

HLV COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2005

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Independent Auditor's Report

To the Board of Education of
HLV 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 HLV Community School District, Victor, Iowa, as of and for the year ended June 30, 2005, 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 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 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 HLV 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, we have also issued our report dated September 1, 2005, on our consideration of HLV Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our 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 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 34 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 HLV 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, 2004, (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 8, 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

September 1, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The HLV 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.

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 the HLV 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 the HLV 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 HLV Community School District acts solely as an agent or custodian for the benefit of those outside of the school.

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 Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

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 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, Physical Plant and Equipment Levy 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. provide The District currently has four Enterprise Funds, the School Nutrition Fund, the Preschool Fund, the Student Constructed House Fund, and the Marketing Class Fund. The District uses *internal service funds*, the other kind of proprietary fund, to report activities that provide supplies and services for its other programs and activities. The District currently has two internal service funds used to account for the District's employee flexible benefit plan and retiree health.

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

- 3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency Funds.
 - Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
 - Agency Funds – This fund was established in order for employees to donate money for flowers/balloons to be sent to employees in event of surgery, hospital stays, funeral, and new babies.

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.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-1 below provides a summary of the District's net assets at June 30, 2005 compared to June 30, 2004.

Figure A-1

	Condensed Statement of Net Assets						Percentage Change 2004-2005
	Governmental Activities		Business-type Activities		Total School District		
	2005	2004	2005	2004	2005	2004	
	\$	\$	\$	\$	\$	\$	
Current and other assets	3,685,029	3,672,643	45,279	27,189	3,730,308	3,699,832	1%
Capital assets	1,898,959	1,955,353	7,930	8,630	1,906,889	1,963,983	-3%
Total assets	5,583,988	5,627,996	53,209	35,819	5,637,197	5,663,815	0%
Long-term liabilities	67,289	76,120	-	-	67,289	76,120	-12%
Other liabilities	1,972,932	1,992,965	6,638	2,468	1,979,570	1,995,433	-1%
Total liabilities	2,040,221	2,069,085	6,638	2,468	2,046,859	2,071,553	-1%
Net Assets:							
Invested in capital assets, net of related debt	1,898,959	1,955,353	7,930	8,630	1,906,889	1,963,983	-3%
Restricted	886,493	725,686	-	-	886,493	725,686	22%
Unrestricted	758,315	877,872	38,641	24,721	796,956	902,593	-12%
TOTAL NET ASSETS	3,543,767	3,558,911	46,571	33,351	3,590,338	3,592,262	0%

The District's combined net assets remained approximately constant over the prior year.

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 \$160,807 or 22% over the prior year. The increase was primarily a result of initiating the increase of the Voted Physical Plant and Equipment Levy Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$105,637 or 12%.

Figure A-2 shows the change in net assets for the years ended June 30, 2005 and 2004.

Figure A-2

	Change in Net Assets						Percentage Change 2004-2005
	Governmental Activities		Business-type Activities		Total School District		
	2005	2004	2005	2004	2005	2004	
	\$	\$	\$	\$	\$	\$	
Revenues							
Program Revenues:							
Charges for services	305,654	322,176	242,179	385,975	547,833	708,151	-23%
Operating grants & contributions	347,254	325,995	49,088	47,498	396,342	373,493	6%
Capital grants & contributions	-	-	-	-	-	-	0%
General Revenues:							
Property taxes	1,498,167	1,578,951	-	-	1,498,167	1,578,951	-5%
Income Surtax	168,949	87,157	-	-	168,949	87,157	94%
Local option sales tax	52,689	47,542	-	-	52,689	47,542	11%
Unrestricted state grants	1,324,531	1,287,730	-	-	1,324,531	1,287,730	3%
Unrestricted investment earnings	24,269	12,540	33	40	24,302	12,580	93%
Other revenue	3,101	1,033	-	-	3,101	1,033	200%
Total Revenues	3,724,614	3,663,124	291,300	433,513	4,015,914	4,096,637	-2%
Expenses:							
Instruction	2,274,861	2,188,061	-	-	2,274,861	2,188,061	4%
Support services	1,127,699	1,014,006	-	-	1,127,699	1,014,006	11%
Non-instructional programs	-	-	278,080	393,522	278,080	393,522	-29%
Other expenditures	337,198	264,063	-	-	337,198	264,063	28%
Total expenses	3,739,758	3,466,130	278,080	393,522	4,017,838	3,859,652	4%
Change in net assets before Transfers	(15,144)	196,994	13,220	39,991	(1,924)	236,985	-101%
Transfers	-	-	-	-	-	-	0%
CHANGE IN NET ASSETS	(15,144)	196,994	13,220	39,991	(1,924)	236,985	-101%
Net assets beginning of year	3,558,911	3,361,917	33,351	(6,640)	3,592,262	3,355,277	7%
Net assets end of year	3,543,767	3,558,911	46,571	33,351	3,590,338	3,592,262	0%

Property tax and unrestricted state grants account for 70% 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 \$3,724,614 and expenses were \$3,739,758. In a difficult budget year, the District spent \$15,144 more than the available revenues.

- The net cost of governmental activities was financed with \$1,719,805 in property and other taxes and \$1,324,531 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$291,300 and expenses were \$278,080. The District's business type activities include the School Nutrition Fund, the Student Constructed House Project, the Preschool, and the Marketing Class. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

Governmental Fund Highlights

- The District's General Fund financial position is the result of many factors. Growth during the year in tax revenues and grants resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures requiring the District to use fund balance to meet its financial obligations during the year.
- The General Fund balance decreased from \$866,938 to \$663,013, due in part to the increased salary and benefits settlement, the prior year reduction in state aid and existing expenditure commitments of the District.
- The Physical Plant and Equipment Levy (PEEL) Fund balance increased from \$434,610 in fiscal 2004 to \$464,234 in fiscal 2005.
- The Capital Projects Fund balance was \$118,227 as of June 30, 2005.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$-1013 at June 30, 2004 to \$6263 at June 30, 2005. For Fiscal 2005, the District increased meal prices, resulting in an increase in net assets. The District also increased charges for student ala carte items.

Preschool Fund net assets changed only by \$-25. This year the District has implemented a more structured payment plan for parents, charging for all preschool days, no matter if the preschooler is ill or not in attendance. This has resulted in increased revenue for the program. Empowerment funding will also help the District increase revenue in the 2005-2006 year by providing payments for children whose parents qualify. The Student Constructed House Fund net assets increased from \$39,230 in 2004 to \$44,358 in 2005. The house was sold before the end of the fiscal year in 2005, thus increasing the District's assets.

The Marketing Class Fund remained with the same net assets at year end 2005 as was in 2004. Net assets totaled \$841.

BUDGETARY HIGHLIGHTS

Over the course of the year, the HLV Community School District amended its annual budget one time to allow for the expenditure of additional funds.

The District's receipts were \$142,768 less than budgeted receipts, a variance of 3 1/2%.

Total expenditures were 543,975 less than budgeted. It is the District's practice to budget expenditures at sufficient levels in the 4 program areas, (instruction, non-instruction, support services and other), so that the District does not exceed spending limitations in any of these areas. As a result, the District's certified budget would, under normal circumstances, usually exceed actual expenditures for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had 1,906,889, 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 3% from last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements.

Figure A-6

Capital Assets (net of depreciation)

	Governmental		Business type		Total		Percentage Change 2004-2005
	Activities		Activities		School District		
	2005	2004	2005	2004	2005	2004	
	\$	\$	\$	\$	\$	\$	
Land	10,000	10,000	-	-	10,000	10,000	0%
Construction in progress	-	-	-	-	-	-	0%
Buildings	1,741,734	1,769,918	-	-	1,741,734	1,769,918	-2%
Improvements	79,669	72,013	-	-	79,669	72,013	11%
Equipment & Furniture	67,556	103,422	7,930	8,630	75,486	112,052	-33%
TOTAL	1,898,959	1,955,353	7,930	8,630	1,906,889	1,963,983	-3%

Long-Term Debt

At June 30, 2005, the District had \$67,289 in general obligation, revenue and other long-term debt outstanding. This represents a decrease of approximately 12% from last year. (See Figure A-4) In 2004, a larger retirement payment was made to a long term employee, while in 2005 a smaller retirement payment was made to a shorter term employee, which decreased our expenditures.

Figure A-4

Outstanding Long-Term Obligations

	Total School District		Percentage
	2005	2004	Change
	\$	\$	2004-2005
Early Retirement	2,500	8,500	-71%
Compensated Absences	64,789	67,620	-4%
TOTAL	67,289	76,120	-12%

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:

- School financing is dependent upon student enrollment. The District's September 2005 enrollment decreased by eleven students. This drop in enrollment will affect the District's funding for fiscal year 2007.
- Iowa County approved a 1% Local Option Sales and Services Tax for school in June of 2005. This 1% tax will provide the HLV Community School District with approximately \$180,000 each year for 10 years beginning January of 2006. This money can be used for school infrastructure as defined by law.

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 Lori McClenathan, District Treasurer and Bookkeeper, HLV Community School District, 501 4th St., Victor, Iowa, 52347.

BASIC FINANCIAL STATEMENTS

HLV COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	1,955,052	62,585	2,017,637
Receivables:			
Property tax:			
Delinquent	15,929	-	15,929
Succeeding year	1,487,228	-	1,487,228
Accounts	2,193	1,482	3,675
Interfund receivable(payable)	23,326	(23,326)	-
Accrued interest	1,827	-	1,827
Due from other governments	199,474	-	199,474
Inventories	-	4,538	4,538
Capital assets, net of accumulated depreciation	1,898,959	7,930	1,906,889
Total assets	<u>5,583,988</u>	<u>53,209</u>	<u>5,637,197</u>
Liabilities			
Accounts payable	111,837	4,344	116,181
Salaries and benefits payable	373,867	128	373,995
Deferred revenue:			
Succeeding year property tax	1,487,228	-	1,487,228
Other	-	2,166	2,166
Long-term liabilities:			
Portion due within one year:			
Early retirement	2,500	-	2,500
Compensated absences	12,957	-	12,957
Portion due after one year:			
Compensated absences	51,832	-	51,832
Total liabilities	<u>2,040,221</u>	<u>6,638</u>	<u>2,046,859</u>
Net assets			
Invested in capital assets, net of related debt	1,898,959	7,930	1,906,889
Restricted for:			
Management levy	252,929	-	252,929
Physical plant & equipment levy	464,234	-	464,234
Local option sales tax capital projects	118,227	-	118,227
Other special revenue purposes	51,103	-	51,103
Unrestricted	758,315	38,641	796,956
Total net assets	<u><u>3,543,767</u></u>	<u><u>46,571</u></u>	<u><u>3,590,338</u></u>

HLV COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	1,542,170	137,738	161,934	-
Special instruction	417,470	7,515	45,450	-
Other instruction	315,221	157,001	-	-
	<u>2,274,861</u>	<u>302,254</u>	<u>207,384</u>	<u>-</u>
Support services:				
Student services	79,870	-	10,075	-
Instructional staff services	63,356	-	-	-
Administration services	475,657	-	-	-
Operation and maintenance of plant services	329,871	3,400	8,717	-
Transportation services	178,945	-	-	-
	<u>1,127,699</u>	<u>3,400</u>	<u>18,792</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	152,429	-	-	-
AEA flowthrough	121,078	-	121,078	-
Depreciation (unallocated)*	63,691	-	-	-
	<u>337,198</u>	<u>-</u>	<u>121,078</u>	<u>-</u>
Total governmental activities	<u>3,739,758</u>	<u>305,654</u>	<u>347,254</u>	<u>-</u>
Business type activities:				
Non-instructional programs:				
Food service operations	157,690	115,845	49,088	-
Student construction project	106,743	111,871	-	-
Preschool	11,903	11,878	-	-
Other business-type activities	1,744	2,585	-	-
Total business-type activities	<u>278,080</u>	<u>242,179</u>	<u>49,088</u>	<u>-</u>
Total	<u>4,017,838</u>	<u>547,833</u>	<u>396,342</u>	<u>-</u>
General Revenues:				
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				

Change in net assets

Net assets beginning of year

Net assets end of year

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

HLV COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
(1,242,498)	-	(1,242,498)
(364,505)	-	(364,505)
(158,220)	-	(158,220)
<u>(1,765,223)</u>	<u>-</u>	<u>(1,765,223)</u>
(69,795)	-	(69,795)
(63,356)	-	(63,356)
(475,657)	-	(475,657)
(317,754)	-	(317,754)
(178,945)	-	(178,945)
<u>(1,105,507)</u>	<u>-</u>	<u>(1,105,507)</u>
(152,429)	-	(152,429)
-	-	-
(63,691)	-	(63,691)
<u>(216,120)</u>	<u>-</u>	<u>(216,120)</u>
<u>(3,086,850)</u>	<u>-</u>	<u>(3,086,850)</u>
-	7,243	7,243
-	5,128	5,128
-	(25)	(25)
-	841	841
<u>-</u>	<u>13,187</u>	<u>13,187</u>
<u>(3,086,850)</u>	<u>13,187</u>	<u>(3,073,663)</u>
1,290,315	-	1,290,315
207,852	-	207,852
168,949	-	168,949
52,689	-	52,689
1,324,531	-	1,324,531
24,269	33	24,302
3,101	-	3,101
<u>3,071,706</u>	<u>33</u>	<u>3,071,739</u>
(15,144)	13,220	(1,924)
<u>3,558,911</u>	<u>33,351</u>	<u>3,592,262</u>
<u>3,543,767</u>	<u>46,571</u>	<u>3,590,338</u>

HLV COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2005

	General Fund	Physical Plant and Equipment Levy	Management Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments	1,076,376	467,484	253,500	157,692	1,955,052
Receivables:					
Property tax:					
Delinquent	12,411	2,191	1,327	-	15,929
Succeeding year	1,106,489	205,739	175,000	-	1,487,228
Accounts	1,937	-	256	-	2,193
Accrued interest	893	477	346	111	1,827
Interfund receivable	28,549	-	-	2,420	30,969
Due from other governments	190,367	-	-	9,107	199,474
Total assets	2,417,022	675,891	430,429	169,330	3,692,672
Liabilities and Fund Balances					
Liabilities:					
Interfund payable	3,626	4,017	-	-	7,643
Accounts payable	109,936	1,901	-	-	111,837
Salaries and benefits payable	373,867	-	-	-	373,867
Deferred revenue:					
Succeeding year property tax	1,106,489	205,739	175,000	-	1,487,228
Other	160,091	-	-	-	160,091
Total liabilities	1,754,009	211,657	175,000	-	2,140,666
Fund balances:					
Unreserved reported in:					
General fund	663,013	-	-	-	663,013
Special revenue funds	-	464,234	255,429	51,103	770,766
Capital projects funds	-	-	-	118,227	118,227
Total fund balances	663,013	464,234	255,429	169,330	1,552,006
Total liabilities and fund balances	2,417,022	675,891	430,429	169,330	3,692,672

HLV COMMUNITY SCHOOL DISTRICT

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

June 30, 2005

	\$
Total fund balances of governmental funds (Exhibit C)	1,552,006
<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.	1,898,959
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	160,091
Long-term liabilities, including compensated absences and early retirement benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(67,289)</u>
Net assets of governmental activities (Exhibit A)	<u><u>3,543,767</u></u>

HLV COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	General Fund	Physical Plant and Equipment Levy	Management Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	1,252,895	207,852	124,832	52,689	1,638,268
Tuition	118,977	-	-	-	118,977
Other	47,085	5,951	974	158,152	212,162
State sources	1,586,717	-	-	-	1,586,717
Federal sources	85,068	-	-	-	85,068
Total revenues	<u>3,090,742</u>	<u>213,803</u>	<u>125,806</u>	<u>210,841</u>	<u>3,641,192</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	1,545,876	-	-	-	1,545,876
Special instruction	417,470	-	-	-	417,470
Other instruction	173,597	-	-	141,624	315,221
	<u>2,136,943</u>	<u>-</u>	<u>-</u>	<u>141,624</u>	<u>2,278,567</u>
Support services:					
Student services	79,870	-	-	-	79,870
Instructional staff services	59,156	-	-	-	59,156
Administration services	439,433	-	31,154	-	470,587
Operation and maintenance of plant services	313,484	-	27,800	-	341,284
Transportation services	146,588	-	10,886	-	157,474
	<u>1,038,531</u>	<u>-</u>	<u>69,840</u>	<u>-</u>	<u>1,108,371</u>
Other expenditures:					
Facilities acquisition	-	184,179	-	-	184,179
AEA flowthrough	121,078	-	-	-	121,078
	<u>121,078</u>	<u>184,179</u>	<u>-</u>	<u>-</u>	<u>305,257</u>
Total expenditures	<u>3,296,552</u>	<u>184,179</u>	<u>69,840</u>	<u>141,624</u>	<u>3,692,195</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(205,810)</u>	<u>29,624</u>	<u>55,966</u>	<u>69,217</u>	<u>(51,003)</u>
Other financing sources (uses):					
Compensation for loss of fixed assets	235	-	-	-	235
Sales of materials and equipment	1,650	-	-	-	1,650
Total other financing sources (uses)	<u>1,885</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,885</u>
Net change in fund balances	(203,925)	29,624	55,966	69,217	(49,118)
Fund balances beginning of year	866,938	434,610	199,463	100,113	1,601,124
Fund balances end of year	<u>663,013</u>	<u>464,234</u>	<u>255,429</u>	<u>169,330</u>	<u>1,552,006</u>

See notes to financial statements.

HLV 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, 2005

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		(49,118)

**Amounts reported for governmental activities in the
Statement of Activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the year as follows:

Expenditures for capital assets	43,163	
Depreciation expense	<u>(99,557)</u>	(56,394)

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.

81,537

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	6,000	
Compensated absences	<u>2,831</u>	<u>8,831</u>

Changes in net assets of governmental activities (Exhibit B)		<u><u>(15,144)</u></u>
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HLV COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2005

	Nonmajor Enterprise Funds
	<u>\$</u>
Assets	
Cash and cash equivalents	62,585
Accounts receivable	1,482
Interfund receivable	3,626
Inventories	4,538
Capital assets, net of accumulated depreciation	<u>7,930</u>
Total assets	<u>80,161</u>
Liabilities	
Accounts payable	4,344
Interfund payables	26,952
Salaries and benefits payable	128
Deferred revenue	<u>2,166</u>
Total liabilities	<u>33,590</u>
Net assets	
Invested in capital assets, net of related debt	7,930
Unrestricted	<u>38,641</u>
Total net assets	<u><u>46,571</u></u>

HLV COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	Nonmajor Enterprise Funds
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>242,179</u>
Operating expenses:	
Non-instructional programs:	
Salaries	74,388
Benefits	10,033
Purchased services	101,181
Supplies	90,563
Depreciation	1,915
	<u>278,080</u>
Operating gain (loss)	<u>(35,901)</u>
Non-operating revenue:	
State sources	2,246
Federal sources	46,842
Interest income	33
Total non-operating revenue	<u>49,121</u>
Change in net assets	13,220
Net assets beginning of year	<u>33,351</u>
Net assets end of year	<u><u>46,571</u></u>

HLV COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2005

	Nonmajor Enterprise Funds
	\$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	115,177
Cash received from other services	14,526
Cash received from sale of house	111,688
Cash payments to employees for services	(84,293)
Cash payments to suppliers for goods or services	(177,129)
Net cash used by operating activities	<u>(20,031)</u>
Cash flows from non-capital financing activities:	
State grants received	2,246
Federal grants received	37,634
Net cash provided by non-capital financing activities	<u>39,880</u>
Cash flows from capital and related financing activities:	
Interfund loans	2,293
Acquisition of capital assets	(1,215)
Net cash used by capital and related financing activities	<u>1,078</u>
Cash flows from investing activities:	
Interest on investments	<u>33</u>
Net increase (decrease) in cash and cash equivalents	20,960
Cash and cash equivalents at beginning of year	<u>41,625</u>
Cash and cash equivalents at end of year	<u><u>62,585</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(35,901)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	9,208
Depreciation	1,915
Decrease (increase) in inventories	1,136
Decrease (increase) in accounts receivable	(559)
(Decrease) increase in accounts payable	4,271
(Decrease) increase in salaries and benefits payable	128
(Decrease) increase in deferred revenue	(229)
Net cash used in operating activities	<u><u>(20,031)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received \$9,208 of federal commodities.

HLV COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2005

	Private Purpose Trust Scholarship <u> </u> \$	Agency <u> </u> \$
Assets		
Cash and pooled investments	48,300	8,488
Accrued interest receivable	<u>14</u>	<u>-</u>
Total Assets	48,314	8,488
Liabilities		
Other payables	<u>-</u>	<u>8,488</u>
Net Assets		
Reserved for scholarships	<u><u>48,314</u></u>	<u><u>-</u></u>

HLV COMMUNITY SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2005

	Private Purpose Trust Scholarship
	\$
Additions	-
Deductions:	
Support services:	
Scholarships awarded	192
Change in net assets	(192)
Net assets beginning of year	48,506
Net assets end of year	48,314

HLV COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2005

1. Summary of Significant Accounting Policies

HLV 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 Cities of Victor, Hartwick, and Ladora, Iowa and the predominately agricultural territory in a portion of Iowa and Poweshiek 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, HLV 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 HLV 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 Physical Plant and Equipment Levy Fund is used to account for resources used in the acquisition and construction and repair of capital facilities.

The Management fund is used for payments for special purposes such as insurance, early retirement, etc.

The District's proprietary fund includes the following Enterprise Funds: 1) the School Nutrition Fund is used to account for the food service operations of the District, 2) the Preschool Fund is used to account for an educational program for students in the year prior to attending kindergarten, 3) the Marketing Project Fund is used to account for the revenues and expenses of a class activity, and 4) the Student House Construction Fund is used to account for the sale of and costs of a house constructed by students.

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.

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

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and 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 Funds are 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, 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 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, 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 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	500
Buildings	5,000
Improvements other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	5,000

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	50 years
Improvements other than buildings	5-20 years
Furniture and equipment	3-15 years

The District's collection of library books and other similar materials are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to District policy that requires proceeds from the sale of these items, if any, to be used to acquire other collection items.

Salaries and Benefits Payable – Payroll and related expenditures for certified staff 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 or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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, 2005, expenditures did not exceed the amounts budgeted.

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 investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
	\$
Diversified Portfolio	325,336

The investments is valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk: The investment in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investors Service.

3. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2005 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
		\$
General Fund	Physical Plant and Equipment Levy Fund	1,597
General Fund	Enterprise, School Nutrition Fund	19,258
General Fund	Enterprise, Preschool	7,694
Capital projects	Physical Plant and Equipment Levy Fund	2,420
Enterprise, School Nutrition Fund	General Fund	3,626

The interfund receivable/payables are loans to the various funds which will be repaid in the next fiscal year.

4. Capital Assets

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

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	10,000	-	-	10,000
Capital assets being depreciated:				
Buildings	3,249,496	31,750	-	3,281,246
Improvements other than buildings	188,350	11,413	-	199,763
Furniture and equipment	409,852	-	-	409,852
Total capital assets being deprec.	<u>3,847,698</u>	<u>43,163</u>	<u>-</u>	<u>3,890,861</u>

Less accumulated depreciation for:				
Buildings	1,479,578	59,934	-	1,539,512
Improvements other than buildings	116,337	3,757	-	120,094
Furniture and equipment	306,430	35,866	-	342,296
Total accumulated depreciation	<u>1,902,345</u>	<u>99,557</u>	<u>-</u>	<u>2,001,902</u>
Total capital assets being depreciated, net	<u>1,945,353</u>	<u>(56,394)</u>	<u>-</u>	<u>1,888,959</u>
Governmental activities capital assets, net	<u>1,955,353</u>	<u>(56,394)</u>	<u>-</u>	<u>1,898,959</u>
	Balance			Balance End
	Beginning of			of Year
	Year	Increases	Decreases	
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	36,121	1,215	-	37,336
Less accumulated depreciation	<u>27,491</u>	<u>1,915</u>	<u>-</u>	<u>29,406</u>
Business type activities capital assets, net	<u>8,630</u>	<u>(700)</u>	<u>-</u>	<u>7,930</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	5,125
Support Services:	
Instructional staff services	4,200
Administration services	5,070
Transportation	<u>21,471</u>
	35,866
Unallocated depreciation	<u>63,691</u>
Total depreciation expense – governmental activities	<u>99,557</u>
Business type activities:	
Food services	<u>1,915</u>

6. Long-Term Liabilities

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

	Balance			Balance End	Due Within
	Beginning of	Additions	Reductions	of Year	One Year
	Year				
	\$	\$	\$	\$	\$
Compensated absences	67,620	10,693	13,524	64,789	12,957
Early retirement	8,500	2,500	8,500	2,500	2,500
Total	<u>76,120</u>	<u>13,193</u>	<u>22,024</u>	<u>67,289</u>	<u>15,457</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five. Employees must complete an application which is subject to approval by the Board of Education.

General Obligation Bonds Payable

The District had no bond indebtedness at June 30, 2005

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, 2005, 2004 and 2003. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$114,391, \$105,901, and \$103,139 respectively, equal to the required contributions for each year.

8. Risk Management

The District was a member in the Iowa School Employee Benefits Association (ISEBA), an Iowa Code Chapter 28E organization until June 30, 2004. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members that terminated from ISEBA on June 30, 2004 received an assessment in December 2004 which is due July 1, 2005. The total assessment for terminated members is approximately \$3.9 million. The District's share of this assessment was \$71,049 which is recorded as a liability as of June 30, 2005.

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.

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 \$121,078 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.

REQUIRED SUPPLEMENTARY INFORMATION

HLV COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Revenues						
Local sources	1,969,407	242,212	2,211,619	2,313,779	2,313,779	(102,160)
Intermediate sources	-	-	-	-	-	-
State sources	1,586,717	2,246	1,588,963	1,620,981	1,620,981	(32,018)
Federal sources	85,068	46,842	131,910	140,500	140,500	(8,590)
Total revenues	<u>3,641,192</u>	<u>291,300</u>	<u>3,932,492</u>	<u>4,075,260</u>	<u>4,075,260</u>	<u>(142,768)</u>
Expenditures:						
Instruction	2,278,567	-	2,278,567	2,608,500	2,608,500	329,933
Support services	1,108,371	-	1,108,371	1,121,661	1,121,661	13,290
Non-instructional programs	-	278,080	278,080	264,560	365,000	86,920
Other expenditures	305,257	-	305,257	419,089	419,089	113,832
Total expenditures	<u>3,692,195</u>	<u>278,080</u>	<u>3,970,275</u>	<u>4,413,810</u>	<u>4,514,250</u>	<u>543,975</u>
Excess (deficiency) of revenues over (under) expenditures	(51,003)	13,220	(37,783)	(338,550)	(438,990)	401,207
Other financing sources (uses) net	<u>1,885</u>	<u>-</u>	<u>1,885</u>	<u>-</u>	<u>-</u>	<u>1,885</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenses	(49,118)	13,220	(35,898)	(338,550)	(438,990)	403,092
Balance beginning of year	<u>1,601,124</u>	<u>33,351</u>	<u>1,634,475</u>	<u>1,071,651</u>	<u>1,071,651</u>	<u>562,824</u>
Balance end of year	<u><u>1,552,006</u></u>	<u><u>46,571</u></u>	<u><u>1,598,577</u></u>	<u><u>733,101</u></u>	<u><u>632,661</u></u>	<u><u>965,916</u></u>

HLV COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General 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 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 modified accrual and accrual 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 the fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$100,440.

OTHER SUPPLEMENTARY INFORMATION

HLV COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2005

Assets	Student Activity Fund \$	Local Option Sales Tax \$	Total \$
Cash and pooled investments	51,103	106,589	157,692
Receivables:			
Accrued interest	-	111	111
Interfund receivable	-	2,420	2,420
Due from other governments	-	9,107	9,107
	<u>51,103</u>	<u>118,227</u>	<u>169,330</u>
Liabilities & Fund Balances			
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:			
Unreserved reported in:			
Special revenue funds	51,103	-	51,103
Capital projects funds	-	118,227	118,227
Total fund balances	<u>51,103</u>	<u>118,227</u>	<u>169,330</u>
	<u>51,103</u>	<u>118,227</u>	<u>169,330</u>

HLV COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	Student Activity Fund <u> </u> \$	Local Option Sales Tax <u> </u> \$	Total <u> </u> \$
Revenues:			
Local sources:			
Local tax	-	52,689	52,689
Other	<u>157,448</u>	<u>704</u>	<u>158,152</u>
Total revenues	<u>157,448</u>	<u>53,393</u>	<u>210,841</u>
Expenditures:			
Current:			
Instruction:			
Other instruction	<u>141,624</u>	<u>-</u>	<u>141,624</u>
Net change in fund balance	15,824	53,393	69,217
Fund balances beginning of year	<u>35,279</u>	<u>64,834</u>	<u>100,113</u>
Fund balances end of year	<u><u>51,103</u></u>	<u><u>118,227</u></u>	<u><u>169,330</u></u>

HLV COMMUNITY SCHOOL DISTRICT

Combining Schedule of Net Assets
Nonmajor Enterprise Funds

June 30, 2005

	Nutrition	Preschool	Marketing Project	Student House Construction	Total Nonmajor Enterprise Funds
	\$	\$	\$	\$	\$
Assets					
Cash and cash equivalents	10,575	2,650	841	48,519	62,585
Accounts receivable	1,146	153	-	183	1,482
Interfund receivable	3,626	-	-	-	3,626
Inventories	4,538	-	-	-	4,538
Capital assets, net of accumulated depreciation	7,930	-	-	-	7,930
Total assets	27,815	2,803	841	48,702	80,161
Liabilities					
Accounts payable				4,344	4,344
Interfund payables	19,258	7,694	-	-	26,952
Salaries and benefits payable	128	-	-	-	128
Deferred revenue	2,166	-	-	-	2,166
Total liabilities	21,552	7,694	-	4,344	33,590
Net assets					
Invested in capital assets, net of related debt	7,930	-	-	-	7,930
Unrestricted	(1,667)	(4,891)	841	44,358	38,641
Total net assets	6,263	(4,891)	841	44,358	46,571

HLV COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenses, and Changes in Net Assets
Nonmajor Enterprise Funds

Year ended Jun 30, 2005

	Nutrition	Preschool	Marketing Project	Student House Construction	Total Nonmajor Enterprise Funds
	\$	\$	\$	\$	\$
Operating revenue:					
Local sources:					
Charges for service	115,845	11,878	2,585	111,871	242,179
Operating expenses:					
Non-instructional programs:					
Salaries	64,353	10,035	-	-	74,388
Benefits	8,688	1,345	-	-	10,033
Purchased services	5,741	-	-	95,440	101,181
Supplies	76,993	523	1,744	11,303	90,563
Depreciation	1,915	-	-	-	1,915
	<u>157,690</u>	<u>11,903</u>	<u>1,744</u>	<u>106,743</u>	<u>278,080</u>
Operating gain (loss)	<u>(41,845)</u>	<u>(25)</u>	<u>841</u>	<u>5,128</u>	<u>(35,901)</u>
Non-operating revenue:					
State sources	2,246	-	-	-	2,246
Federal sources	46,842	-	-	-	46,842
Interest income	33	-	-	-	33
Total non-operating revenue	<u>49,121</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>49,121</u>
Change in net assets	7,276	(25)	841	5,128	13,220
Net assets beginning of year	<u>(1,013)</u>	<u>(4,866)</u>	<u>-</u>	<u>39,230</u>	<u>33,351</u>
Net assets end of year	<u><u>6,263</u></u>	<u><u>(4,891)</u></u>	<u><u>841</u></u>	<u><u>44,358</u></u>	<u><u>46,571</u></u>

HLV COMMUNITY SCHOOL DISTRICT

Combining Schedule of Cash Flows
Nonmajor Enterprise Funds

Year ended June 30, 2005

	Nutrition	Preschool	Marketing Project	Student House Const.	Total Nonmajor Enterprise Funds
	\$	\$	\$	\$	\$
Cash flows from operating activities:					
Cash received from sale of lunches and breakfasts	115,177	-	-	-	115,177
Cash received from other services	-	11,941	2,585	-	14,526
Cash received from sale of house	-	-	-	111,688	111,688
Cash payments to employees for services	(72,913)	(11,380)	-	-	(84,293)
Cash payments to suppliers for goods or services	(72,390)	(523)	(1,744)	(102,472)	(177,129)
Net cash used by operating activities	<u>(30,126)</u>	<u>38</u>	<u>841</u>	<u>9,216</u>	<u>(20,031)</u>
Cash flows from non-capital financing activities:					
State grants received	2,246	-	-	-	2,246
Federal grants received	37,634	-	-	-	37,634
Net cash provided by non-capital financing activities	<u>39,880</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,880</u>
Cash flows from capital and related financing activities:					
Interfund loans	(86)	2,379	-	-	2,293
Acquisition of capital assets	(1,215)	-	-	-	(1,215)
Net cash used by capital and related financing activities	<u>(1,301)</u>	<u>2,379</u>	<u>-</u>	<u>-</u>	<u>1,078</u>
Cash flows from investing activities:					
Interest on investments	33	-	-	-	33
Net increase (decrease) in cash and cash equivalents	8,486	2,417	841	9,216	20,960
Cash and cash equivalents at beginning of year	<u>2,089</u>	<u>233</u>	<u>-</u>	<u>39,303</u>	<u>41,625</u>
Cash and cash equivalents at end of year	<u>10,575</u>	<u>2,650</u>	<u>841</u>	<u>48,519</u>	<u>62,585</u>
Reconciliation of operating gain (loss) to net cash used by operating activities:					
Operating gain (loss)	(41,845)	(25)	841	5,128	(35,901)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:					
Commodities used	9,208	-	-	-	9,208
Depreciation	1,915	-	-	-	1,915
Decrease (increase) in inventories	1,136	-	-	-	1,136
Decrease (increase) in accounts receivable	(439)	63	-	(183)	(559)
(Decrease) increase in accounts payable	-	-	-	4,271	4,271
(Decrease) increase in salaries and benefits payable	128	-	-	-	128
(Decrease) increase in deferred revenue	(229)	-	-	-	(229)
Net cash used in operating activities	<u>(30,126)</u>	<u>38</u>	<u>841</u>	<u>9,216</u>	<u>(20,031)</u>

HLV COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Intra- Fund Transfers	Balance end of Year
	\$	\$	\$	\$	\$
Speech and drama	447	1,897	2,946	-	(602)
Music	(3,854)	4,427	6,432	-	(5,859)
Athletic	(765)	68,211	66,281	-	1,165
SICL	-	3,661	-	-	3,661
Annual	2,732	7,103	7,592	-	2,243
Student council	(823)	275	275	-	(823)
Interest	655	447	-	-	1,102
Recreation program	(4,216)	455	(3,761)	-	-
German club	119	6,712	6,268	-	563
National Honor Society	892	700	417	-	1,175
Pep club	920	4,369	4,012	-	1,277
Towel service	4,257	-	2,409	-	1,848
Washington trip	15,764	30,954	17,900	-	28,818
Win with wellness	676	-	-	-	676
Miscellaneous	2,122	2,248	4,308	-	62
Library	471	2,232	1,640	-	1,063
Special olympics	2,100	303	-	-	2,403
Pop machine	8,753	13,204	12,381	-	9,576
Sale of supplies	2,018	77	2,094	-	1
Elementary	2,607	446	2,833	-	220
Insurance	148	-	-	-	148
Class of 2005	331	-	-	(331)	-
Class of 2006	-	1,757	817	-	940
Class of 2007	-	7,970	6,855	331	1,446
Beginning accrual	(75)	-	(75)	-	-
Total	35,279	157,448	141,624	-	51,103

HLV COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds

Year ended June 30, 2005

	<u>Employee Flex</u> \$	<u>Flower Fund</u> \$	<u>Employee Health</u> \$	<u>Total</u> \$
Balance beginning of year	1,517	175	4,013	5,705
Additions:				
Collections	17,050	-	9,631	26,681
Deductions:				
Miscellaneous	<u>12,699</u>	<u>52</u>	<u>11,147</u>	<u>23,898</u>
Balance end of year	<u><u>5,868</u></u>	<u><u>123</u></u>	<u><u>2,497</u></u>	<u><u>8,488</u></u>

HLV COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2005	2004	2003	2002
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,638,268	1,707,806	1,757,120	1,689,810
Tuition	118,977	117,059	107,581	153,300
Other	212,162	217,657	290,568	224,191
Intermediate sources	-	-	1,937	41,579
State sources	1,586,717	1,539,341	1,513,537	1,503,996
Federal sources	85,068	74,384	96,651	58,545
Total revenues	3,641,192	3,656,247	3,767,394	3,671,421
Expenditures:				
Instruction:				
Regular instruction	1,545,876	1,512,808	1,416,352	1,397,267
Special instruction	417,470	413,724	398,201	370,218
Other instruction	315,221	259,963	305,604	286,552
Support services:				
Student services	79,870	80,928	78,629	94,700
Instructional staff services	59,156	42,657	40,913	50,213
Administration services	470,587	488,968	457,762	479,470
Operation and maintenance of plant services	341,284	269,326	259,074	255,305
Transportation services	157,474	155,035	158,313	208,235
Other expenditures:				
Facilities acquisition	184,179	78,373	88,059	58,837
Long-term debt:				
Principal	-	-	-	175,000
Interest and other charges	-	-	-	12,025
AEA flowthrough	121,078	123,395	127,614	126,574
Total expenditures	3,692,195	3,425,177	3,330,521	3,514,396

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 of
HLV 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 HLV 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 our report thereon dated September 1, 2005. We conducted our 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 our audit, we considered HLV Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 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. 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 05-I-A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HLV 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 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 our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we 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 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.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of HLV Community School District and other parties to whom HLV Community School 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 HLV 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

September 1, 2005

HLV COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

05-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.

HLV COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting:

- 05-II-A Official Depositories: Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.
- 05-II-B Certified Budget: Expenditures for the year ended June 30, 2005, did not exceed the amounts budgeted.
- 05-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.
- 05-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.
- 05-II-E Business Transactions: We noted no transactions between the District and District officials or employees.
- 05-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.
- 05-II-G Board Minutes: We noted no transactions requiring Board approval that had not been approved by the Board.
- 05-II-H Certified Enrollment: We noted no variances in the basic enrollment data certified to the Department of Education.
- 05-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.
- 05-II-J Certified Annual Report (CAR): We reviewed a draft copy of the CAR and noted no significant deficiencies in the amounts reported.
- 05-II-K Financial Condition: The Student Activity Fund has a few accounts with deficit balances at June 30, 2005, the Enterprise, Preschool Fund has a \$4,891 deficit fund balance.

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

District Response: We are working on ways to eliminate the deficits.

Conclusion: Response accepted.

HLV COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting (Continued):

05-II-L Reclassification of Student Activity Fund Accounts: There are some accounts in the Student Activity Fund that may belong more appropriately in other funds.

Recommendation: We recommend these accounts be reviewed and transferred to the proper fund.

District Response: We will review the accounts and make any necessary adjustments.

Conclusion: Response accepted.