

**LUVERNE COMMUNITY SCHOOL DISTRICT**

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

June 30, 2004

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## Independent Auditor's Report

To the Board of Education of  
LuVerne Community School District:

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

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

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

As described in Note 10 to the financial statements, during the year ended June 30, 2004, LuVerne Community School District adopted Governmental Accounting Standards Board Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement Number 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement Number 38, Certain Financial Statement Note Disclosures; Statement Number 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation Number 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated August 12, 2004, on our consideration of LuVerne Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 33 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise LuVerne Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003, (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BURTON E. TRACY & CO., P.C.  
Certified Public Accountants

August 12, 2004

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

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

Because of changes in reporting standards for this fiscal year, much of the information is not easily comparable to prior years.

### **2004 FINANCIAL HIGHLIGHTS**

- General Fund revenues decreased from \$1,110,552 in fiscal 2003 to \$1,105,896 in fiscal 2004, while General Fund expenditures decreased from \$1,062,079 in fiscal 2003 to \$995,133 in fiscal 2004. The District's General Fund balance increased from a negative balance of \$5,529 in fiscal 2003 to \$97,659 in fiscal 2004.
- The decrease in General Fund revenues was due to grant money that was anticipated but not received until the next calendar year. The decrease in General fund expenditures was due to reduction of staff and whole grade sharing.

### **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 LuVerne Community School 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 LuVerne Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds.

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

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

Other Supplementary Information provides detailed information about the non major Special Revenue Funds.

## **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 is included here.

### ***Fund Financial Statements***

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

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

The District has two kinds of funds:

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

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

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

2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund. The District also uses an Internal Service Fund to report activities that provides supplies and services for it's other programs and activities. The District currently has one of these funds that is used to pay medical and flex benefits.

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.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-1 below provides a summary of the District's net assets at June 30, 2004 compared to June 30, 2003.

Figure A-1

<b>Condensed Statement of Net Assets</b>							
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total School District</b>		<b>Percentage Change</b>
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2003-2004</b>
	\$	\$	\$	\$	\$	\$	
Current and other assets	1,138,437	1,121,983	6,541	5,695	1,144,978	1,127,678	1.5%
Capital assets	176,926	207,305	3,464	4,408	180,390	211,713	-14.8%
<b>Total Assets</b>	<b>1,315,363</b>	<b>1,329,288</b>	<b>10,005</b>	<b>10,103</b>	<b>1,325,368</b>	<b>1,339,391</b>	<b>-1.0%</b>
Long-term liabilities	749	9,036	-	-	749	9,036	-91.7%
Other liabilities	955,792	1,021,409	5,362	4,434	961,154	1,025,843	-6.3%
<b>Total liabilities</b>	<b>956,541</b>	<b>1,030,445</b>	<b>5,362</b>	<b>4,434</b>	<b>961,903</b>	<b>1,034,879</b>	<b>-7.1%</b>
Net Assets:							
Invested in capital assets, net of related debt	176,926	207,305	3,464	4,408	180,390	211,713	-14.8%
Restricted	57,701	69,802	-	-	57,701	69,802	-17.3%
Unrestricted	124,195	21,736	1,179	1,261	125,374	22,997	452.2%
<b>TOTAL NET ASSETS</b>	<b>358,822</b>	<b>298,843</b>	<b>4,643</b>	<b>5,669</b>	<b>363,465</b>	<b>304,512</b>	<b>19.4%</b>

The District's combined net assets increased by nearly 19%, or approximately \$58,953, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$12,101, or 17% over the prior year. The decrease was primarily a result of increased expenditures in the Physical Plant and Equipment Levy Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$102,377, or 452%. The major reason for the increase in unrestricted net assets was reduced costs due to staff reductions.

Figure A-2 shows the change in net assets for the year ended June 30, 2004.

Figure A-2

	<b>Changes in Net Assets</b>		
	<b>Governmental Activities</b>	<b>Business type Activities</b>	<b>Total</b>
	<b>2004</b>	<b>2004</b>	<b>2004</b>
	\$	\$	\$
<b>Revenues</b>			
Program Revenues			
Charges for services	113,608	22,279	135,887
Operating Grants & Contributions	159,032	35,235	194,267
Capital Grants & Contributions	18,161	-	18,161
General Revenues			
Property taxes	716,840	-	716,840
Income surtax	28,995	-	28,995
Local Option Sales Tax	17,718	-	17,718
Unrestricted State Grants	153,807	-	153,807
Unrestricted Investment Earnings	2,339	21	2,360
Other Revenue	439	-	439
<b>Total Revenues</b>	<b>1,210,939</b>	<b>57,535</b>	<b>1,268,474</b>
<b>Expenses</b>			
Instruction	700,770	-	700,770
Support Services	378,821	-	378,821
Non-Instructional Programs	-	66,561	66,561
Other Expenses	63,369	-	63,369
<b>Total Expenses</b>	<b>1,142,960</b>	<b>66,561</b>	<b>1,209,521</b>
<b>Change in Net Assets Before Transfers</b>	<b>67,979</b>	<b>(9,026)</b>	<b>58,953</b>
Transfers	(8,000)	8,000	-
<b>Change in Net Assets</b>	<b>59,979</b>	<b>(1,026)</b>	<b>58,953</b>
<b>Net Assets – Beginning</b>	298,843	5,669	304,512
	358,822		
<b>Net Assets - Ending</b>		4,643	363,465

Property tax and unrestricted state grants account for 69% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 89% of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$1,210,939 and expenses were \$1,142,960. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

- The cost financed by users of the District's programs was \$113,608.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$177,193.
- The net cost of governmental activities was financed with \$763,553 in property and other local taxes and \$153,807 in unrestricted state grants.

### **Business Type Activities**

Revenues for business type activities were \$57,535 and expenses were \$66,561. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

### **INDIVIDUAL FUND ANALYSIS**

As previously noted, LuVerne 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 \$155,926, well above last year's ending fund balances of \$73,309. However, the primary reason for the increase in combined fund balances in fiscal 2004 is due to cuts in staffing and money saved by whole grade sharing.

### **Governmental Fund Highlights**

- The General Fund balance increased from a negative \$5,529 to \$97,659, due in part to the tax rate increase requested by the public, reduced staffing and whole grade sharing.
- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$13,291 in fiscal 2003 to \$2,324 in fiscal 2004 because of the purchase of a new bus.
- The Capital Projects Fund balance increased due to Local Option Sales Tax being voted in for Kossuth County. Fiscal 2004 ended with a balance of \$14,159.

### **Proprietary Fund Highlights**

School Nutrition Fund net assets decreased from \$5,669 at June 30, 2003 to \$4,643 at June 30, 2004. For fiscal 2004, the District increased meal prices, but the increased revenues were more than offset by increased salary, employee benefit and food costs.

## BUDGETARY HIGHLIGHTS

Over the course of the year, LuVerne Community School District did not amend its annual budget.

The District's receipts were \$57,901 more than budgeted receipts, a variance of 9%. The most significant variance resulted from the District receiving more grants and miscellaneous income than originally anticipated.

Total expenditures were \$91,821 less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded by \$548 in the instruction services areas due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2004, the District had invested \$180,390, 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-3) This represents a net decrease of 15% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$45,770.

*Figure A-3*

#### *Capital Assets (net of depreciation)*

	Governmental		Business type		Total		Percentage Change 2003-2004
	Activities		Activities		School District		
	2004	2003	2004	2003	2004	2003	
	\$	\$	\$	\$	\$	\$	
Land	9,000	9,000	-	-	9,000	9,000	0.0%
Buildings	41,811	53,695	-	-	41,811	53,695	-22.1%
Improvements	8,500	10,563	-	-	8,500	10,563	-19.5%
Equipment & Furniture	117,615	134,047	3,464	4,408	121,079	138,455	-12.5%
<b>TOTAL</b>	<b>176,926</b>	<b>207,305</b>	<b>3,464</b>	<b>4,408</b>	<b>180,390</b>	<b>211,713</b>	<b>-14.8%</b>

### **Long-Term Debt**

At June 30, 2004, the District had \$749 in early retirement debt outstanding. This represents a decrease of 92% from last year.

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

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

- The District expects to experience declining enrollment.

### **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 Annie Johnson, District Secretary/Treasurer and Business Manager, LuVerne Community School District, 405 Hanna Avenue, LuVerne, Iowa 50560.

## BASIC FINANCIAL STATEMENTS

## LIVERNE COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2004

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and cash equivalents:			
ISCAP	272,604	-	272,604
Other	203,766	3,243	207,009
Receivables:			
Property tax:			
Delinquent	14,639	-	14,639
Succeeding year	578,130	-	578,130
Accounts	541	396	937
Accrued interest:			
ISCAP	531	-	531
Other	199	4	203
Due from other governments	60,696	-	60,696
Inventories	-	2,898	2,898
Prepaid expenses	7,331	-	7,331
Capital assets, net of accumulated depreciation	176,926	3,464	180,390
<b>Total assets</b>	<b>1,315,363</b>	<b>10,005</b>	<b>1,325,368</b>
<b>Liabilities</b>			
Accounts payable	27,053	-	27,053
Salaries and benefits payable	75,922	5,280	81,202
Deferred revenue:			
Succeeding year property tax	578,130	-	578,130
Other	-	82	82
ISCAP warrants payable	271,000	-	271,000
ISCAP accrued interest payable	806	-	806
ISCAP premium	2,881	-	2,881
Long-term liabilities:			
Portion due within one year:			
Early retirement	749	-	749
<b>Total liabilities</b>	<b>956,541</b>	<b>5,362</b>	<b>961,903</b>

## LIVERNE COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2004

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Net assets</b>			
Invested in capital assets, net of related debt	176,926	3,464	180,390
Restricted for:			
Iowa early intervention block grant	183	-	183
Management levy	33,549	-	33,549
Physical plant and equipment levy	2,324	-	2,324
Local option sales tax capital projects	14,159	-	14,159
Other special revenue purposes	7,486	-	7,486
Unrestricted	<u>124,195</u>	<u>1,179</u>	<u>125,374</u>
<b>Total net assets</b>	<u><u>358,822</u></u>	<u><u>4,643</u></u>	<u><u>363,465</u></u>

## LUVERNE COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2004

<b>Functions/Programs</b>	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Governmental activities:</b>				
Instruction:				
Regular instruction	515,557	42,851	120,267	-
Special instruction	114,884	42,573	7,644	-
Other instruction	70,329	28,184	-	-
	<u>700,770</u>	<u>113,608</u>	<u>127,911</u>	<u>-</u>
Support services:				
Student services	19,748	-	-	-
Instructional staff services	7,358	-	-	-
Administration services	157,499	-	-	-
Operation and maintenance of plant services	123,253	-	-	-
Transportation services	70,963	-	-	-
	<u>378,821</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	18,301	-	-	18,161
AEA flowthrough	31,121	-	31,121	-
Depreciation (unallocated)*	13,947	-	-	-
	<u>63,369</u>	<u>-</u>	<u>31,121</u>	<u>18,161</u>
Total governmental activities	1,142,960	113,608	159,032	18,161
<b>Business type activities</b>				
Non-instructional programs:				
Food service operations	66,561	22,279	35,235	-
Total	<u>1,209,521</u>	<u>135,887</u>	<u>194,267</u>	<u>18,161</u>
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
Transfers				
Total general revenues and transfers				

**Change in net assets**

Net assets beginning of year, as restated

Net assets end of year

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

See notes to financial statements.

## LUVERNE COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2004

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
(352,439)	-	(352,439)
(64,667)	-	(64,667)
(42,145)	-	(42,145)
<u>(459,251)</u>	<u>-</u>	<u>(459,251)</u>
(19,748)	-	(19,748)
(7,358)	-	(7,358)
(157,499)	-	(157,499)
(123,253)	-	(123,253)
(70,963)	-	(70,963)
<u>(378,821)</u>	<u>-</u>	<u>(378,821)</u>
(140)	-	(140)
-	-	-
(13,947)	-	(13,947)
<u>(14,087)</u>	<u>-</u>	<u>(14,087)</u>
(852,159)	-	(852,159)
-	(9,047)	(9,047)
<u>(852,159)</u>	<u>(9,047)</u>	<u>(861,206)</u>
696,311	-	696,311
20,529	-	20,529
28,995	-	28,995
17,718	-	17,718
153,807	-	153,807
2,339	21	2,360
439	-	439
920,138	21	920,159
<u>(8,000)</u>	<u>8,000</u>	<u>-</u>
<u>912,138</u>	<u>8,021</u>	<u>920,159</u>
59,979	(1,026)	58,953
<u>298,843</u>	<u>5,669</u>	<u>304,512</u>
<u>358,822</u>	<u>4,643</u>	<u>363,465</u>

## LIVERNE COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2004

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
<b>Assets</b>			
Cash and pooled investments:			
ISCAP	272,604	-	272,604
Other	151,794	51,071	202,865
Receivables:			
Property tax:			
Delinquent	13,891	748	14,639
Succeeding year	545,210	32,920	578,130
Accounts	263	278	541
Accrued interest - ISCAP	531	-	531
Accrued interest - other	154	45	199
Prepaid expense	7,331	-	7,331
Due from other governments	54,562	6,134	60,696
	<u>1,046,340</u>	<u>91,196</u>	<u>1,137,536</u>
	<u>1,046,340</u>	<u>91,196</u>	<u>1,137,536</u>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	26,214	9	26,223
Salaries and benefits payable	75,922	-	75,922
ISCAP warrants payable	271,000	-	271,000
ISCAP accrued interest payable	806	-	806
ISCAP premium	2,881	-	2,881
Deferred revenue:			
Succeeding year property tax	545,210	32,920	578,130
Other	26,648	-	26,648
Total liabilities	<u>948,681</u>	<u>32,929</u>	<u>981,610</u>
Fund balances:			
Reserved for:			
Prepaid expenses	7,331	-	7,331
Iowa early intervention block grant	183	-	183
Unreserved	90,145	58,267	148,412
Total fund balances	<u>97,659</u>	<u>58,267</u>	<u>155,926</u>
	<u>1,046,340</u>	<u>91,196</u>	<u>1,137,536</u>
	<u>1,046,340</u>	<u>91,196</u>	<u>1,137,536</u>

## LUVÉRNE COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets

June 30, 2004

<b>Total fund balances of governmental funds (Exhibit C)</b>	155,926
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	176,926
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	26,648
An internal service fund is used by the District's management to charge the costs of the medical deductible reimbursement plan and the employee flexible benefit program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	71
Long-term liabilities, including early retirement benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(749)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>358,822</u></u>

## LIVERNE COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds

Year ended June 30, 2004

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	706,682	54,345	761,027
Tuition	71,946	-	71,946
Other	14,429	29,586	44,015
State sources	226,221	-	226,221
Federal sources	86,618	18,161	104,779
Total revenues	<u>1,105,896</u>	<u>102,092</u>	<u>1,207,988</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	490,740	19,562	510,302
Special instruction	114,884	-	114,884
Other instruction	42,894	30,988	73,882
	<u>648,518</u>	<u>50,550</u>	<u>699,068</u>
Support services:			
Student services	19,748	-	19,748
Instructional staff services	7,358	-	7,358
Administration services	158,158	341	158,499
Operation and maintenance of plant services	82,472	47,431	129,903
Transportation services	47,758	6,040	53,798
	<u>315,494</u>	<u>53,812</u>	<u>369,306</u>
Other expenditures:			
Facilities acquisition	-	18,301	18,301
AEA flowthrough	31,121	-	31,121
	<u>31,121</u>	<u>18,301</u>	<u>49,422</u>
Total expenditures	<u>995,133</u>	<u>122,663</u>	<u>1,117,796</u>
Excess (deficiency) of revenues over (under) expenditures	<u>110,763</u>	<u>(20,571)</u>	<u>90,192</u>
Other financing sources (uses):			
Sales of materials and equipment	425	-	425
Operating transfers out	(8,000)	-	(8,000)
Total other financing sources (uses)	<u>(7,575)</u>	<u>-</u>	<u>(7,575)</u>
Net change in fund balances	103,188	(20,571)	82,617
Fund balances beginning of year, as restated	<u>(5,529)</u>	<u>78,838</u>	<u>73,309</u>
Fund balances end of year	<u><u>97,659</u></u>	<u><u>58,267</u></u>	<u><u>155,926</u></u>

LIVERNE COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances - Governmental Funds to the  
Statement of Activities

Year ended June 30, 2004

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		82,617
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the year as follows:		
Expenditures for capital assets	14,447	
Depreciation expense	<u>(44,826)</u>	(30,379)
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.		
		2,526
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, as follows:		
Early retirement		8,287
An internal service fund is used by the District's management to charge the costs of the medical deductible reimbursement plan and the employee flexible benefit program to the individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.		
		<u>(3,072)</u>
<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>59,979</u></u>

## LIVERNE COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Funds

June 30, 2004

	Enterprise Fund	Governmental Activities - Internal
	School Nutrition	Service Fund
	\$	\$
<b>Assets</b>		
Cash and cash equivalents	3,243	901
Accounts receivable	396	-
Accrued interest receivable	4	-
Inventories	2,898	-
Capital assets, net of accumulated depreciation	3,464	-
<b>Total assets</b>	<u>10,005</u>	<u>901</u>
<b>Liabilities</b>		
Accounts payable	-	830
Salaries and benefits payable	5,280	-
Deferred revenue	82	-
<b>Total liabilities</b>	<u>5,362</u>	<u>830</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	3,464	-
Unrestricted	1,179	71
<b>Total net assets</b>	<u>4,643</u>	<u>71</u>

## LIVERNE COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses, and Changes in Net Assets  
Proprietary Funds

Year ended June 30, 2004

	Enterprise Fund <u>School Nutrition</u> \$	Governmental Activities - Internal Service Fund \$
Operating revenue:		
Local sources:		
Charges for service	<u>22,279</u>	<u>10,912</u>
Operating expenses:		
Non-instructional programs:		
Salaries	28,193	-
Benefits	10,154	13,984
Purchased services	824	-
Supplies	26,393	-
Depreciation	944	-
Other	53	-
	<u>66,561</u>	<u>13,984</u>
Operating gain (loss)	<u>(44,282)</u>	<u>(3,072)</u>
Non-operating revenue:		
State sources	836	-
Federal sources	34,399	-
Interest income	21	-
Total non-operating revenue	<u>35,256</u>	<u>-</u>
Gain (loss) before contributions and transfers	(9,026)	(3,072)
Transfers in	<u>8,000</u>	<u>-</u>
Change in net assets	(1,026)	(3,072)
Net assets beginning of year	<u>5,669</u>	<u>3,143</u>
Net assets end of year	<u><u>4,643</u></u>	<u><u>71</u></u>

## LIVERNE COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2004

	Enterprise Fund <u>School Nutrition</u> \$	Governmental Activities - Internal Service Fund <u>Service Fund</u> \$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	21,555	-
Cash received from other services	-	10,912
Cash payments to employees for services	(37,070)	(13,362)
Cash payments to suppliers for goods or services	(21,461)	-
Net cash used by operating activities	<u>(36,976)</u>	<u>(2,450)</u>
Cash flows from non-capital financing activities:		
Transfers from other funds	8,000	-
State grants received	836	-
Federal grants received	29,093	-
Net cash provided by non-capital financing activities	<u>37,929</u>	<u>-</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	17	-
Net increase (decrease) in cash and cash equivalents	970	(2,450)
Cash and cash equivalents at beginning of year	<u>2,273</u>	<u>3,351</u>
Cash and cash equivalents at end of year	<u>3,243</u>	<u>901</u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>		
Operating gain (loss)	(44,282)	(3,072)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	5,306	-
Depreciation	944	-
Decrease (increase) in inventories	504	-
Decrease (increase) in accounts receivable	(376)	-
(Decrease) increase in accounts payable	-	622
(Decrease) increase in salaries and benefits payable	1,277	-
(Decrease) increase in deferred revenue	(349)	-
Net cash used in operating activities	<u>(36,976)</u>	<u>(2,450)</u>

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

During the year ended June 30, 2004, the District received \$5,306 of federal commodities.

# LUVERNE COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2004

### 1. Summary of Significant Accounting Policies

LuVerne Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of LuVerne, Iowa and the predominately agricultural territory in a portion of Kossuth and Humboldt 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, LuVerne 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 LuVerne Community School District has no component units that meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but 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 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 that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those 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 nonmajor governmental funds.

The District reports the following major governmental funds:

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

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

The District's internal service fund is also reported as a proprietary fund. The internal service fund is used to account for the District's medical insurance deductible reimbursement plan and its employee benefit flex plan.

#### 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 accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

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

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

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

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

#### D. Assets, Liabilities and Fund Equity

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

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

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, 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 the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003, through June 30, 2004, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

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

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

Capital Assets – Capital assets, which include property, furniture and equipment are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair 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	-
Buildings	1,000
Improvements other than buildings	1,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	1000

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	20-50 years
Improvements other than buildings	20 years
Furniture and equipment	5-12 years

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

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

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds, amounts received in advance for meal sales and succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Employees are not paid for unused vacation and sick leave benefits when employment with the District ends.

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements in the instruction function exceeded the amount budgeted.

**2. Cash and Pooled Investments**

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

**3. Interfund Transfers**

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

Transfer to	Transfer from	Amount
		\$
Enterprise:		
School Nutrition Fund	General Fund	8,000

The General Fund transferred \$8,000 to the School Nutrition Fund to subsidize the food service operation.

#### 4. Iowa School Cash Anticipation Program (ISCAP)

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

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
			\$	\$	\$	\$
2003-04B	1/30/04	1/28/05	97,661	531	97,000	806
2004-05A	6/30/04	6/30/05	174,943	-	174,000	-
Total			<u>272,604</u>	<u>531</u>	<u>271,000</u>	<u>806</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, [2004](#), is as follows:

Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
\$	\$	\$	\$
-	<u>103,900</u>	<u>103,900</u>	-

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

Series	Interest Rates on Warrants	Interest Rates on Investments
	%	%
2003-04A	2.000	1.050
2003-04B	2.000	1.131
2004-05A	3.000	2.463

## 5. Capital Assets

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

	Balance Beginning of Year, as Restated	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	9,000	-	-	9,000
Capital assets being depreciated:				
Buildings	465,574	-	-	465,574
Improvements other than buildings	26,221	-	-	26,221
Furniture and equipment	415,768	14,447	-	430,215
Total capital assets being deprec.	907,563	14,447	-	922,010
Less accumulated depreciation for:				
Buildings	411,879	11,884	-	423,763
Improvements other than buildings	15,658	2,063	-	17,721
Furniture and equipment	281,721	30,879	-	312,600
Total accumulated depreciation	709,258	44,826	-	754,084
Total capital assets being depreciated, net	198,305	(30,379)	-	167,926
Governmental activities capital assets, net	207,305	(30,379)	-	176,926
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Business type activities:</b>				
Furniture and equipment	29,213	-	-	29,213
Less accumulated depreciation	24,805	944	-	25,749
Business type activities capital assets, net	4,408	(944)	-	3,464

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	12,203
Other	439
Support Services:	
Administration services	111
Operation and maintenance of plant services	961
Transportation	17,165
	30,879
Unallocated depreciation	13,947

Total depreciation expense – governmental activities	<u>44,826</u>
Business type activities:	
Food services	<u>944</u>

**6. Long-Term Liabilities**

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Early retirement	<u>9,036</u>	<u>-</u>	<u>8,287</u>	<u>749</u>	<u>749</u>

Early Retirement

The District offered a voluntary early retirement plan to its certified and classified employees. Employees had to apply to the board of education by March 31, 2003. Early retirement expenditures for the year ended June 30, 2004 totaled \$8,017.

**7. Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$30,977, \$35,071, and \$36,408 respectively, equal to the required contributions for each year.

**8. Risk Management**

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

**9. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$31,121 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

## 10. Accounting Change and Restatement

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

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended [June 30, 2004](#). The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

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

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

	Funds		
	General	Nonmajor	Total
	\$	\$	\$
Net assets, June 30, 2003, as previously reported	(5,529)	74,532	69,003
GASB Interpretation 6 adjustments	-	4,306	4,306
Net assets, July 1, 2003, as restated for Governmental funds	<u>(5,529)</u>	<u>78,838</u>	73,309
GASB 34 adjustments:			
Capital assets net of accumulated depreciation of <a href="#">\$709,258</a>			207,305
Net assets and liabilities of Internal Service Fund			3,143
Long-term liabilities:			
Compensated absences			
Early retirement			(9,036)
Deferred revenue			<u>24,122</u>
Net assets, July 1, 2003, as restated			<u>298,843</u>

REQUIRED SUPPLEMENTARY INFORMATION

LUVERNE COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances -  
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Receipts:						
Local sources	861,355	21,572	882,927	850,442	850,442	32,485
Intermediate sources	-	-	-	16,500	16,500	(16,500)
State sources	226,221	836	227,057	246,347	246,347	(19,290)
Federal sources	103,544	34,399	137,943	76,737	76,737	61,206
Total receipts	<u>1,191,120</u>	<u>56,807</u>	<u>1,247,927</u>	<u>1,190,026</u>	<u>1,190,026</u>	<u>57,901</u>
Disbursements:						
Instruction	685,148	-	685,148	684,600	684,600	(548)
Support services	367,659	-	367,659	429,700	429,700	62,041
Non-instructional programs	-	63,837	63,837	83,000	83,000	19,163
Other expenditures	49,422	-	49,422	60,587	60,587	11,165
Total disbursements	<u>1,102,229</u>	<u>63,837</u>	<u>1,166,066</u>	<u>1,257,887</u>	<u>1,257,887</u>	<u>91,821</u>
Excess (deficiency) of receipts over (under) disbursements	88,891	(7,030)	81,861	(67,861)	(67,861)	149,722
Other financing sources (uses) net	<u>(7,575)</u>	<u>8,000</u>	<u>425</u>	<u>-</u>	<u>-</u>	<u>425</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements	81,316	970	82,286	(67,861)	(67,861)	150,147
Balance beginning of year	<u>121,549</u>	<u>2,273</u>	<u>123,822</u>	<u>108,549</u>	<u>108,549</u>	<u>15,273</u>
Balance end of year	<u><u>202,865</u></u>	<u><u>3,243</u></u>	<u><u>206,108</u></u>	<u><u>40,688</u></u>	<u><u>40,688</u></u>	<u><u>165,420</u></u>

LUVERNE COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
	\$	\$	\$
Revenues	1,191,120	16,868	1,207,988
Expenditures	1,102,229	15,567	1,117,796
Net	88,891	1,301	90,192
Other financing sources (uses) net	(7,575)	-	(7,575)
Beginning fund balances	121,549	(48,240)	73,309
Ending fund balances	<u>202,865</u>	<u>(46,939)</u>	<u>155,926</u>
	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
	\$	\$	\$
Revenues	56,807	728	57,535
Expenditures	63,837	2,724	66,561
Net	(7,030)	(1,996)	(9,026)
Other financing sources (uses) net	8,000	-	8,000
Beginning fund balances	2,273	3,396	5,669
Ending fund balances	<u>3,243</u>	<u>1,400</u>	<u>4,643</u>

## LUVERNE COMMUNITY SCHOOL DISTRICT

### Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Internal Service, Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the [cash basis](#). Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

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

During the year ended June 30, [2004](#), disbursements in the [instruction](#) function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

## LIVERNE COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2004

Assets	Special Revenue Funds				Capital Projects Fund	Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	District Support Trust Funds	Local Option Sales Tax	
	\$	\$	\$	\$	\$	\$
Cash and pooled investments	33,955	6,488	1,880	723	8,025	51,071
Receivables:						
Property tax:						
Delinquent	306	-	442	-	-	748
Succeeding year	15,000	-	17,920	-	-	32,920
Accounts	-	278	-	-	-	278
Accrued interest	37	6	2	-	-	45
Due from other governments	-	-	-	-	6,134	6,134
<b>Total assets</b>	<b>49,298</b>	<b>6,772</b>	<b>20,244</b>	<b>723</b>	<b>14,159</b>	<b>91,196</b>
<b>Liabilities &amp; Fund Balances</b>						
Liabilities:						
Accounts payable	-	9	-	-	-	9
Deferred revenue:						
Succeeding year property tax	15,000	-	17,920	-	-	32,920
Total liabilities	15,000	9	17,920	-	-	32,929
Fund balances:						
Unreserved fund balance	34,298	6,763	2,324	723	14,159	58,267
<b>Total liabilities and fund balances</b>	<b>49,298</b>	<b>6,772</b>	<b>20,244</b>	<b>723</b>	<b>14,159</b>	<b>91,196</b>

## LUVERNE COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds

Year ended June 30, 2004

	Special Revenue Funds				Capital Projects Fund	Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	District Support Trust Funds	Local Option Sales Tax	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	16,098	-	20,529	-	17,718	54,345
Other	306	28,277	63	917	23	29,586
Federal sources	-	-	18,161	-	-	18,161
Total revenues	<u>16,404</u>	<u>28,277</u>	<u>38,753</u>	<u>917</u>	<u>17,741</u>	<u>102,092</u>
Expenditures:						
Current:						
Instruction:						
Regular instruction	18,842	-	-	720	-	19,562
Other instruction	-	30,988	-	-	-	30,988
Support services:						
Administration services	341	-	-	-	-	341
Operation and maintenance of plant services	10,995	-	36,436	-	-	47,431
Transportation services	6,040	-	-	-	-	6,040
Other expenditures:						
Facilities acquisition	-	-	13,284	-	5,017	18,301
Total expenditures	<u>36,218</u>	<u>30,988</u>	<u>49,720</u>	<u>720</u>	<u>5,017</u>	<u>122,663</u>
Excess (deficiency) of revenues over (under) expenditures	(19,814)	(2,711)	(10,967)	197	12,724	(20,571)
Fund balances beginning of year, as restated	<u>54,112</u>	<u>9,474</u>	<u>13,291</u>	<u>526</u>	<u>1,435</u>	<u>78,838</u>
Fund balances end of year	<u>34,298</u>	<u>6,763</u>	<u>2,324</u>	<u>723</u>	<u>14,159</u>	<u>58,267</u>

## LUVARNE COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Juice account	737	1,692	1,580	849
Athletics	1,922	3,725	5,644	3
Vocal music	245	-	-	245
Instrumental music	106	644	501	249
OM	12	-	-	12
Class of 2007	658	-	658	-
8th grade	347	2,547	1,274	1,620
7th grade	184	265	-	449
Student council	491	3,213	2,420	1,284
Interest	1,374	93	-	1,467
LEA student incentive	3,398	16,098	18,911	585
Totals	<u>9,474</u>	<u>28,277</u>	<u>30,988</u>	<u>6,763</u>

## LUVÉRNE COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function  
All Governmental Fund Types

For the Last Four Years

	Modified Accrual Basis			
	2004	2003	2002	2001
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	761,027	727,463	643,785	600,219
Tuition	71,946	64,928	61,623	70,228
Other	44,015	40,797	76,675	50,805
State sources	226,221	260,134	241,180	307,377
Federal sources	104,779	77,764	72,273	48,943
Total revenues	<u>1,207,988</u>	<u>1,171,086</u>	<u>1,095,536</u>	<u>1,077,572</u>
Expenditures:				
Instruction:				
Regular instruction	510,032	552,887	591,016	575,198
Special instruction	114,884	124,531	125,177	128,737
Other instruction	73,882	50,558	63,405	52,931
Support services:				
Student services	19,748	20,471	30,398	29,623
Instructional staff services	7,358	20,612	20,281	19,979
Administration services	158,499	158,990	143,052	129,684
Operation and maintenances of plant services	129,903	83,141	91,029	83,783
Transportation services	53,798	110,484	57,937	61,498
Other expenditures:				
Facilities acquisition	18,301	2,285	7,014	4,990
AEA flowthrough	31,121	33,390	33,533	35,355
Total expenditures	<u>1,117,526</u>	<u>1,157,349</u>	<u>1,162,842</u>	<u>1,121,778</u>

## Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting

To the Board of Education of the  
LuVerne Community School District:

We have audited the financial statements of the LuVerne Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated August 12, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether LuVerne Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance 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, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved except for item 04-II-B.

### Internal Control over Financial Reporting

In planning and performing our audit, we considered LuVerne Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, 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 condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item [04-I-A](#) is material weakness. Prior year reportable conditions have all been resolved except for item [04-I-A](#).

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the [LuVerne](#) 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.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of [LuVerne](#) Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BURTON E. TRACY & CO., P.C.  
Certified Public Accountants

[August 12, 2004](#)

LUVERNE COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

04-I-A Segregation of Duties: The limited number of 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 we 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: We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures and investigate methods to increase monitoring procedures to obtain the maximum internal control possible under the circumstances.

District Response: The District is aware of the lack of complete segregation of duties and will make changes as the opportunity arises.

Conclusion: Response accepted.

LIVERNE COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

04-II-A Official Depositories: Official depositories have been approved by the District, however, the board did not approve a maximum deposit amount for each bank.

Recommendation: The District should approve a new depository resolution that specifies the banks allowed and lists a maximum amount that may be deposited with each bank.

District Response: The maximum amounts for deposits were inadvertently left out of the minutes. We will approve a new depository resolution.

Conclusion: Response accepted.

04-II-B Certified Budget: Disbursements for the year ended June 30, 2004, exceeded the amount budgeted in the instruction functional area.

Recommendation: The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

District Response: We will amend future budgets before disbursements exceed the budget.

Conclusion: Response accepted.

04-II-C Questionable Expenditures: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

04-II-D Travel Expenses: 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.

04-II-E Business Transactions: We noted no transactions between the District and District officials or employees.

04-II-F Bond Coverage: Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of bond coverage should be reviewed annually to insure that the coverage is adequate for current operations.

04-II-G Board Minutes: We noted no transactions requiring Board approval that had not been approved by the Board.

04-II-H Certified Enrollment: We noted no variances in the basic enrollment data certified to the Department of Education.

04-II-I Deposits and Investments: We 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.

04-II-J Certified Annual Report (CAR): We reviewed a draft copy of the CAR and noted no significant deficiencies in the amounts reported.