivalents, beginning of year	<u>90,628</u>
Cash and cash equivalents, end of year	<u><u>\$ 110,066</u></u>
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ (151,462)
Adjustments to reconcile operating loss to net cash used in operating activities	
Commodities used	18,250
Depreciation	15,843
(Increase) in accounts receivable	(50)
Decrease in inventories	1,619
Decrease in accounts payable	<u>1,013</u>
Net cash used in operating activities	<u><u>\$ (114,787)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received \$18,250 of federal commodities.

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

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2005

Exhibit J

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

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

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

Note 1. Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

Jointly Governed Organizations - The District participates in jointly governed organizations that provide services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Louisa County and Muscatine County Assessor's Conference Board.

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental fund:

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

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

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

The District reports no major proprietary funds. However, it reports two nonmajor enterprise funds. The School Nutrition Fund is used to account for the food service operations of the District. The Preschool/Daycare Fund is used to account for the operation of the preschool and daycare programs.

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2004.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

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

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

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

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

Early Retirement - District employees meeting certain requirements are eligible for early retirement benefits. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2005. The early retirement liability attributable to the governmental activities will be paid primarily from the Management Fund.

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

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

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

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

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

E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, expenditures did not exceed the amounts budgeted, nor did District exceed its General Fund unspent authorized budget.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2005 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.

At June 30, 2005, the District had no investments.

Interest rate risk. The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Physical Plant and Equipment Levy	Capital Projects	\$ 5,527
Capital Projects	Physical Plant and Equipment Levy	32,744
Debt Service	Capital Projects	198,826
Debt Service	Physical Plant and Equipment Levy	<u>12,333</u>
Total		<u>\$ 249,430</u>

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

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2005 was as follows:

	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 90,976	\$ -	\$ -	\$ 90,976
Capital assets being depreciated:				
Buildings and improvements	12,779,514	42,703	(19,762)	12,802,455
Improvements other than buildings	828,503	-	-	828,503
Furniture and equipment	996,158	112,536	(80,731)	1,027,963
Total capital assets being depreciated	<u>14,604,175</u>	<u>155,239</u>	<u>(100,493)</u>	<u>14,658,921</u>
Less accumulated depreciation for:				
Buildings and improvements	4,970,412	317,728	(2,636)	5,285,504
Improvements other than buildings	566,837	47,012	(77,750)	536,099
Furniture and equipment	816,434	73,955	-	890,389
Total accumulated depreciation	<u>6,353,683</u>	<u>438,695</u>	<u>(80,386)</u>	<u>6,711,992</u>
Total capital assets being depreciated, net	<u>8,250,492</u>	<u>(283,456)</u>	<u>(20,107)</u>	<u>7,946,929</u>
Governmental activities capital assets, net	<u>\$ 8,341,468</u>	<u>\$(283,456)</u>	<u>\$ (20,107)</u>	<u>\$ 8,037,905</u>
<u>Business type activities</u>				
Furniture and equipment	\$ 180,238	\$ -	\$ -	\$ 180,238
Less accumulated depreciation	<u>159,890</u>	<u>15,843</u>	<u>-</u>	<u>175,733</u>
Business type activities capital assets, net	<u>\$ 20,348</u>	<u>\$(15,843)</u>	<u>\$ -</u>	<u>\$ 4,505</u>

Depreciation expense was charged to the following functions:

Governmental activities

Instruction	
Regular	\$ 9,213
Other	1,569
Support services	
Student	247
Administration	4,011
Operation and maintenance of plant	2,532
Transportation	56,383
Unallocated depreciation	<u>364,740</u>
Total governmental activities depreciation expense	<u>\$ 438,695</u>

Business Type activities

Food services	<u>\$ 15,843</u>
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Note 5. Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2005 are summarized as follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
Bank loans	\$ 43,338	\$ -	\$ (43,338)	\$ -	\$ -
General obligation bonds	2,470,000	-	(270,000)	2,200,000	320,000
Revenue bonds	970,000	-	(120,000)	850,000	125,000
Early retirement	<u>79,482</u>	<u>115,794</u>	<u>(38,841)</u>	<u>156,435</u>	<u>97,430</u>
Totals	<u>\$ 3,562,820</u>	<u>\$ 115,794</u>	<u>\$ (472,179)</u>	<u>\$ 3,206,435</u>	<u>\$ 542,430</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees, who meet certain eligibility guidelines. This voluntary early retirement plan is offered annually at the board's discretion. Eligible employees must have been at least age fifty-five and have completed fifteen years of consecutive service to the District. Employees must have completed an application, which was required to be approved by the Board of Education. Benefits can be received in a lump sum payment in the year following retirement, in two annual payments beginning in the year following retirement or by participation in the District's 125 cafeteria plan until the employee reaches age 65. Early retirement benefits paid during the year ended June 30, 2005 totaled \$38,841.

Bonds Payable

Details of the district's June 30, 2005 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond issue of March 3, 2004			
	Interest Rates	Interest	Principal	Total
2006	5.00	\$ 110,000	\$ 320,000	\$ 430,000
2007	5.00	94,000	340,000	434,000
2008	5.00	77,000	360,000	437,000
2009	5.00	59,000	375,000	434,000
2010	5.00	40,250	395,000	435,250
2011	5.00	<u>20,500</u>	<u>410,000</u>	<u>430,500</u>
Totals		<u>\$ 400,750</u>	<u>\$ 2,200,000</u>	<u>\$ 2,600,750</u>

Revenue Bonds Payable

On July 23, 2001, the District issued School Infrastructure Sales and Services Tax Revenue Bonds. The proceeds of the bonds are to be used to construct an addition to the high school building. The bonds will be repaid by the collection of the local option sales and services tax for school infrastructure. The bonds were for \$1,195,000 and are secured by a Reserve Fund, which was established under the Bond Resolution. A Sinking Fund has been established into which collections of the local option sales and services tax revenues will be deposited. Interest and principal on the bonds will be paid from the Sinking Fund. Details of the District's June 30, 2005 revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond issue of Sept 1, 1993			
	Interest Rates	Interest	Principal	Total
2006	5.00	\$ 37,707	\$ 125,000	\$ 162,707
2007	5.00	31,332	130,000	161,332
2008	4.50	24,933	140,000	164,933
2009	4.65	18,411	145,000	163,411
2010	4.80	11,440	150,000	161,440
2011	4.90	<u>3,920</u>	<u>160,000</u>	<u>163,920</u>
Totals		<u>\$ 127,743</u>	<u>\$ 850,000</u>	<u>\$ 977,743</u>

Loans Payable

On July 10, 2001, the District entered into a loan agreement with Columbus Junction State Bank for \$61,151 for the purchase of a bus. Payments of \$21,521, including interest at 4 percent, are due annually, beginning November 30, 2002. The final payment was made during the year ended June 30, 2005.

On September 18, 2001, the District entered into a loan agreement with Columbus Junction State Bank for \$58,424 for the purchase of two copiers. Payments of \$21,054, including interest at 4 percent, are due annually, beginning on August 28, 2002. The final payment was made during the year ended June 30, 2005.

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, 2005, 2004 and 2003. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$257,508, \$250,529 and \$251,295 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 \$248,857 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 9. Related Party Transactions

During the year ended June 30, 2005, the District had business transactions between the District and a company owned by a district official and her spouse totaling \$2,395.

Required Supplementary Information

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual
 All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 For the Year Ended June 30, 2005

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Total <u>Actual</u>	<u>Budgeted Amounts</u>	Final to Actual <u>Variance</u>
				<u>Original</u>	<u>Final</u>
Revenues					
Local sources	\$ 4,589,533	\$ 292,524	\$ 4,882,057	\$ 4,881,027	\$ 4,881,027
State sources	3,661,562	5,003	3,666,565	3,651,546	3,651,546
Federal sources	165,659	146,398	312,057	251,110	251,110
Total revenues	<u>8,416,754</u>	<u>443,925</u>	<u>8,860,679</u>	<u>8,783,683</u>	<u>8,783,683</u>
Expenditures					
Instruction	4,531,955	-	4,531,955	5,086,000	554,045
Support services	2,168,516	-	2,168,516	2,338,400	169,884
Non-instructional programs	4,049	442,912	446,961	462,954	15,993
Other expenditures	946,919	-	946,919	972,668	25,749
Total expenditures	<u>7,651,439</u>	<u>442,912</u>	<u>8,094,351</u>	<u>8,860,022</u>	<u>8,860,022</u>
Excess (deficiency) of revenues over (under) expenditures	765,315	1,013	766,328	(76,339)	(76,339)
Other financing sources, net	<u>1,105</u>	-	<u>1,105</u>	-	<u>1,105</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	766,420	1,013	767,433	(76,339)	(76,339)
Balance, beginning of year	1,670,360	95,822	1,766,182	1,553,588	1,553,588
Balance, end of year	<u>\$ 2,436,780</u>	<u>\$ 96,835</u>	<u>\$ 2,533,615</u>	<u>\$ 1,477,249</u>	<u>\$ 1,477,249</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the Year Ended June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund, Capital Projects Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

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 District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District did not adopt any budget amendments.

During the year ended June 30, 2005, District expenditures did not exceed the amounts budgeted in any of the four functions or the General Fund unspent authorized budget.

Other Supplementary Information

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005

Schedule 1

	<u>Special Revenue</u>			
	Student	Physical Plant and Equipment	Debt	
	<u>Activity</u>	<u>Levy</u>	<u>Service</u>	<u>Total</u>
ASSETS				
Cash and pooled investments	\$ 88,685	\$ 44,221	\$ 273,059	\$ 405,965
Receivables				
Property tax				
Current year delinquent	-	2,898	5,982	8,880
Succeeding year	-	183,253	424,089	607,342
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 88,685</u>	<u>\$ 230,372</u>	<u>\$ 703,130</u>	<u>\$ 1,022,187</u>
 LIABILITIES AND FUND EQUITY				
Liabilities				
Deferred revenue				
Succeeding year property tax	\$ -	\$ 183,253	\$ 424,089	\$ 607,342
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Equity				
Reserved for debt service	-	-	279,041	279,041
Unreserved fund balances	88,685	47,119	-	135,804
	<u>88,685</u>	<u>47,119</u>	<u>279,041</u>	<u>414,845</u>
Total fund equity	<u>88,685</u>	<u>47,119</u>	<u>279,041</u>	<u>414,845</u>
Total liabilities and fund equity	<u>\$ 88,685</u>	<u>\$ 230,372</u>	<u>\$ 703,130</u>	<u>\$ 1,022,187</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2005

Schedule 2

	Special Revenue			
	Student	Physical Plant and Equipment	Debt	Total
Revenues	Activity	Levy	Service	
Local sources				
Local taxes	\$ -	\$ 197,194	\$ 412,821	\$ 610,015
Other	205,616	224	3,858	209,698
State sources	-	117	242	359
Total revenues	205,616	197,535	416,921	820,072
Expenditures				
Current				
Instruction				
Other instruction	218,637	-	-	218,637
Support services				
Instructional staff services	-	70,165	-	70,165
Transportation services	-	51,431	-	51,431
Other expenditures				
Facilities acquisition	-	33,315	-	33,315
Long-term debt				
Principal	-	-	433,338	433,338
Interest and fiscal charges	-	-	201,910	201,910
Total expenditures	218,637	154,911	635,248	1,008,796
Excess (deficiency) of revenues over (under) expenditures	(13,021)	42,624	(218,327)	(188,724)
Other financing sources (uses)				
Sale of real property	-	774	-	774
Interfund operating transfer in	-	5,527	211,159	216,686
Interfund operating transfer (out)	-	(45,076)	-	(45,076)
Total other financing sources (uses)	-	(38,775)	211,159	172,384
Excess (deficiency) of revenues and other financing financing sources over (under) expenditures and other financing (uses)	(13,021)	3,849	(7,168)	(16,340)
Fund balances, beginning of year	101,706	43,270	286,209	431,185
Fund balances, end of year	\$ 88,685	\$ 47,119	\$ 279,041	\$ 414,845

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Combining Statement of Net Assets
Nonmajor Proprietary Funds
June 30, 2005

Schedule 3

	<u>Enterprise</u>		<u>Total</u>
	<u>School Nutrition</u>	<u>Daycare & Preschool</u>	
ASSETS			
Cash and cash equivalents	\$ 108,673	\$1,393	\$110,066
Accounts receivable	-	50	50
Inventories	8,257	-	8,257
Capital assets, net of accumulated depreciation	<u>4,505</u>	<u>-</u>	<u>4,505</u>
Total assets	<u>121,435</u>	<u>1,443</u>	<u>122,878</u>
LIABILITIES			
Salaries and benefits payable	<u>26,014</u>	<u>29</u>	<u>26,043</u>
NET ASSETS			
Invested in capital assets	4,505	-	4,505
Unrestricted	<u>90,916</u>	<u>1,414</u>	<u>92,330</u>
Total net assets	<u>\$ 95,421</u>	<u>\$1,414</u>	<u>\$ 96,835</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Nonmajor Proprietary Funds
For the Year Ended June 30, 2005

Schedule 4

	Enterprise		Total
	School Nutrition	Daycare & Preschool	
Operating revenue			
Local sources			
Charges for service	\$ 225,821	\$ 65,629	\$ 291,450
Operating expenses			
Non-instructional programs			
Salaries	154,220	48,246	202,466
Benefits	26,289	11,108	37,397
Purchased services	7,328	2,110	9,438
Supplies	174,760	2,768	177,528
Equipment repairs	240	-	240
Depreciation	15,843	-	15,843
Total operating expenses	378,680	64,232	442,912
Operating income (loss)	(152,859)	1,397	(151,462)
Non-operating revenue			
Interest income	1,064	10	1,074
State sources	5,003	-	5,003
Federal sources	146,398	-	146,398
Total non-operating revenue	152,465	10	152,475
Change in net assets	(394)	1,407	1,013
Net assets, beginning of year	95,815	7	95,822
Net assets, end of year	\$ 95,421	\$ 1,414	\$ 96,835

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2005

Schedule 5

	Enterprise		<u>Total</u>
	<u>School Nutrition</u>	<u>Daycare & Preschool</u>	
Cash flows from operating activities			
Cash received from sale of meals	\$ 225,821	\$ -	\$ 225,821
Cash received from sale of services	-	65,579	65,579
Cash payments to employees for services	(179,498)	(59,352)	(238,850)
Cash payments to suppliers for goods and services	<u>(162,459)</u>	<u>(4,878)</u>	<u>(167,337)</u>
Net cash provided by (used in) operating activities	<u>(116,136)</u>	<u>1,349</u>	<u>(114,787)</u>
Cash flows from non-capital financing activities			
State grants received	5,003	-	5,003
Federal grants received	<u>128,148</u>	<u>-</u>	<u>128,148</u>
Net cash provided by non-capital financing activities	<u>133,151</u>	<u>-</u>	<u>133,151</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities			
Interest on investments	<u>1,064</u>	<u>10</u>	<u>1,074</u>
Net cash provided by investing activities	<u>1,064</u>	<u>10</u>	<u>1,074</u>
Net increase in cash and cash equivalents	18,079	1,359	19,438
Cash and cash equivalents, beginning of year	<u>90,594</u>	<u>34</u>	<u>90,628</u>
Cash and cash equivalents, end of year	<u>\$ 108,673</u>	<u>\$ 1,393</u>	<u>\$ 110,066</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$(152,859)	\$ 1,397	\$(151,462)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Commodities used	18,250	-	18,250
Depreciation	15,843	-	15,843
(Increase) in accounts receivable	-	(50)	(50)
Decrease in inventories	1,619	-	1,619
Increase in accrued salaries and benefits	<u>1,011</u>	<u>2</u>	<u>1,013</u>
Net cash provided by (used in) operating activities	<u>\$(116,136)</u>	<u>\$ 1,349</u>	<u>\$(114,787)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received \$18,250 of federal commodities.

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
For the Year Ended June 30, 2005

Schedule 6

Account	Balance, Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance, End of Year
Athletics	\$ 4,613	\$ 48,555	\$ 53,353	\$ 5,817	\$ 5,632
Cheerleading	1,450	3,017	3,544	-	923
Athletic fundraising	1,623	-	-	(1,623)	-
Athletic resale	604	3,028	3,013	(619)	-
Ads and posters	10	75	140	55	-
Jr high	1,785	9,604	7,564	875	4,700
Elementary activity	10,056	10,095	9,075	-	11,076
Concessions	34,899	19,006	16,629	(851)	36,425
FFA	17,871	36,289	36,794	(4,801)	12,565
FFA vending	991	4,380	3,559	-	1,812
FFA greenhouse	299	604	2,054	352	(799)
Band	16,148	60,958	72,505	300	4,901
Speech	26	56	803	721	-
Drama	773	-	-	-	773
Student council	1,226	763	772	-	1,217
Yearbook	3,841	1,980	2,515	-	3,306
Vocal music	2,367	1,031	202	(300)	2,896
TAG	113	-	-	-	113
Senior class	1,332	3,884	4,781	-	435
Junior class	-	269	-	-	269
NHS	6	1,254	1,334	74	-
Interest	1,673	768	-	-	2,441
Totals	<u>\$ 101,706</u>	<u>\$ 205,616</u>	<u>\$ 218,637</u>	<u>\$ -</u>	<u>\$ 88,685</u>

See accompanying Independent Auditor's Report.

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

Schedule 7

	Modified Accrual Basis			
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Revenues				
Local sources				
Local tax	\$ 3,766,108	\$ 3,099,130	\$ 3,522,994	\$ 3,311,135
Tuition	508,531	621,015	539,427	536,301
Other	314,894	271,674	321,710	423,104
State sources	3,661,562	3,247,182	3,491,187	3,340,857
Federal sources	<u>165,659</u>	<u>204,663</u>	<u>141,145</u>	<u>633,355</u>
Total revenues	<u>\$ 8,416,754</u>	<u>\$ 7,443,664</u>	<u>\$ 8,016,463</u>	<u>\$ 8,244,752</u>
Expenditures				
Instruction				
Regular instruction	3,082,267	3,129,887	3,102,802	3,178,144
Special instruction	804,476	843,113	676,892	596,071
Other instruction	645,212	496,931	482,769	489,949
Support services				
Student services	232,680	220,136	212,637	210,225
Instructional staff services	373,511	236,691	253,328	248,907
Administration services	601,085	606,526	587,014	659,387
Operation and maintenance of plant services	533,134	549,730	523,154	531,827
Transportation services	428,106	415,983	458,646	503,785
Non-instructional programs	4,049	2,545	3,623	2,616
Other expenditures				
Facilities acquisition	62,814	122,785	266,312	1,674,418
Long-term debt				
Principal	433,338	3,033,740	863,813	362,715
Interest and other charges	201,910	271,131	249,195	221,382
AEA flowthrough	<u>248,857</u>	<u>241,253</u>	<u>253,388</u>	<u>254,232</u>
Total expenditures	<u>\$ 7,651,439</u>	<u>\$ 10,170,451</u>	<u>\$ 7,933,573</u>	<u>\$ 8,933,658</u>

See accompanying Independent Auditor's Report.

KAY L. CHAPMAN, CPA PC

210 Cedar Street
Muscatine, Iowa 52761
563-264-1385

Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Board of Education
Louisa-Muscatine Community School District

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Louisa-Muscatine Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued my report thereon dated October 14, 2005. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A material weakness is a reportable 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 caused by error or fraud 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, of the reportable conditions described above, I believe item (A) Segregation of Duties, is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Louisa-Muscatine Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 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.

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

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



Kay L. Chapman, CPA PC
October 14, 2005

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2005

Part I. Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were noted.

REPORTABLE CONDITIONS

- (A) Segregation of Duties - The limited number of accounting personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although I noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

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

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

Conclusion - Response accepted.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2005

Part II. Other Findings Related to Statutory Reporting:

1. Official Depositories - A resolution naming official depositories has been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
2. Certified Budget - Expenditures for the year ended June 30, 2005 did not exceed the amounts budgeted.
3. Questionable Disbursements - I noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
4. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
5. Business Transactions - Business transactions between the District and District officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Angie Kemp, board member part owner of Kemp & Son, Inc.	snow removal and repairs	\$ 2,395

The transactions with Board Member Kemp's business do not appear to represent a conflict of interest since the total did not exceed \$2,500 for the fiscal year, as allowed by Chapter 279.7A of the Code of Iowa.

Recommendation - The District should consult legal counsel to determine the disposition of this matter.

Response - We will review the situation.

Conclusion - Response accepted.

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.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2005

8. Certified Enrollment - No variance in the basic enrollment data certified to the Department of Education were noted.
9. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
10. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely and I noted no significant deficiencies in the amounts reported.
11. Disposal of Property - The District disposed of a storage shed during the year ended June 30, 2005 without holding a public hearing.

Recommendation - Chapter 297.22 of the Code of Iowa requires that a public hearing be held prior to disposal of property valued in excess of \$5,000. It appears that the value of the storage shed would have exceeded \$5,000; therefore, the District would have been required to hold a public hearing prior to disposing of the property. The District should ensure that they comply with Chapter 297.22 of the Code of Iowa prior to disposing of property in the future.

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

Conclusion - Response accepted.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Audit Staff
June 30, 2005

This audit was performed by

Kay Chapman, CPA
Christina Chamberlin, staff accountant
Tammy Calvert, staff accountant