

LAWTON-BRONSON COMMUNITY
SCHOOL DISTRICT

INDEPENDENT AUDITORS' REPORT

JUNE 30, 2005

**LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
FOR THE YEAR ENDED JUNE 30, 2005
TABLE OF CONTENTS**

	Page
List of Officials	1
FINANCIAL SECTION	
Independent Auditors' Report	2 – 3
Management Discussion and Analysis	4 – 13
BASIC FINANCIAL STATEMENTS	
District-Wide Financial Statements:	
Statement of Net Assets	14
Statement of Activities	15 – 16
Governmental Fund Financial Statements:	
Balance Sheet	17 – 18
Statements of Revenues, Expenditures, and Changes in Fund Balances	19 – 20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Proprietary Fund Statements:	
Balance Sheet	22
Statement of Revenue, Expenses and Changes in Net Assets	23
Statement of Cash Flows – Business Type Activity	24
Statement of Net Assets – Fiduciary Funds	25
Notes to Financial Statements	26 – 35
REQUIRED SUPPLEMENTAL INFORMATION	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – General Fund and Proprietary Fund	36
Notes to Required Supplemental Information – Budgetary Reporting	37 – 38
SUPPLEMENTAL INFORMATION	
	Schedule
Statement of Revenues, Expenditures and Changes in Fund Balance – General Fund	1 39 – 41
Combining Balance Sheet – Governmental Nonmajor Funds	2 42
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Nonmajor Funds	3 43
Schedule of Individual Student Activity Account Activity	4 44
Comparison of Taxes and Intergovernmental Revenues and Receipts	5 45
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	46 – 47
Schedule of Findings and Questioned Costs	48 – 50

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LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT.

LIST OF OFFICIALS

June 30, 2005

**Board of Education
(Before September 2004 Election)**

		Term Expires
Mark Thompson	President	2006
Kevin Grieme	Vice President	2005
Julie Karrer	Board Member	2005
Vi Newhard	Board Member	2004
Gary Gevik	Board Member	2004

**Board of Education
(After September 2004 Election)**

Kevin Grieme	President	2005
Julie Karrer	Vice President	2005
Mark Thompson	Board Member	2006
Amy Denney	Board Member	2007
Steve Olson	Board Member	2007

School Officials

Robert Morrison	Superintendent	2005
Kimberly Brouwer	Secretary-Treasurer	2005
James Hanks	Attorney	Indefinite



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INDEPENDENT AUDITORS' REPORT

To the Board of Education of
Lawton-Bronson Community School District
Lawton, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Lawton-Bronson Community School District 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 the Lawton-Bronson Community School District's management. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that 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 activity, each major fund, and the aggregate remaining fund information of Lawton-Bronson Community School District as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof 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 August 31, 2005, on our consideration of the Lawton-Bronson 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 read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and page 36 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. However, 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 Lawton-Bronson Community School District's basic financial statements. The financial statements for the three years ended June 30, 2004 were audited by us or other auditors (none of which are presented herein) in accordance with the standards referred to in the second paragraph of this report, and they had an unqualified opinion expressed on them. The supplemental information, included in Schedules 1 through 5, 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.

Williams + Company, P.C.
Certified Public Accountants

Sioux City, Iowa
August 31, 2005

Management Discussion and Analysis

Lawton-Bronson Community School District provides this Management 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 this section.

The District implemented new reporting standards for the fiscal year ending June 30, 2004 with significant changes in content and structure. This is the second year of reporting under these new standards.

Overview of the Financial Statements

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

- The first two statements are *district-wide financial statements* that provide *both short-term and long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operation in *more detail* than the District-wide statements.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short term* as well as what remains for future spending.
- *Proprietary funds statements* offer *short and long-term* financial information about the activities that the District operates *like businesses*, such as food services.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the district's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

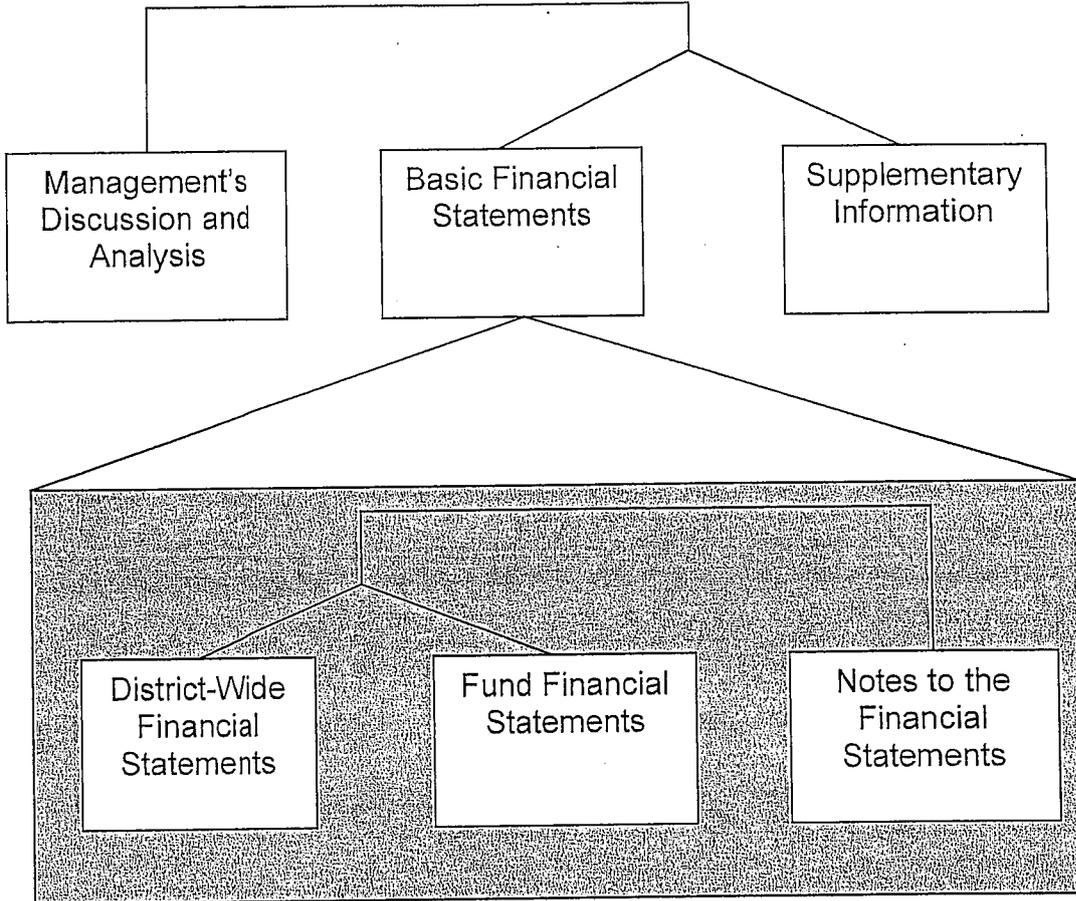
Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents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

District-wide Financial Statements

The District-wide statements report information about the district as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

Figure A-1

Organization of Lawton-Bronson Community School District's Annual Financial Report



Summary ← -----→ Detail

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

	District - wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses; food services is included here	Instances in which the district administers resources on behalf of someone else; such as scholarship programs and student activities monies
Required financial statements	Statement of net assets and statement of activities	Balance sheet Statement of revenues, expenditures, and changes in fund balances	Statement of net assets Statement of cash flows	Statement of fiduciary net assets Statement of changes in fiduciary net assets
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

The two District-wide statements report the District's *net assets* and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

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

- Some funds are required by law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as federal grants).

The District has three kinds of funds:

- *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.
- *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements. The District's *enterprise funds* (one type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows. *Internal service funds*, (the other kind of proprietary fund) are optional and available to report activities that provide supplies and services for other District programs and activities. At this time the District chooses not to use any internal service funds.
- *Fiduciary funds*: The District is the trustee, or *fiduciary*, for assets that belong to others, such as a scholarship fund. The District accounts for outside donations to specific District schools for specific purposes in this fund. The District is responsible for ensuring that the assets

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

Financial Analysis of the District as a Whole

Figure A-3 provides a summary of the District's net assets for the year ended June 30, 2005. Figure A-4 shows the changes in net assets for the year ended June 30, 2005.

The overall financial performance of the district remains strong. Total governmental funds saw an increase in the unreserved/undesignated fund balance although there was a decrease in the unreserved/undesignated general fund balance. The District is monitoring expenses while ensuring that programs have the tools necessary to provide excellent instruction.

The general fund balance saw the greatest decrease from last year. This was a combined effect of an increase in revenues of 1% and an increase in expenditures of 5.5%. Revenues increased due to greater allowable growth, as well as more monies available from grants. The increase in grants is mostly due to the District requesting and receiving more funds than the previous year.

Expenditures, however, increased at a much higher rate than revenues. Salaries grew by a greater percentage than they had in the previous year, as did the cost of benefits, which increased 9.96% from the previous year. During this fiscal year, the District's health insurance provider required an additional payment so that our premiums would be paid in advance, rather than in arrears. Several programs needed updated textbooks that were not part of the textbook cycle, adding to the increase in expenditures. Fuel expenditures were also up due to rising gas prices. The district as a whole will be monitoring instructional and transportation costs to prevent another decrease in the general fund balance. As the general fund is the greatest contributor to governmental activities, its increased expenditures will also significantly increase the total cost for the whole District.

Growth in the economy should improve funding to states that may translate into increased funding toward education. Allowable growth has been set higher for the fiscal year ending June 30, 2006 but is still not at a level high enough to allow schools to recover from the inadequate funding they have received in prior years.

The District has been the victim of alleged embezzlement by a previous employee and is working with local authorities to prosecute any illegal acts to the fullest extent of the law. All monies taken from the District will be turned into insurance for payment. Steps are being taken to ensure that checks and balances are present in the accounting process. Management will continue to monitor transactions and make changes toward increased checks and balances when necessary.

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Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total District		Total % Change 2004-2005
	2005	2004	2005	2004	2005	2004	
Current and other assets	\$ 4,762,487	\$ 4,511,826	\$ 19,039	\$ 24,167	\$ 4,781,526	\$ 4,535,993	5.4%
Capital assets	5,549,101	5,630,642	66,416	77,151	5,615,517	5,707,793	-1.6%
Total Assets	10,311,588	10,142,468	85,455	101,318	10,397,043	10,243,786	1.5%
Long-term debt outstanding	3,385,000	3,610,000			3,385,000	3,610,000	-6.2%
Other liabilities	2,498,271	2,377,282	31,781	29,440	2,530,052	2,406,722	5.1%
Total Liabilities	5,883,271	5,987,282	31,781	29,440	5,915,052	6,016,722	-1.7%
Invested in capital assets, net of related debt	2,164,101	2,020,642	66,416	77,151	2,230,517	2,097,793	6.3%
Restricted	57,518	46,483			57,518	46,483	23.7%
Unrestricted	2,206,698	2,088,061	(12,742)	(5,273)	2,193,956	2,082,788	5.3%
Total Net Assets	\$ 4,428,317	\$ 4,155,186	\$ 53,674	\$ 71,878	\$ 4,481,991	\$ 4,227,064	6.0%

Figure A-4
Changes in Net Assets from Operating Results

	Governmental Activities		Business-type Activities		Total District		Total % Change
	2005	2004	2005	2004	2005	2004	2004-2005
Revenues							
<i>Program Revenues</i>							
Charges for Services	\$ 543,824	\$ 494,945	\$ 135,775	\$ 126,810	\$ 679,599	\$ 621,755	9.3%
Operating Grants & Contributions	465,269	427,321	85,678	78,519	550,947	505,840	8.9%
<i>General Revenues</i>							
Property and Other Taxes	2,179,574	2,143,277			2,179,574	2,143,277	1.7%
State Formula Aid	1,975,400	2,086,041			1,975,400	2,086,041	-5.3%
Other	83,285	59,220	5,804	4,043	89,089	63,263	40.8%
Total Revenues	5,247,352	5,210,804	227,257	209,372	5,474,609	5,420,176	1.0%
Expenses							
Instruction	3,074,252	2,944,660	245,461	244,731	3,319,713	3,189,391	4.1%
Support Services	1,515,198	1,327,680			1,515,198	1,327,680	14.1%
Facilities Acquisition	28,829	78,417			28,829	78,417	-63.2%
Debt Service	186,890	198,119			186,890	198,119	-5.7%
Intergovernmental	169,052	167,090			169,052	167,090	1.2%
Total Expenses	4,974,221	4,715,966	245,461	244,731	5,219,682	4,960,697	5.2%
Increase (Decrease) in Net Assets	\$ 273,131	\$ 494,838	\$ (18,204)	\$ (35,359)	\$ 254,927	\$ 459,479	-44.5%

Governmental Activities

Figure A-5 presents the cost of four major district activities: instruction, support services, debt services, and intergovernmental. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

- The cost of all governmental activities this year was \$4,974,221.
- The users of the District's programs financed 10.9% of the year's expenses.
- Federal and state governments subsidized certain programs with grants and contributions of \$465,269, covering 9.4% of the year's expenses.
- Most of the District's \$3,965,128 net costs were financed by District and state taxpayers.
- Governmental activities were financed with \$2,179,574 in property taxes and other taxes, \$1,975,400 of unrestricted state aid, and \$50,531 of investment earnings.
- As stated previously, the increase in general fund expenses contributed the most to the lesser increase in current year net assets.

Business-Type Activities

Revenues of the District's business-type activities (school food and nutrition services) totaled \$227,257 and expenses totaled \$245,461 (Refer to Figure A-4). As a result there was a deficit of \$18,204. There was also a deficit in the previous year of \$35,359. The increase in revenue from the previous year to the current year is mostly due to increased meal sales. Further steps will be taken to increase revenues so that this deficit will be eliminated or further reduced in the next fiscal year.

**Figure A-5
Net Cost of Governmental Activities**

	Total Cost of Services		Net Cost of Services		Total % Change
	2005	2004	2005	2004	2004-2005
Instruction	\$ 3,074,252	\$ 2,944,660	\$ 2,285,322	\$ 2,198,481	4.0%
Support Services	1,515,198	1,327,680	1,464,087	1,318,683	11.0%
Facilities Acquisition	28,829	78,417	28,829	78,417	-63.2%
Debt Service	186,890	198,119	186,890	198,119	-5.7%
Intergovernmental	169,052	167,090			
Total	\$ 4,974,221	\$ 4,715,966	\$ 3,965,128	\$ 3,793,700	4.5%

**Figure A-6
Capital Assets**

	Governmental Activities		Business-type Activities		Total District		Total % Change
	2005	2004	2005	2004	2005	2004	2004-2005
Land	\$ 283,677	\$ 283,677			\$ 283,677	\$ 283,677	0.0%
Construction in Progress	8,188				8,188		
Buildings	6,486,434	6,464,484			6,486,434	6,464,484	0.3%
Furniture & Equipment	1,737,920	1,688,129	231,215	231,215	1,969,135	1,919,344	2.6%
Total Assets	8,516,219	8,436,290	231,215	231,215	8,747,434	8,667,505	0.9%
Less Accumulated Depreciation	(2,967,118)	(2,805,648)	(164,799)	(154,064)	(3,131,917)	(2,959,712)	5.8%
Net Capital Assets	\$ 5,549,101	\$ 5,630,642	\$ 66,416	\$ 77,151	\$ 5,615,517	\$ 5,707,793	-1.6%

**Figure A-7
Outstanding Long-Term Debt**

	2005	2004	% Change
General obligation bonds & notes	\$ 3,385,000	\$ 3,610,000	-6.2%

Financial Analysis of the District's Funds

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

Governmental Fund Highlights

Aside from the previously mentioned changes in the general fund, other district funds showed an increase in fund balance, so that the cumulative effect of all funds was relatively stable. The management fund increased the amount of monies that were levied by \$25,000. Expenses of the management fund were not as significant as the previous year, thus leading to an increase in fund balance.

Debt Service and Capital Projects Funds were relatively stable. The small increases in revenues are due to the county's increases in the property valuations of the District.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following a required public notice and hearing. The budget may be amended during the year, utilizing statutorily prescribed procedures. The District's budget has prepared on a cash basis but will be on a GAAP basis starting with the 2006-2007 fiscal year.

Capital Asset and Debt Administration

Capital Assets

By the end of 2005, the district had invested \$8,747,434 in a broad range of assets including school buildings, land, athletic facilities, computer and audio-visual equipment, and vehicles. Total depreciation expense for governmental and business-type activities was \$220,563 and \$10,735 respectively. Per Figure A-6, the overall value of the District's capital assets fell by 1.6% in the current year, mostly due to depreciation.

Long Term Debt

At year-end, the District had \$3,385,000 in general obligation bonds, and made the required principal payments in the current year. Per Figure A-7, the remaining principal fell by 6.2% in the current year due to those payments.

Factors Bearing on the District's Future

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

- The national economy continues to have a great impact on State of Iowa's budget. The economy is seeing growth but at a slow rate thus funding for education has been reduced. School budgets were allowed to increase by 1% for fiscal year 2004 and to increase by 2% for fiscal year 2005. Budgets will be allowed to grow by 4% for fiscal year 2006 which is significantly higher than it has been for the past two years but is still too low to allow districts to recover from the extremely low allowable growth they have had over the past two years.

- District enrollment will continue to greatly impact the District's financial future. Funding for an Iowa school is based the District's certified enrollment thus stable or increased enrollment is crucial to the financial health of a District. The auditor has found that last year's certified enrollment was incorrectly certified with a lower number of students than should have been reported. This means the district has experienced an even greater increase in enrollment.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability of the money it receives. If you have questions, about this report or need additional financial information, contact Dr. Robert Morrison, Superintendent, Lawton-Bronson Community School District, 100 Tara Way, Lawton, IA 51030.

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Business Type Activity	Total
ASSETS			
Cash and Pooled Investments	\$ 2,702,688	\$ 10,525	\$ 2,713,213
Receivables:			
Property Tax	31,547		31,547
Succeeding Year Property Tax	1,801,407		1,801,407
Other	36,034		36,034
Interfund Receivable	14,648		14,648
Due from Other Governmental Agencies	147,192		147,192
Inventories		8,514	8,514
Prepaid Expenses	28,971		28,971
Land	283,677		283,677
Construction In Progress	8,188		8,188
Infrastructure, Property and Equipment, Net of Accumulated Depreciation (Note 4)	5,257,236	66,416	5,323,652
Total Assets	10,311,588	85,455	10,397,043
LIABILITIES			
Payables:			
Accounts Payable	120,615		120,615
Interfund Payable		14,648	14,648
Deferred Revenue:			
Succeeding Year Property Tax	1,801,407		1,801,407
Accrued Wages and Benefits	457,544	17,133	474,677
Accrued Early Retirement	104,720		104,720
Accrued Interest Payable	13,985		13,985
Long Term Debt Due Within One Year	235,000		235,000
Long Term Debt Due in More Than One Year	3,150,000		3,150,000
Total Liabilities	5,883,271	31,781	5,915,052
NET ASSETS			
Investment in Capital Assets, Net of Related Debt	2,164,101	66,416	2,230,517
Restricted for:			
Talented and Gifted Program	26,044		26,044
Debt Service	31,474		31,474
Unrestricted	2,206,698	(12,742)	2,193,956
Total Net Assets	\$ 4,428,317	\$ 53,674	\$ 4,481,991

See Accompanying Notes to Financial Statements

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>
		<u>Charges for Services</u>
Governmental Activities:		
Instruction:		
Regular	\$ 2,218,606	\$ 237,998
Special Programs	397,406	78,331
Vocational	170,871	
Co-curricular	287,369	186,303
Support Services:		
Student Support	153,589	29,727
Instructional Staff Support	61,689	
General Administration	300,196	
Building Administration	234,025	
Business Administration	71,498	
Operations and Maintenance	409,436	
Student Transportation	284,765	11,465
Facilities Acquisition:		
Building Improvement Services	28,829	
Debt Service:		
Services	100	
Interest	186,790	
Intergovernmental:		
AEA Flowthrough	169,052	
Total governmental activities	<u>4,974,221</u>	<u>543,824</u>
Business Type Activity		
School Nutrition Fund	<u>245,461</u>	<u>135,775</u>
Total School District	<u>\$ 5,219,682</u>	<u>\$ 679,599</u>
General Revenues:		
Property taxes		
Other taxes		
Interest on Investments		
State aid not restricted to specific programs		
Contributions		
Sale of Equipment & Material		
Miscellaneous		
Total general revenues		
Change in net assets		
Net assets - beginning		
Net assets - ending		

See Accompanying Notes to Financial Statements

Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
Operating Grants Contributions	Capital Grants Contributions	Governmental Activities	Business Type Activity	Total
\$ 282,067		\$ (1,698,541)		\$ (1,698,541)
		(319,075)		(319,075)
4,231		(166,640)		(166,640)
		(101,066)		(101,066)
		(123,862)		(123,862)
		(61,689)		(61,689)
		(300,196)		(300,196)
		(234,025)		(234,025)
		(71,498)		(71,498)
9,919		(399,517)		(399,517)
		(273,300)		(273,300)
		(28,829)		(28,829)
		(100)		(100)
		(186,790)		(186,790)
169,052		-		-
<u>465,269</u>	<u>-</u>	<u>(3,965,128)</u>		<u>(3,965,128)</u>
85,678	-		\$ (24,008)	(24,008)
<u>\$ 550,947</u>	<u>\$ -</u>	<u>(3,965,128)</u>	<u>(24,008)</u>	<u>(3,989,136)</u>
		1,792,076		1,792,076
		387,498		387,498
		50,531	209	50,740
		1,975,400		1,975,400
		8,188		8,188
		1,030		1,030
		23,536	5,595	29,131
		<u>4,238,259</u>	<u>5,804</u>	<u>4,244,063</u>
		273,131	(18,204)	254,927
		4,155,186	71,878	4,227,064
		<u>\$ 4,428,317</u>	<u>\$ 53,674</u>	<u>\$ 4,481,991</u>

See Accompanying Notes to Financial Statements

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
Governmental Funds
JUNE 30, 2005

		General
Assets		
Cash and Pooled Investments	\$	507,951
Receivables:		
Property Tax		21,927
Succeeding Year Property Tax		1,239,258
Other		
Due from Other Funds		55,875
Due from Other Governmental Agencies		92,163
Prepaid Expenses		28,971
Total Assets		1,946,145
Liabilities and Equity		
Payables:		
Accounts Payable		117,951
Due to Other Funds		
Deferred Revenue:		
Succeeding Year Property Tax		1,239,258
Accrued Wages and Benefits		457,544
Accrued Early Retirement		
Total Liabilities		1,814,753
Fund Balances:		
Reserved for Phase III		26,044
Reserved for Debt Service		
Reserved for Prepaid Expenses		28,971
Unreserved for:		
Undesignated		76,377
Total Fund Balances		131,392
Total Liabilities and Equity	\$	1,946,145

See Accompanying Notes to Financial Statements

	Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
\$	1,918,642	\$ 1,749	\$ 274,346	\$ 2,702,688
		7,246	2,374	31,547
		411,020	151,129	1,801,407
			36,034	36,034
		22,479		78,354
	55,029			147,192
				28,971
	<u>1,973,671</u>	<u>442,494</u>	<u>463,883</u>	<u>4,826,193</u>

	2,664			120,615
	22,469		41,237	63,706
		411,020	151,129	1,801,407
				457,544
			18,720	18,720
	<u>25,133</u>	<u>411,020</u>	<u>211,086</u>	<u>2,461,992</u>

				26,044
		31,474		31,474
				28,971
	1,948,538		252,797	2,277,712
	1,948,538	31,474	252,797	2,364,201
\$	<u>1,973,671</u>	<u>442,494</u>	<u>463,883</u>	

Amounts reported for Governmental Activities in the Statement of Net assets are different because:

Infrastructure, property, and equipment used in governmental activities are not financial resources and, therefore, are not reported in the funds	5,549,101
Accrued expenses from the balance sheet that provide current financial resources for governmental activities	(99,985)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	(3,385,000)
Net Assets of Governmental Activities	<u>\$ 4,428,317</u>

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Governmental Funds
Year Ended June 30, 2005

		General
Revenue:		
Local Sources	\$	1,587,016
State Appropriations		2,354,530
Federal Appropriations		129,821
Total Revenue		4,071,367
Expenditures:		
Governmental Activities:		
Instruction:		
Regular		2,169,274
Special Programs		397,406
Vocational		167,278
Co-curricular		88,391
Support Services:		
Student Support		153,510
Instructional Staff Support		61,286
General Administration		140,511
Building Administration		234,025
Business Administration		71,498
Operations and Maintenance		375,908
Student Transportation		196,463
Facilities Acquisition:		
Building Improvement Services		
Debt Service:		
Services		
Principal		
Interest		
Intergovernmental:		
AEA Flowthrough		169,052
Total Expenditures		4,224,602
Excess (Deficiency) of Revenues Over Expenditures		(153,235)
Other Financing Sources (Uses):		
Sale of Equipment & Material		1,030
Total Other Financing Sources (Uses)		1,030
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses		(152,205)
Fund Balances-Beginning of Year		283,597
Fund Balances-End of Year	\$	131,392

See Accompanying Notes to Financial Statements

	Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
\$	435,054	\$ 413,100	\$ 326,801	\$ 2,761,971
				2,354,530
				129,821
	435,054	413,100	326,801	5,246,322
			14,467	2,183,741
				397,406
				167,278
			196,907	285,298
				153,510
				61,286
			24,215	164,726
				234,025
				71,498
			27,607	403,515
			54,314	250,777
	131,920		1,918	133,838
		100		100
		225,000		225,000
		187,720		187,720
				169,052
	131,920	412,820	319,428	5,088,770
	303,134	280	7,373	157,552
				1,030
				1,030
	303,134	280	7,373	158,582
	1,645,404	31,194	245,424	2,205,619
\$	1,948,538	\$ 31,474	\$ 252,797	\$ 2,364,201

See Accompanying Notes to Financial Statements

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

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

Net change in fund balances - total governmental funds (page 19)	\$	158,582
Governmental funds report capital outlays, including infrastructure, as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current year.		(81,541)
Accrued Expenses not reported on modified accrual basis		(28,910)
The repayment of the principal of bonded long-term debt consumes the current financial resources of governmental funds without affecting the net assets. The statement of activities does not reflect the payment of principal on bonded long-term debt. The principal paid on bonded long-term debt during the current year was:		<u>225,000</u>
Change in net assets of governmental activities (page 15)	\$	<u><u>273,131</u></u>

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
Balance Sheet
Proprietary Fund
June 30, 2005

	School Nutrition Fund
Assets	
Cash and Pooled Investments	\$ 10,525
Inventories	8,514
Property and Equipment, Net of Accumulated Depreciation	66,416
Total Assets	85,455
Liabilities	
Due to Other Funds	14,648
Accrued Wages and Benefits	17,133
Total Liabilities	31,781
Equity	
Invested in Capital Assets	66,416
Reserved for Inventories	8,514
Unrestricted	(21,256)
Total Liabilities and Equity	\$ 85,455

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Fund
For the Year Ended June 30, 2005

	School Nutrition Fund
Operating Revenues:	
Sales of lunches and breakfasts:	
Students	\$ 126,297
Adults	9,382
A la carte	96
Miscellaneous	5,595
	141,370
Total Operating Revenue	141,370
Operating Expenditures:	
Food Service Operations:	
Salaries	96,070
Benefits	17,743
Supplies	114,319
Other	6,594
Depreciation	10,735
	245,461
Total Operating Expenses	245,461
Operating Loss	(104,091)
Non-Operating Revenues :	
Interest Income	209
State Lunch and Breakfast Program Claims	5,083
National School Lunch Program	58,385
Federal Food Commodities Received	22,210
	85,887
Total Non-Operating Revenues	85,887
Change in net assets	(18,204)
Net Assets-beginning	71,878
Net Assets-ending	\$ 53,674

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
Business Type Activity
For the Year Ended June 30, 2005

	School Nutrition Fund
Cash flows from operating activities:	
Cash received from customers	\$ 135,775
Cash received from miscellaneous operating activities	5,595
Cash payments to employees for services	(111,472)
Cash payments to suppliers for goods and services	(117,923)
Total cash used by operating activities	(88,025)
Cash flows from noncapital financing activities:	
State grants received	5,083
Federal grants received	80,595
Net cash provided by noncapital financing activities	85,678
Cash flows from investing activities:	
Interest on investments	209
Net decrease in cash and cash equivalents	(2,138)
Cash and pooled investments - beginning of year	12,663
Cash and pooled investments - end of year	10,525
Reconciliation of operating loss to net cash used in operating activities:	
Operating Loss	(104,091)
Depreciation Expense	10,735
Change in assets and liabilities:	
Decrease in inventory	2,990
Increase in salaries and benefits payable	2,341
Net cash used in operating activities	(88,025)
Supplemental schedule of noncash noncapital financing activities:	
Federal food commodities received	\$ 22,210

See Accompanying Notes to Financial Statements

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
Fiduciary Funds
For the Year Ended June 30, 2005

	<u>2005</u>
ASSETS	
Cash and Temporary Cash Investments	<u>\$ 37,518</u>
LIABILITIES	
Other Payables	<u>\$ 37,518</u>

See Accompanying Notes to Financial Statements

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2005

Note 1 – Summary of Significant Accounting Policies

The Lawton-Bronson 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 areas served includes the cities of Lawton and Bronson, Iowa, and the predominate agricultural territory in Woodbury County. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

A. Reporting Entity

For financial reporting purposes, Lawton-Bronson Community School District has included all funds, organizations, account groups, 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 Lawton-Bronson Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

These financial statements have been prepared in conformity with U.S. Generally Accepted Accounting Principles (GAAP) that apply to governmental units. All funds created under the authority of the State Code of Iowa, the operations of which are under the control of the District's governing body, and by financial reporting standards for governmental units are included herewith.

The Governmental Accounting Standards Board is responsible for establishing U.S. GAAP for state and local government through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The District applies only the applicable FASB pronouncements issued prior to November 30, 1989 in accounting and reporting its proprietary operations. The more significant accounting policies established in U.S. GAAP and used by the District are discussed below.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint ventures since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Woodbury County Assessor's Conference Board.

B. Basic Financial Statements- Government-Wide Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The District's general, special revenue, capital project, and debt service funds are classified as governmental activities. The District's school nutrition fund is classified as a business-type activity.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts- invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The District first uses restricted resources to finance qualifying activities.

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2005

Note 1 – Summary of Significant Accounting Policies (Continued)

The Government-wide Statement of Activities reports both the gross and net cost of each of the District's functions and business-type activities. The functions are also supported by general government expenses (including depreciation) by related program revenues, operating grants, and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

C. Fund Accounting

The District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. Funds are classified into two types: governmental and proprietary. The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB No. 34 sets forth minimum criteria for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements. The various funds reported in the financial statements are grouped into fund types as follows:

GOVERNMENTAL FUND TYPES

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities, except those accounted for in proprietary funds, are accounted for through governmental funds. The measurement focus is on determination of financial position and changes in financial position, rather than upon net income determination. The following are the District's governmental funds.

General Fund – The General Fund is the primary operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund accounts for the instructional and most of the support service programs of the District's operations. Revenue of the General Fund consists primarily of local property taxes and state government aid.

Special Revenue Fund – Special Revenue Funds account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted for specified purposes. Each of the District's Special Revenue Funds has been established to reflect restricted revenue sources provided to school districts by the Iowa State Statutes. The funds included in this category and their purposes are as follows:

Management Fund – Accounts for a levy of seventy-eight cents per thousand dollars of assessed valuation in the district for insurance premiums and unemployment compensation insurance claims.

Physical Plant and Equipment Levy – Accounts for a regular levy of thirty-three cents per thousand dollars of assessed valuation in the district as well as an additional special voted property tax levy of one dollar per thousand dollars of assessed valuation in the district for use in purchase of equipment and repairing and improving schoolhouse buildings and grounds.

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2005

Note 1 – Summary of Significant Accounting Policies (Continued)

Student Activity Fund – Accounts for student clubs and other activities not necessary to regular instruction services that are financed partly or entirely by admissions and student fund-raising activities.

Debt Service Fund – The Debt Service Fund accounts for the accumulation of resources for and the payment of general long-term debt principal and interest.

Capital Projects Fund – The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

PROPRIETARY FUND TYPES

Proprietary funds are used to account for the District's ongoing activities that are similar to those often found in the private sector, where the measurement focus is upon the flow of economic resources. The fund included in this category and its' purpose are as follows:

Enterprise Fund – The Enterprise Fund is used to account for operations: (a) which are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The fund included in this category and its purpose is as follows:

School Nutrition Fund – Accounts for the food service operations of the District. It is the policy of the District to treat all direct food sales as operating revenues, and to treat all investment income and state and federal aid as nonoperating revenues.

FIDUCIARY FUND TYPE

Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The following are the District's fiduciary fund:

Agency Fund - The Teacher's Memorial and Shoemaker Scholarship Funds hold monies for the school to distribute to students as scholarships. The monies are not to be used for any other purpose, and if the funds are ever dissolved, the monies return to the estates that provided the funding.

MAJOR FUNDS

Major funds are those funds whose operations have a material impact on the operation of the government on the whole. They are presented separately from the other governmental funds. The General Fund is always a major fund. This year, the Capital Projects Fund qualified for as a major fund, and the District requested that the Debt Service Fund be treated as a major fund.

D. Basis of Accounting/Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and agency funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2005

Note 1 – Summary of Significant Accounting Policies (Continued)

and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets.

All governmental fund types use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due.

Because of their flow of current financial resources measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Those revenues susceptible to accrual are property taxes, interest revenue, and intergovernmental revenue (shared revenues, grants and reimbursements from other governments). Revenue from federal and state grants and similar programs are recognized when a District has done everything necessary to establish its right to the revenue. Usually this is at the time an expenditure has been incurred for an authorized purpose.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary Fund type operating statements present increases (e.g. revenue) and decreases (e.g. expenses) in net total assets. In reporting the financial activity of its proprietary funds, 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 fund types utilize the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Budgetary Accounting- 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 expendable trust funds 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.

E. Assets, Liabilities, and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash and Temporary Cash Investments – The cash balances of most District funds are pooled and invested. For purposes of the statement of cash flows, the proprietary fund type considers 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. Cash investments not meeting the definition of cash equivalents at June 30, 2005 included certificates of deposits of \$737,138 with original maturity dates longer than three months.

Interfund Activity – Interfund balances outstanding at year-end were between the General Fund, the Management Levy Fund, the Debt Service Fund, the Capital Projects Fund, the Nutrition Fund, and the Physical Plant and Equipment Levy (PPEL) Fund. The purpose of the balances between the General

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2005

Note 1 – Summary of Significant Accounting Policies (Continued)

Fund and the Capital Projects Fund was to accrue expenses that the General Fund paid on the Capital Projects Fund's behalf. The purpose of the balances between the General Fund and the Nutrition Fund was to accrue expenses that the General Fund paid on the Nutrition Fund's behalf. The purpose of the balances between the General Fund, the Management Levy Fund, the Debt Service Fund, and the PPEL Fund was to accrue expenses that the General Fund and the Debt Service Fund paid on the Management Levy Fund and PPEL Fund's behalf.

Property Tax Receivable – Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education to the County Board of Supervisors. Current year delinquent property taxes receivable represents unpaid taxes from the current year. 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 Board of Education is required to certify its budget to the County Auditor by April 15 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 and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 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 revenue, grants and reimbursements from other governments.

Inventories – Inventory items are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities.

Property and Equipment – Property and equipment are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed assets are reported at their fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The District's capitalization policy is \$5,000. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and structures	25 - 50 years
Machinery and equipment	5 - 20 years

During the year ended June 30, 2005, no interest costs were capitalized since the District's policy is not to capitalize interest costs on assets constructed or acquired with tax-exempt debt paid for from annual debt service tax levies.

Proprietary Fund – Proprietary fund type property and equipment is accounted for at historical costs or estimated historical costs where historical cost is not available. Contributed capital assets are recorded at estimated fair market value at the date received.

The Proprietary Fund uses the same capitalization policy as the rest of the District. Accumulated depreciation is reported on the Proprietary Fund balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives for machinery and equipment are 15 years.

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2005

Note 1 – Summary of Significant Accounting Policies (Continued)

Accrued Payroll and Related Expenditures – 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 collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, the succeeding year property tax receivable as well as delinquent property tax receivable and other receivables not collected within sixty days after year end, excluding grant receivables.

Compensated Absences – There is no liability for unpaid accumulated vacation or sick leave since the District does have a policy in which employees are required to use it or lose it. The District does not pay this amount when employees separate from service.

Designated Fund Balance – The District has designated a portion of its fund balance for cash flow as well as providing for a potential emergency.

Note 2 – Deposits and Investments

The School District's deposits 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 School 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; and certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2005, the District had deposits with financial institutions with a carrying amount of \$2,664,402 and a bank balance of \$2,787,603. At June 30, 2005, its investment balances were as follows:

Investment Type	Fair Value	Maturity	Rating
Iowa School Joint Investment Trust	\$ 49,020	None	Unrated

Note 3 – Area Education Agency

The District is required by the Code of Iowa to budget for its share of the media and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$169,052 for the year ended June 30, 2005, and is recorded in the General Fund.

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2005

Note 4 – Capital Assets

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

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 283,677			\$ 283,677
Construction in Progress		\$ 8,188		8,188
Total capital assets not being depreciated	283,677	8,188		291,865
Capital assets being depreciated:				
Buildings	6,464,484	21,950		6,486,434
Furniture and Equipment	1,688,129	108,884	\$ 59,093	1,737,920
Total capital assets being depreciated	8,152,613	130,834	59,093	8,224,354
Less accumulated depreciation for:				
Buildings	1,379,500	135,471		1,514,971
Furniture and Equipment	1,426,148	85,092	59,093	1,452,147
Total accumulated depreciation	2,805,648	220,563	59,093	2,967,118
Total capital assets being depreciated, net	5,346,965	(89,729)	(0)	5,257,236
Governmental activities capital assets, net	\$ 5,630,642	\$ (81,541)	\$ (0)	\$ 5,549,101
	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Business-Type Activities:				
Furniture and Equipment	\$ 231,215			\$ 231,215
Less accumulated depreciation	154,064	\$ 10,735		164,799
Business-type activities capital assets, net	\$ 77,151	\$ (10,735)		\$ 66,416

Depreciation expense was charged to functions as follows:

Governmental Activities:	
Regular Instruction	\$ 19,438
Vocational Instruction	3,593
Co-Curricular Instruction	2,071
Student Support	79
Instructional Staff Support	403
General Administration/Multi-Functional	135,470
Operations and Maintenance	5,921
Transportation	53,588
Total depreciation expense – governmental activities	<u>\$ 220,563</u>
Business-Type Activities:	
Food Service Operations	<u>\$ 10,735</u>

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2005

Note 5 – Retirement System

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 that 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 salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$143,059, \$144,165, and \$131,597 respectively, equal to the required contributions for each year.

Note 6 – Long-Term Debt

A summary of changes in long-term debt of the year ended June 30, 2005 is as follows:

	General Obligation Bonds	Early Retirement	Total
Balance beginning of year	\$ 3,610,000	\$ 87,148	\$ 3,697,148
Additions	-	57,120	57,120
Deletions	(225,000)	(39,548)	(264,548)
Balance end of year	\$ 3,385,000	\$ 104,720	\$ 3,489,720

Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must be between the ages of 55 and 65 on or before June 30 of the year in which they wish to retire, and must have completed a total of ten years of service to the District as a full-time licensed employee. Employees must complete an application which is required to be approved by the Board of Education. Retirees select benefits under either of the following options:

Monetary Payment - A percentage of the employee's current annual full-time base salary, based on the employee's years of service.

Health Insurance Continuation – Allows the employee to continue to participate in the District's group health insurance plan until age 65 at the expense of the District, not to exceed \$200 per month for employees who retired prior to February 27, 2003, and \$240 per month for employees who retired after February 27, 2003.

Early retirement benefits (including payroll taxes) paid during the year ended June 30, 2005 totaled \$26,668. The cost of early retirement payments expected to be liquidated currently are recorded as a liability of the Special Revenue, Management Levy Fund. A liability has been recorded representing the District's commitment to fund non-current early retirement.

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2005

Note 6 – Long-Term Debt (Continued)

Bonded Debt

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

Ending June 30	Principal	Interest	Total
2006	\$ 235,000	\$ 176,020	\$ 411,020
2007	250,000	163,800	413,800
2008	260,000	150,800	410,800
2009	275,000	137,280	412,280
2010	290,000	122,980	412,980
2011-2015	1,685,000	372,840	2,057,840
2016	390,000	20,280	410,280
Totals	\$ 3,385,000	\$ 1,144,000	\$ 4,529,000

Note 7 – Operating Leases

The District is committed under four non-cancelable operating leases for copiers. Future minimum operating lease commitments are as follows:

Year Ending June 30,	PPEL Fund
2006	\$ 20,851
2007	18,251
2008	15,944
2009	4,409
2010	3,287
2011	87
Total	\$ 62,829

Rent expenditures were \$11,112 for the year ended June 30, 2005.

Note 8 – Risk Financing

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During the year ended June 30, 2005 the District has elected to purchase commercial insurance to cover against the risk of loss. There were no settlements that exceeded insurance coverage during the past three years or any significant reductions in coverage.

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2005

Note 9 – Construction Commitments

The District entered into a construction agreement with a local nonprofit foundation to construct a community fitness center adjacent to the school. The District volunteered a section of its real property for the construction site, and the foundation will provide the construction costs to assemble the structure. When complete, the District will assume the costs of the center's operation and maintenance. The estimated cost of the new facility is projected to be \$229,500. The remaining balance not in process at year end was \$221,312.

Note 10 – Special Item

During the course of the year, the District was involved in alleged theft, by a previous employee, which approximates \$54,000. The District expects to recover those funds from its insurer. The District, in conjunction with county authorities, intends to prosecute and as of this report, the investigation was still ongoing.

REQUIRED SUPPLEMENTAL INFORMATION

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances-
Budget and Actual (Cash Basis)-
General Fund and Proprietary Fund
Year Ended June 30, 2005

	General Fund Actual	Proprietary Fund Actual	Total Actual	Final Budget	Variance with Budget Favorable (Unfavorable)
Receipts:					
Local Sources	\$ 1,592,129	\$ 141,579	\$ 1,733,708	\$ 1,687,523	\$ 46,185
State Sources	2,149,867	5,083	2,154,950	2,436,280	(281,330)
Federal Sources	327,519	58,385	385,904	300,000	85,904
Total Revenues	<u>4,069,515</u>	<u>205,047</u>	<u>4,274,562</u>	<u>4,423,803</u>	<u>(149,241)</u>
Expenditures:					
Instruction	2,829,631	-	2,829,631	3,038,988	209,357
Support Services	1,180,215	-	1,180,215	1,149,000	(31,215)
Non-Instructional Programs	-	207,185	207,185	248,098	40,913
Other Expenditures	169,052	-	169,052	183,573	14,521
Total Expenditures	<u>4,178,898</u>	<u>207,185</u>	<u>4,386,083</u>	<u>4,619,659</u>	<u>233,576</u>
(Deficiency) of Revenues Over Expenditures	<u>(109,383)</u>	<u>(2,138)</u>	<u>(111,521)</u>	<u>(195,856)</u>	<u>84,335</u>
Other Financing Sources					
Sale of Equipment & Material	<u>1,030</u>	<u>-</u>	<u>1,030</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources	<u>1,030</u>	<u>-</u>	<u>1,030</u>	<u>-</u>	<u>-</u>
(Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>(108,353)</u>	<u>(2,138)</u>	<u>(110,491)</u>	<u>(195,856)</u>	
Fund Balance/Retained Earnings Beginning of Year	<u>616,304</u>	<u>12,663</u>	<u>628,967</u>	<u>224,085</u>	
Fund Balance/Retained Earnings End of Year	<u>\$ 507,951</u>	<u>\$ 10,525</u>	<u>\$ 518,476</u>	<u>\$ 28,229</u>	

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
Notes to Required Supplemental Information – Budgetary Reporting
June 30, 2005

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the 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 District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2005, disbursements in the support services exceeded the amounts budgeted.

There were no amendments made during the fiscal year ending June 30, 2005. The original budget by functional area was as follows:

	Original Budget
Instruction	\$ 3,299,731
Student Support Services	1,508,816
Non-Instructional	248,598
Other Expenditures	603,573

A comparison of cash basis revenues, expenditures or expenses and changes in balance with the cash basis budget, which is legally controlled by functional areas, is presented here. Operations and ending fund balances on the cash and modified accrual or accrual basis have been reconciled as follows:

	Governmental Fund Types		
	General		Modified Accrual Basis
	Cash Basis	Accrual Adjustments	
Revenues	\$ 4,069,515	\$ 1,852	\$ 4,071,367
Expenditures	4,178,898	45,704	4,224,602
Net	(109,383)	(43,852)	(153,235)
Other Financing Sources (Uses)	1,030	-	1,030
Beginning Fund Balance	616,304	(332,707)	283,597
Ending Fund Balance	\$ 507,951	\$ (376,559)	\$ 131,392

	Governmental Fund Types		
	Special Revenue		Modified Accrual Basis
	Cash Basis	Accrual Adjustments	
Revenues	\$ 287,300	\$ 39,501	\$ 326,801
Expenditures	317,316	2,112	319,428
Net	(30,016)	37,389	7,373
Other Financing Sources (Uses)	-	-	-
Beginning Fund Balance	304,362	(58,938)	245,424
Ending Fund Balance	\$ 274,346	\$ (21,549)	\$ 252,797

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
Notes to Required Supplemental Information – Budgetary Reporting
June 30, 2005

	<u>Governmental Fund Types</u>		
	<u>Cash Basis</u>	<u>Debt Service</u>	<u>Modified Accrual Basis</u>
		<u>Accrual Adjustments</u>	
Revenues	\$ 412,923	\$ 177	\$ 413,100
Expenditures	412,760	60	412,820
Net	163	117	280
Other Financing Sources (Uses)	-	-	-
Beginning Fund Balance	1,586	29,608	31,194
Ending Fund Balance	<u>\$ 1,749</u>	<u>\$ 29,725</u>	<u>\$ 31,474</u>

	<u>Governmental Fund Types</u>		
	<u>Cash Basis</u>	<u>Capital Projects</u>	<u>Modified Accrual Basis</u>
		<u>Accrual Adjustments</u>	
Revenues	\$ 505,188	\$ (70,134)	\$ 435,054
Expenditures	133,608	(1,688)	131,920
Net	371,580	(68,446)	303,134
Other Financing Sources (Uses)	-	-	-
Beginning Fund Balance	1,547,062	98,342	1,645,404
Ending Fund Balance	<u>\$ 1,918,642</u>	<u>\$ 29,896</u>	<u>\$ 1,948,538</u>

	<u>Governmental Fund Types</u>		
	<u>Cash Basis</u>	<u>Total</u>	<u>Modified Accrual Basis</u>
		<u>Accrual Adjustments</u>	
Revenues	\$ 5,274,926	\$ (28,604)	\$ 5,246,322
Expenditures	5,042,582	46,188	5,088,770
Net	232,344	(74,792)	157,552
Other Financing Sources (Uses)	1,030	-	1,030
Beginning Fund Balance	2,469,314	(263,695)	2,205,619
Ending Fund Balance	<u>\$ 2,702,688</u>	<u>\$ (338,487)</u>	<u>\$ 2,364,201</u>

	<u>Proprietary Fund Type-Enterprise</u>		
	<u>Cash Basis</u>	<u>Total</u>	<u>Accrual Basis</u>
		<u>Accrual Adjustments</u>	
Revenues	\$ 205,047	\$ 22,210	\$ 227,257
Expenditures	207,185	38,276	245,461
Net	(2,138)	(16,066)	(18,204)
Other Financing Sources (Uses)	-	-	-
Beginning Fund Balance	12,663	59,215	71,878
Ending Retained Earnings	<u>\$ 10,525</u>	<u>\$ 43,149</u>	<u>\$ 53,674</u>

SUPPLEMENTAL INFORMATION

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
Statement of Revenue, Expenditures and Changes in Fund Balance
General Fund
Year Ended June 30, 2005

Schedule 1

Revenues:

Local Sources:

Local Tax:					
Property Tax		\$		1,245,599	
Other Local Sources:					
Interest on Investments				6,521	
Tuition from Other Districts				274,359	
Miscellaneous				60,537	
				341,417	
				1,587,016	

State Sources:

Foundation Aid-District's Share					1,967,793
Experienced Teacher Compensation					50,734
Educational Excellence Program:					
Phase I					30,320
Phase II					47,921
Non-Public Transportation Aid					9,919
Vocational Education Aid					4,231
Iowa Early Intervention Block Grant					27,919
Gas Tax Refund					11,465
Medicaid Reimbursement					29,727
AEA Flow-Through					169,052
Other					5,449
					2,354,530

Federal Sources:

Title I Grants to Local Educational Agencies					30,180
Class Size Reduction					13,137
Safe and Drug Free Schools and Communities					2,490
Innovative Education Program Strategies (Title VI Program)					2,158
Rural Education Achievement Program					41,075
Transition Alliance Program					40,781
					129,821

Total Revenue

4,071,367

Expenditures:

Instruction:

Regular Program Instruction:

Salaries					1,429,519
Employee Benefits					398,972
Contractual Services					194,907
General Supplies					133,885
Other					11,991
					\$ 2,169,274

Continued

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
Statement of Revenue, Expenditures and Changes in Fund Balance
General Fund - Continued
Year Ended June 30, 2005

Schedule 1 (Continued)

Expenditures (continued):

Instruction (continued):

Special Program Instruction:

Salaries	\$	197,155
Employee Benefits		53,068
Contractual Services		141,188
General Supplies		4,734
Other		1,261
		397,406

Vocational Program Instruction:

Salaries		121,301
Employee Benefits		41,585
Contractual Services		1,096
General Supplies		3,296
		167,278

Co-Curricular Program Instruction and Sports:

Salaries		74,437
Employee Benefits		10,752
Other		3,202
		88,391

Total Instruction

2,822,349

Support Services:

Student Support Services:

Salaries		113,518
Employee Benefits		30,777
Contractual Services		5,790
General Supplies		2,828
Other		597
		153,510

Instructional Staff Support Services:

Salaries		40,026
Employee Benefits		11,919
General Supplies		8,373
Equipment		968
		61,286

General Administration:

Salaries		99,785
Employee Benefits		28,710
Contractual Services		567
General Supplies		575
Other		10,874
		140,511

Continued

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
Statement of Revenue, Expenditures and Changes in Fund Balance
General Fund - Continued
Year Ended June 30, 2005

Schedule 1 (Continued)

Expenditures (continued):	
Support Services (continued):	
Building Administration:	
Salaries	\$ 163,298
Employee Benefits	63,851
Contractual Services	1,833
General Supplies	939
Other	4,104
	234,025
Business Administration:	
Salaries	37,337
Employee Benefits	4,973
Contractual Services	9,691
General Supplies	4,182
Other	15,315
	71,498
Operation and Maintenance Services:	
Salaries	160,448
Employee Benefits	54,408
Contractual Services	29,424
General Supplies	130,446
Other	1,182
	375,908
Student Transportation:	
Salaries	106,618
Employee Benefits	11,784
Contractual Services	13,119
General Supplies	62,492
Other	2,450
	196,463
	1,233,201
Total Support Services	
Other Expenditures:	
AEA Flow-Through	169,052
Total Expenditures	4,224,602
(Deficiency) of Revenues Over Expenditures	(153,235)
Other Financing Sources:	
Sale of Equipment & Material	1,030
(Deficiency) of Revenues and other Sources Over Expenditures	(152,205)
Balance Beginning of Year	283,597
Balance End of Year	\$ 131,392

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
Governmental Nonmajor Funds
June 30, 2005

Schedule 2

	Special Revenue Funds			
	Management Fund	Activity Fund	PPEL Fund	Total
Assets				
Cash and Pooled Investments	\$ 81,105	\$ 75,250	\$ 117,991	\$ 274,346
Receivables:				
Property Tax	1,668		706	2,374
Succeeding Year Property Tax	110,001		41,128	151,129
Other			36,034	36,034
Total Assets	<u>192,774</u>	<u>75,250</u>	<u>195,859</u>	<u>463,883</u>
Liabilities				
Due to Other Funds	12,314		28,923	41,237
Deferred Revenue:				
Succeeding Year Property Tax	110,001		41,128	151,129
Accrued Early Retirement	18,720			18,720
Total Liabilities	<u>141,035</u>	<u>-</u>	<u>70,051</u>	<u>211,086</u>
Fund Balances				
Unreserved, undesignated fund balance	51,739	75,250	125,808	252,797
Total Liabilities and Equity	<u>\$ 192,774</u>	<u>\$ 75,250</u>	<u>\$ 195,859</u>	<u>\$ 463,883</u>

**LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 Governmental Nonmajor Funds
 For the Year Ended June 30, 2005**

Schedule 3

	Special Revenue Funds			
	Management Fund	Activity Fund	PPEL Fund	Total
Revenue:				
Local Sources:				
Property Taxes	\$ 94,750		\$ 40,091	\$ 134,841
Other Local Sources:				
Interest on Investments	536	\$ 926	1,716	3,178
Student Activities		186,303		186,303
Miscellaneous		2,479		2,479
Total Revenue	95,286	189,708	41,807	326,801
Expenditures:				
Instruction:				
Regular	14,467			14,467
Co-curricular		196,907		196,907
Support Services:				
General Administration	24,215			24,215
Operations and Maintenance	27,607			27,607
Student Transportation	12,860		41,454	54,314
Facilities Acquisition:				
Building Improvement Services			1,918	1,918
Total Expenditures	79,149	196,907	43,372	319,428
Excess (Deficiency) of Revenues of Expenditures	16,137	(7,199)	(1,565)	7,373
Fund Balances - Beginning of Year	35,602	82,449	127,373	245,424
Fund Balances - End of Year	\$ 51,739	\$ 75,250	\$ 125,808	\$ 252,797

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
Schedule of Individual Student Activity Account Activity
For the Year Ended June 30, 2005

Schedule 4

	Balance June 30, 2004	Revenues	Expenditures	Operating Transfers	Balance June 30, 2005
Senior High					
Classes Graduated	\$ 700	\$ -	\$ -	\$ 448	\$ 1,148
Senior Class	448	208	2,116	2,104	644
Junior Class	2,552	85	2,403	1,119	1,353
Sophomore Class	3,671	5,900	3,335	(2,436)	3,800
Freshman Class	1,235	1,454	338	(1,235)	1,116
Concessions	444	250	474	-	220
Baseball Concessions	1,941	4,519	2,213	-	4,247
Softball Concessions	2,932	3,847	1,968	(1,019)	3,792
Drill Team	769	18,980	17,622	409	2,536
Cheerleaders	1,668	9,266	10,813	1,190	1,311
Junior High Activity	6,585	18,295	16,599	-	8,281
General Athletics	14,734	49,720	52,834	4,923	16,543
Activity Tickets	4	6,916	-	(6,920)	-
Library	2,040	2	-	-	2,042
Industrial Arts	6,794	6,124	8,101	7	4,824
Vocal Music	2,558	16,238	19,327	593	62
Instrumental Music	1,509	7,166	9,637	1,621	659
Elementary Music	-	-	90	400	310
Drama and Speech	367	273	1,095	415	(40)
National Honor Society	(55)	624	583	-	(14)
Destination Imagination	297	3,182	4,260	-	(781)
History Trip	-	3,352	3,334	-	18
Student Council	2,293	3,043	4,501	(186)	649
School Yearbook	6,840	12,038	14,507	1,071	5,442
Elementary Yearbook	5,571	1,695	1,848	-	5,418
Contingency Fund	13,048	926	5,745	(600)	7,629
Dollars for Scholars	2,197	2,630	2,429	-	2,398
Miscellaneous	(49)	2,479	2,040	(605)	(215)
ELP Store	500	-	-	(500)	-
Soup and Pie Supper	646	1,706	723	(1,299)	330
Bronson Teachers	210	8,790	7,972	500	1,528
	<u>\$ 82,449</u>	<u>\$ 189,708</u>	<u>\$ 196,907</u>	<u>\$ -</u>	<u>\$ 75,250</u>

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
Comparison of Taxes and Intergovernmental Revenues and Receipts
For the Years Ended June 30, 2005, 2004, 2003, 2002

Schedule 5

	Modified Accrual Basis of Accounting			
	2005	2004	2003	2002
Local Sources:				
Property Taxes	\$ 1,792,076	\$ 1,735,316	\$ 1,674,822	\$ 1,757,709
Local Sales and Service Tax	387,498	407,961	388,270	376,052
	<u>2,179,574</u>	<u>2,143,277</u>	<u>2,063,092</u>	<u>2,133,761</u>
State Sources:				
State Foundation Aid	1,967,793	2,047,230	2,000,284	1,973,041
School Improvement and Technology	-	-	-	12,878
Teachers Compensation Allocation	50,734	44,861	39,378	38,071
Lunch and Breakfast Program Claims	5,083	3,520	3,680	3,722
Educational Excellence Program:				
Phase I	30,320	30,377	30,604	30,604
Phase II	47,921	49,018	50,507	51,477
Phase III	-	-	12,550	29,797
Non-Public Transportation Aid	9,919	8,997	8,748	9,180
Vocational Education Aid	4,231	3,924	-	2,110
Revenue in Lieu of Taxes - Military Credit	-	-	-	1,114
Iowa Early Intervention Block Grant	27,919	32,065	35,024	36,040
Gas Tax Refund	11,465	-	-	-
Medicaid Reimbursement	29,727	7,926	-	-
AEA Flow-Through	169,052	167,090	183,568	184,302
Other State Aid	5,449	5,045	3,077	-
	<u>2,359,613</u>	<u>2,400,053</u>	<u>2,367,420</u>	<u>2,372,336</u>
Federal Sources:				
Title I	30,180	32,076	29,198	20,554
Title V	-	22,839	-	-
Class Size Reduction	13,137	12,987	15,128	9,219
Safe and Drug Free Schools and Communities	2,490	-	1,881	2,110
Innovative Education Program Strategies (Title VI Program)	2,158	3,001	17,853	6,828
National School Lunch Fund	58,385	51,434	46,833	49,839
Food Distribution	22,210	23,565	36,718	23,573
Eisenhower Grant	-	-	1,049	816
Rural Education Achievement Program	41,075	6,993	28,813	-
Transition Alliance Program	40,781	38,933	13,218	-
Other Federal Aid	-	-	-	3,762
	<u>210,416</u>	<u>191,828</u>	<u>190,691</u>	<u>116,701</u>
Total	<u>\$ 4,749,603</u>	<u>\$ 4,735,158</u>	<u>\$ 4,621,203</u>	<u>\$ 4,622,798</u>

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON
AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education of the
Lawton-Bronson Community School District

We have audited the financial statements of the LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT as of and for the year ended June 30, 2005, and have issued our report thereon dated August 31, 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.

Compliance:

As part of obtaining reasonable assurance about whether the Lawton-Bronson Community School District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 instance of non-compliance is described in Part I of the accompanying Schedule of Findings and Questioned Costs as item I-A-05.

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.

Internal Control Over Financial Reporting:

In planning and performing our audit, we considered Lawton-Bronson 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 basic 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 judgment, could adversely affect Lawton-Bronson Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-05 and II-B-05.

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, we believe II-A-05 and II-B-05 are material weaknesses.

This report, a public record by law, is intended solely for the information and use of the board of education, management, employees and citizens of Lawton-Bronson Community School District and other parties to whom the Lawton-Bronson 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 Lawton-Bronson Community School District during the course of our audit. If you have any questions concerning any of the above matters, we would be pleased to discuss them with you at your convenience.

Williams + Company, P.C.
Certified Public Accountants

Sioux City, Iowa
August 31, 2005

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did disclose non-compliance, which is material to the financial statements.

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

I-A-05 Financial Accounting – Instance of Fraud

- A. Observation – A previous School District employee has allegedly been involved in actions to defraud the District of monies. The extent of funds taken is estimated at \$54,000 net, and this amount is expected to be covered by the District's insurer. The District is working with local authorities to prosecute these acts.

Recommendation – The District should keep records of any additional suspicious transactions that are uncovered, and confer with the District's insurance company and local authorities if any such transactions are uncovered. With a limited number of personnel, avoiding this kind of fraud is difficult. The School District has implemented management review procedures which we feel aid in improving the internal controls of the School District. However, we comment that this weakness exists and the duties of the replacement employee should be continually monitored by management.

Response – The District will continue to work with local authorities in the prosecution of the former employee. Management will also continue to monitor transactions on a regular basis.

Conclusion – Response accepted.

REPORTABLE CONDITIONS:

II-A-05 Financial Accounting – Segregation of Duties

- A. Observation – The School District accountant is involved in almost all phases of the finance operations, including check preparation, preparation of journal entries, as well as financial reporting and statements. We did note that the accountant is not involved with the receipt of any cash or checks and that invoices/claims are not paid until reviewed by the superintendent. We also noted that the financial reporting is under the direction of the superintendent.

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Recommendation – With a limited number of personnel, segregation of duties is difficult. The School District has implemented management review procedures which we feel aid in improving the internal controls of the School District. However, we comment that this weakness exists and the duties of the accountant should be continually monitored by management.

Response – The District feels that additional personnel would not be cost effective. However, management will continue to monitor transactions on a regular basis.

Conclusion – Response accepted.

II-B-05 Financial Accounting – District Fundraising

- A. Observation – During the audit it was noted that several fundraising activities were conducted on the District's behalf by members of the staff. The proceeds from these fundraisers were not remitted to the school upon completion. Instead, the proceeds were spent on behalf of the District for new equipment. Upon further inquiry, the members of the staff involved in these fundraising activities could not immediately provide records accounting for funds brought in and funds distributed out.

Recommendation – Any and all future fundraising done on behalf of the District by its staff must be coordinated with the District's business staff. All proceeds must be remitted to the school on a timely basis without exception, and all disbursements of those proceeds must follow pre-existing district procedures of expenditure approval.

Response – The fundraising will be coordinated with the business staff. Any unspent proceeds from prior fundraisers will be remitted staff as soon as possible.

Conclusion – Response accepted.

Part III: Other Findings Related to Statutory Reporting:

- III-A-05 Official Depositories – A resolution naming official depositories has been approved by the District. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

- III-B-05 Certified Budget – Disbursements for the year ended June 30, 2005 exceeded the certified budget amounts in the general fund for support services, and the capital projects fund for other expenditures.

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

Response – Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Conclusion – Response accepted.

- III-C-05 Questionable Disbursements – No disbursements were noted that they may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-D-05 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- III-E-05 Business Transactions – There were no business transactions between the District and District officials or employees during the year ended June 30, 2005.
- III-F-05 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-G-05 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.
- III-H-05 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.
- III-I-05 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- III-J-05 Certified Annual Report – The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.