

LUVERNE COMMUNITY SCHOOL DISTRICT

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

June 30, 2005

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Independent Auditor's Report

To the Board of Education of
LuVerne Community School District:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of LuVerne Community School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 21, 2005, on our consideration of LuVerne Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise LuVerne Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004, (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

October 21, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$1,105,896 in fiscal 2004 to \$1,090,836 in fiscal 2005, while General Fund expenditures increased from \$995,133 in fiscal 2004 to \$1,097,423 in fiscal 2005. The District's General Fund balance decreased from a balance of \$97,659 in fiscal 2004 to \$85,072 in fiscal 2005.
- While General Fund revenues remained relatively steady, General Fund expenditures increased by approximately \$102,000. The increase in General fund expenditures was due to replacement of staff on leave.

USING THIS ANNUAL REPORT

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

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

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

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report LuVerne Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-1

Condensed Statement of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Percentage Change
	2005	2004	2005	2004	2005	2004	2004-2005
	\$	\$	\$	\$	\$	\$	
Current and other assets	1,079,657	1,138,437	2,132	6,541	1,081,789	1,144,978	-5.5%
Capital assets	150,441	176,926	2,520	3,464	152,961	180,390	-15.2%
Total Assets	1,230,098	1,315,363	4,652	10,005	1,234,750	1,325,368	-6.8%
Long-term liabilities	-	749	-	-	-	749	-100.0%
Other liabilities	859,747	955,792	5,439	5,362	865,186	961,154	-10.0%
Total liabilities	859,747	956,541	5,439	5,362	865,186	961,903	-10.0%
Net Assets:							
Invested in capital assets, net of related debt	150,441	176,926	2,520	3,464	152,961	180,390	-15.2%
Restricted	106,523	57,701	-	-	106,523	57,701	-84.6%
Unrestricted	113,387	124,195	(3,307)	1,179	110,080	125,374	-12.2%
TOTAL NET ASSETS	370,351	358,822	(787)	4,643	369,564	363,465	1.7%

The District's total net assets increased by nearly 1.7% or approximately \$6,099 over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$48,822, or 84% over the prior year. The increase was primarily a result of sales tax revenues that were collected during 2005, but will be used to pay for future capital improvements.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$15,294, or 12.2%. The major reason for the increase in unrestricted net assets was increased costs due to staff replacement.

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

Figure A-2

	Change in Net Assets						Percentage Change 2004-2005
	Governmental Activities		Business-type Activities		Total School District		
	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$	
Revenues							
Program Revenues:							
Charges for services	129,306	113,608	21,617	22,279	150,923	135,887	11.1%
Operating grants & contributions	134,958	159,032	33,653	35,235	168,611	194,267	-13.2%
Capital grants & contributions	8,790	18,161	-	-	8,790	18,161	-51.6%
General Revenues:							
Property taxes	578,671	716,840	-	-	578,671	716,840	-19.3%
Income Surtax	29,776	28,995	-	-	29,776	28,995	2.7%
Local option sales tax	51,395	17,718	-	-	51,395	17,718	190.1%
Unrestricted state grants	265,415	153,807	-	-	265,415	153,807	72.6%
Unrestricted investment earnings	8,478	2,339	21	21	8,499	2,360	260.1%
Other revenue	37	439	-	-	37	439	-91.6%
Total Revenues	1,206,826	1,210,939	55,291	57,535	1,262,117	1,268,474	-5%
Expenses:							
Instruction	776,810	700,770	-	-	776,810	700,770	10.9%
Support services	365,431	378,821	-	-	365,431	378,821	-3.5%
Non-instructional programs	-	-	66,721	66,561	66,721	66,561	.2%
Other expenditures	47,056	63,369	-	-	47,056	63,369	-25.7%
Total expenses	1,189,297	1,142,960	66,721	66,561	1,256,018	1,209,521	3.8%
Change in net assets before Transfers	17,529	67,979	(11,430)	(9,026)	6,099	58,953	-89.7%
Transfers	(6,000)	(8,000)	6,000	8,000	-	-	-
CHANGE IN NET ASSETS	11,529	59,979	(5,430)	(1,026)	6,099	58,953	-89.7%
Net assets beginning of year	358,822	298,843	4,643	5,669	363,465	304,512	19.4%
Net assets end of year	370,351	358,822	(787)	4,643	369,564	363,465	1.7%

Property tax and unrestricted state grants account for 69% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 91% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$1,206,826 and expenses were \$1,189,297. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

- The cost financed by users of the District's programs was \$129,306. These revenues include tuition charged to other schools and proceeds from student activities.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$143,748.
- The net cost of governmental activities was financed with \$659,842 in property and other local taxes and \$265,415 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$55,291 and expenses were \$66,721. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$190,412, well above last year's ending fund balances of \$155,926. The primary reason for the increase in combined fund balances in fiscal 2005 is due increased sales tax revenues for 2005 that will be spent in the future.

Governmental Fund Highlights

- The General Fund balance decreased from \$97,659 to \$85,072, due to increased salaries.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$2,324 in fiscal 2004 to \$17,881 in fiscal 2005 because it was not spent. These funds will be used for future equipment purchases and capital improvements.
- The Capital Projects Fund balance increased due to Local Option Sales Tax being voted in for Kossuth County and lack of spending. Fiscal 2005 ended with a balance of \$54,286. These funds will be used for future equipment purchases and capital improvements.

- **Proprietary Fund Highlights**

School Nutrition Fund net assets decreased from \$4,643 at June 30, 2004 to a negative \$787 at June 30, 2005. For fiscal 2004, the District increased meal prices, but the increased revenues were more than offset by increased salary and employee benefits.

BUDGETARY HIGHLIGHTS

Over the course of the year, LuVerne Community School District amended its annual budget one time, to increase budgeted instruction expenses by \$67,943

The District's receipts were \$42,937 more than budgeted receipts, a variance of 7%. The most significant variance resulted from the District receiving more grants and miscellaneous income than originally anticipated.

Total expenditures were \$120,845 less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures functional area due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$152,961, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-3) This represents a net decrease of 15% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$43,885.

Figure A-3

Capital Assets (net of depreciation)

	Governmental		Business type		Total		Percentage
	Activities		Activities		School District		
	2005	2004	2005	2004	2005	2004	2004-2005
	\$	\$	\$	\$	\$	\$	
Land	9,000	9,000	-	-	9,000	9,000	0.0%
Buildings	32,700	41,811	-	-	32,700	41,811	-21.8%
Improvements	18,167	8,500	-	-	18,167	8,500	113.7%
Equipment & Furniture	90,574	117,615	2,520	3,464	93,094	121,079	-23.1%
TOTAL	150,441	176,926	2,520	3,464	152,961	180,390	-15.2%

Long-Term Debt

At June 30, 2005, the District had no long-term debt.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District expects to experience declining enrollment.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Annie Johnson, District Secretary/Treasurer and Business Manager, LuVerne Community School District, 405 Hanna Avenue, LuVerne, Iowa 50560.

BASIC FINANCIAL STATEMENTS

LUVERNE COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents:			
ISCAP	144,448	-	144,448
Other	258,262	7,150	265,412
Receivables:			
Property tax:			
Delinquent	10,758	-	10,758
Succeeding year	594,849	-	594,849
Accounts	382	684	1,066
Accrued interest:			
ISCAP	1,957	-	1,957
Other	58	2	60
Due from other governments	54,726	-	54,726
Interfund receivable/payable	9,018	(9,018)	-
Inventories		3,314	3,314
Prepaid expenses	5,199	-	5,199
Capital assets, net of accumulated depreciation	150,441	2,520	152,961
Total assets	1,230,098	4,652	1,234,750
Liabilities			
Accounts payable	43,185	-	43,185
Salaries and benefits payable	74,744	5,437	80,181
Deferred revenue:			
Succeeding year property tax	594,849	-	594,849
Other	-	2	2
ISCAP warrants payable	144,000	-	144,000
ISCAP accrued interest payable	2,113	-	2,113
ISCAP premium	856	-	856
Total liabilities	859,747	5,439	865,186

LUVERNE COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Net assets			
Invested in capital assets, net of related debt	150,441	2,520	152,961
Restricted for:			
Iowa early intervention block grant	1,183	-	1,183
Management levy	22,547	-	22,547
Physical plant and equipment levy	17,881	-	17,881
Local option sales tax capital projects	54,286	-	54,286
Other special revenue purposes	10,626	-	10,626
Unrestricted	<u>113,387</u>	<u>(3,307)</u>	<u>110,080</u>
Total net assets	<u><u>370,351</u></u>	<u><u>(787)</u></u>	<u><u>369,564</u></u>

LUVERNE COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	487,998	44,893	61,821	-
Special instruction	161,298	58,546	6,493	-
Other instruction	127,514	21,092	32,100	-
	<u>776,810</u>	<u>124,531</u>	<u>100,414</u>	<u>-</u>
Support services:				
Student services	82	-	-	-
Instructional staff services	4,474	-	-	-
Administration services	171,195	-	-	-
Operation and maintenance of plant services	112,002	-	-	8,790
Transportation services	77,678	4,775	-	-
	<u>365,431</u>	<u>4,775</u>	<u>-</u>	<u>8,790</u>
Other expenditures:				
Facilities acquisition	1,668	-	-	-
AEA flowthrough	34,544	-	34,544	-
Depreciation (unallocated)*	10,844	-	-	-
	<u>47,056</u>	<u>-</u>	<u>34,544</u>	<u>-</u>
Total governmental activities	1,189,297	129,306	134,958	8,790
Business type activities:				
Non-instructional programs:				
Food service operations	66,721	21,617	33,653	-
Total	<u>1,256,018</u>	<u>150,923</u>	<u>168,611</u>	<u>8,790</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
Transfers				
Total general revenues and transfers				

Change in net assets

Net assets beginning of year

Net assets end of year

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

LUVERNE COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
(381,284)	-	(381,284)
(96,259)	-	(96,259)
<u>(74,322)</u>	-	<u>(74,322)</u>
<u>(551,865)</u>	-	<u>(551,865)</u>
(82)	-	(82)
(4,474)	-	(4,474)
(171,195)	-	(171,195)
(103,212)	-	(103,212)
(72,903)	-	(72,903)
<u>(351,866)</u>	-	<u>(351,866)</u>
(1,668)	-	(1,668)
-	-	-
<u>(10,844)</u>	-	<u>(10,844)</u>
<u>(12,512)</u>	-	<u>(12,512)</u>
(916,243)	-	(916,243)
-	(11,451)	(11,451)
<u>(916,243)</u>	<u>(11,451)</u>	<u>(927,694)</u>
560,857	-	560,857
17,814	-	17,814
29,776	-	29,776
51,395	-	51,395
265,415	-	265,415
8,478	21	8,499
37	-	37
933,772	21	933,793
<u>(6,000)</u>	6,000	-
<u>927,772</u>	<u>6,021</u>	<u>933,793</u>
11,529	(5,430)	6,099
<u>358,822</u>	<u>4,643</u>	<u>363,465</u>
<u>370,351</u>	<u>(787)</u>	<u>369,564</u>

LIVERNE COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2005

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Assets			
Cash and pooled investments:			
ISCAP	144,448	-	144,448
Other	159,475	95,945	255,420
Receivables:			
Property tax:			
Delinquent	10,145	613	10,758
Succeeding year	556,862	37,987	594,849
Accounts	382	-	382
Accrued interest - ISCAP	1,957	-	1,957
Accrued interest - other	-	58	58
Prepaid expense	5,199	-	5,199
Interfund receivable	9,740	-	9,740
Due from other governments	45,241	9,485	54,726
	<u>933,449</u>	<u>144,088</u>	<u>1,077,537</u>
Total assets			
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	42,556	39	42,595
Salaries and benefits payable	74,744	-	74,744
Interfund payable	-	722	722
ISCAP warrants payable	144,000	-	144,000
ISCAP accrued interest payable	2,113	-	2,113
ISCAP premium	856	-	856
Deferred revenue:			
Succeeding year property tax	556,862	37,987	594,849
Other	27,246	-	27,246
Total liabilities	<u>848,377</u>	<u>38,748</u>	<u>887,125</u>
Fund balances:			
Reserved for:			
Prepaid expenses	5,199	-	5,199
Iowa early intervention block grant	1,183	-	1,183
Unreserved reported in:			
General fund	78,690	-	78,690
Special revenue funds	-	50,255	50,255
Capital projects funds	-	55,085	55,085
Total fund balances	<u>85,072</u>	<u>105,340</u>	<u>190,412</u>
	<u>933,449</u>	<u>144,088</u>	<u>1,077,537</u>
Total liabilities and fund balances			

LUVÉRNE COMMUNITY SCHOOL DISTRICT

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

June 30, 2005

	\$
Total fund balances of governmental funds (Exhibit C)	190,412
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	150,441
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	27,246
An internal service fund is used by the District's management to charge the costs of the medical deductible reimbursement plan and the employee flexible benefit program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	<u>2,252</u>
Net assets of governmental activities (Exhibit A)	<u><u>370,351</u></u>

LIVERNE COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	574,902	84,342	659,244
Tuition	100,175	-	100,175
Other	15,386	22,260	37,646
State sources	334,521	-	334,521
Federal sources	65,852	8,790	74,642
Total revenues	<u>1,090,836</u>	<u>115,392</u>	<u>1,206,228</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	473,143	10,413	483,556
Special instruction	161,298	-	161,298
Other instruction	108,464	18,109	126,573
	<u>742,905</u>	<u>28,522</u>	<u>771,427</u>
Support services:			
Student services	82	-	82
Instructional staff services	4,474	-	4,474
Administration services	170,601	372	170,973
Operation and maintenance of plant services	89,711	20,949	110,660
Transportation services	55,106	5,407	60,513
	<u>319,974</u>	<u>26,728</u>	<u>346,702</u>
Other expenditures:			
Facilities acquisition	-	13,069	13,069
AEA flowthrough	34,544	-	34,544
	<u>34,544</u>	<u>13,069</u>	<u>47,613</u>
Total expenditures	<u>1,097,423</u>	<u>68,319</u>	<u>1,165,742</u>
Excess (deficiency) of revenues over (under) expenditures	(6,587)	47,073	40,486
Other financing sources (uses):			
Operating transfers out	(6,000)	-	(6,000)
Net change in fund balances	(12,587)	47,073	34,486
Fund balances beginning of year	97,659	58,267	155,926
Fund balances end of year	<u>85,072</u>	<u>105,340</u>	<u>190,412</u>

LIVERNE COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		34,486
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
<p>Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the year as follows:</p>		
Expenditures for capital assets	16,456	
Depreciation expense	<u>(42,941)</u>	(26,485)
<p>Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.</p>		
		598
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:</p>		
Early retirement		749
<p>An internal service fund is used by the District's management to charge the costs of the medical deductible reimbursement plan and the employee flexible benefit program to the individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.</p>		
		<u>2,181</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>11,529</u></u>

LIVERNE COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2005

	Enterprise Fund	Governmental Activities - Internal Service Fund
	School Nutrition	Service Fund
	\$	\$
Assets		
Cash and cash equivalents	7,150	2,842
Accounts receivable	684	-
Accrued interest receivable	2	-
Inventories	3,314	-
Capital assets, net of accumulated depreciation	2,520	-
Total assets	<u>13,670</u>	<u>2,842</u>
Liabilities		
Accounts payable	-	590
Interfund payable	9,018	-
Salaries and benefits payable	5,437	-
Deferred revenue	2	-
Total liabilities	<u>14,457</u>	<u>590</u>
Net assets		
Invested in capital assets, net of related debt	2,520	-
Unrestricted	(3,307)	2,252
Total net assets	<u>(787)</u>	<u>2,252</u>

LIVERNE COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	Enterprise Fund	Governmental Activities - Internal
	School Nutrition	Service Fund
	\$	\$
Operating revenue:		
Local sources:		
Charges for service	21,617	17,250
Operating expenses:		
Non-instructional programs:		
Salaries	29,644	-
Benefits	11,268	15,069
Purchased services	304	-
Supplies	24,561	-
Depreciation	944	-
	<u>66,721</u>	<u>15,069</u>
Operating gain (loss)	<u>(45,104)</u>	<u>2,181</u>
Non-operating revenue:		
State sources	794	-
Federal sources	32,859	-
Interest income	21	-
Total non-operating revenue	<u>33,674</u>	<u>-</u>
Gain (loss) before contributions and transfers	(11,430)	2,181
Transfers in	<u>6,000</u>	<u>-</u>
Change in net assets	(5,430)	2,181
Net assets beginning of year	<u>4,643</u>	<u>71</u>
Net assets end of year	<u><u>(787)</u></u>	<u><u>2,252</u></u>

LUVÉRNE COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2005

	Enterprise Fund	Governmental Activities - Internal Service Fund
	School Nutrition	Service Fund
	\$	\$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	21,249	-
Cash received from other services	-	17,250
Cash payments to employees for services	(40,755)	(15,309)
Cash payments to suppliers for goods or services	(20,792)	-
Net cash provided by (used by) operating activities	<u>(40,298)</u>	<u>1,941</u>
Cash flows from non-capital financing activities:		
Loan from General Fund	9,018	-
Transfers from General Fund	6,000	-
State grants received	794	-
Federal grants received	28,370	-
Net cash provided by non-capital financing activities	<u>44,182</u>	<u>-</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	23	-
Net increase (decrease) in cash and cash equivalents	3,907	1,941
Cash and cash equivalents at beginning of year	3,243	901
Cash and cash equivalents at end of year	<u>7,150</u>	<u>2,842</u>
Reconciliation of operating gain (loss) to net cash used by operating activities:		
Operating gain (loss)	(45,104)	2,181
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	4,489	-
Depreciation	944	-
Decrease (increase) in inventories	(416)	-
Decrease (increase) in accounts receivable	(288)	-
(Decrease) increase in accounts payable	-	(240)
(Decrease) increase in salaries and benefits payable	157	-
(Decrease) increase in deferred revenue	(80)	-
Net cash used in operating activities	<u>(40,298)</u>	<u>1,941</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received \$4,489 of federal commodities.

LUVERNE COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2005

1. Summary of Significant Accounting Policies

LuVerne Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of LuVerne, Iowa and the predominately agricultural territory in a portion of Kossuth and Humboldt Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental fund:

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004, through June 30, 2005, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

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

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

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

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	-
Buildings	1,000
Improvements other than buildings	1,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	1000

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

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

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

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

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant

proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

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

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

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements in the other expenditures function exceeded the amount budgeted.

2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 40.

3. Interfund Receivables and Payables

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

Receivable Fund	Payable Fund	Amount
		\$
General Fund	Nonmajor governmental: Management Fund	722
General Fund	Enterprise: School Nutrition Fund	9,018

During fiscal year 2005 the General Fund loaned money to other funds to improve cash flow in the other funds.

4. Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
		\$
Enterprise:		
School Nutrition Fund	General Fund	6,000

The General Fund transferred \$6,000 to the School Nutrition Fund to subsidize the food service operation.

5. Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2005, is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
			\$	\$	\$	\$
2004-05A	6/30/04	6/30/05	32	-	-	-
2004-05B	1/28/05	1/27/06	<u>144,416</u>	<u>1,957</u>	<u>144,000</u>	<u>2,113</u>
Total			<u>144,448</u>	<u>1,957</u>	<u>144,000</u>	<u>2,113</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2005, is as follows:

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

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

Series	Interest Rates on Warrants	Interest Rates on Investments
	%	%
2004-05A	3.000	2.463
2004-05B	3.500	2.280

6. Capital Assets

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

	Balance Beginning of Year, as Restated	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	9,000	-	-	9,000
Capital assets being depreciated:				
Buildings	465,574	-	-	465,574
Improvements other than buildings	26,221	11,400	-	37,621
Furniture and equipment	430,215	5,056	-	435,271
Total capital assets being deprec.	<u>922,010</u>	<u>16,456</u>	<u>-</u>	<u>938,466</u>
Less accumulated depreciation for:				
Buildings	423,763	9,111	-	432,874
Improvements other than buildings	17,721	1,733	-	19,454
Furniture and equipment	312,600	32,097	-	344,697
Total accumulated depreciation	<u>754,084</u>	<u>42,941</u>	<u>-</u>	<u>797,025</u>
Total capital assets being depreciated, net	<u>167,926</u>	<u>(26,485)</u>	<u>-</u>	<u>141,441</u>
Governmental activities capital assets, net	<u>176,926</u>	<u>(26,485)</u>	<u>-</u>	<u>150,441</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	29,213	-	-	29,213
Less accumulated depreciation	<u>25,749</u>	<u>944</u>	<u>-</u>	<u>26,693</u>
Business type activities capital assets, net	<u>3,464</u>	<u>(944)</u>	<u>-</u>	<u>2,520</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	12,427
Other	941
Support Services:	
Administration services	222
Operation and maintenance of plant services	1,342
Transportation	17,165
	32,097
Unallocated depreciation	10,844
 Total depreciation expense – governmental activities	 42,941
 Business type activities:	
Food services	944

7. Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Early retirement	749	-	749	-	-

Early Retirement

The District offered a voluntary early retirement plan to its certified and classified employees. Employees had to apply to the board of education by March 31, 2003. Early retirement expenditures for the year ended June 30, 2005 totaled \$749.

8. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$32,353, \$30,977, and \$35,071 respectively, equal to the required contributions for each year.

9. Risk Management

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

10. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$34,544 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

11. Lease Commitment

The District entered into a 63 month operating lease for copy machines in November 2004. The payments the District will make over the next five years are as follows:

<u>Year Ended June 30,</u>	<u>Lease Payment</u>
	\$
2006	8,784
2007	8,784
2008	8,784
2009	8,784
2010	5,124

The District paid \$5,856 of rent in fiscal year 2005.

12. Construction Commitment

The District has entered into contracts totaling \$42,355 for roof repairs and new doors. Work on the projects started after June 30, 2005.

13. Fund Deficit

The School Nutrition Fund has a net assets deficit of \$787 at June 30, 2005.

REQUIRED SUPPLEMENTARY INFORMATION

LUVERNE COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Receipts:						
Local sources	785,074	21,272	806,346	782,890	782,890	23,456
State sources	334,521	794	335,315	369,743	369,743	(34,428)
Federal sources	90,050	32,859	122,909	69,000	69,000	53,909
Total receipts	<u>1,209,645</u>	<u>54,925</u>	<u>1,264,570</u>	<u>1,221,633</u>	<u>1,221,633</u>	<u>42,937</u>
Disbursements:						
Instruction	730,016	-	730,016	707,057	775,000	44,984
Support services	364,443	-	364,443	430,790	430,790	66,347
Non-instructional programs	-	66,036	66,036	86,000	86,000	19,964
Other expenditures	47,613	-	47,613	37,163	37,163	(10,450)
Total disbursements	<u>1,142,072</u>	<u>66,036</u>	<u>1,208,108</u>	<u>1,261,010</u>	<u>1,328,953</u>	<u>120,845</u>
Excess (deficiency) of receipts over (under) disbursements	67,573	(11,111)	56,462	(39,377)	(107,320)	163,782
Other financing sources (uses) net	<u>(15,018)</u>	<u>15,018</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements	52,555	3,907	56,462	(39,377)	(107,320)	163,782
Balance beginning of year	<u>202,865</u>	<u>3,243</u>	<u>206,108</u>	<u>209,450</u>	<u>209,450</u>	<u>(3,342)</u>
Balance end of year	<u><u>255,420</u></u>	<u><u>7,150</u></u>	<u><u>262,570</u></u>	<u><u>170,073</u></u>	<u><u>102,130</u></u>	<u><u>160,440</u></u>

LUVERNE COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
	\$	\$	\$
Revenues	1,209,645	(3,417)	1,206,228
Expenditures	1,142,072	23,670	1,165,742
Net	67,573	(27,087)	40,486
Other financing sources (uses) net	(15,018)	9,018	(6,000)
Beginning fund balances	202,865	(46,939)	155,926
Ending fund balances	255,420	(65,008)	190,412

	Proprietary Fund Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
	\$	\$	\$
Revenues	54,925	366	55,291
Expenditures	66,036	685	66,721
Net	(11,111)	(319)	(11,430)
Other financing sources (uses) net	15,018	(9,018)	6,000
Beginning fund balances	3,243	1,400	4,643
Ending fund balances	7,150	(7,937)	(787)

LUVERNE COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2005

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Internal Service, Private Purpose Trust and Agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the 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 the fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$87,943.

During the year ended June 30, 2005, disbursements in the other expenditures function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

LIVERNE COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2005

Assets	Special Revenue Funds				Capital Projects Fund	Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	District Support Trust Funds	Local Option Sales Tax	
	\$	\$	\$	\$	\$	
Cash and pooled investments	22,977	9,858	17,537	799	44,774	95,945
Receivables:						
Property tax:						
Delinquent	279	-	334	-	-	613
Succeeding year	20,000	-	17,987	-	-	37,987
Accrued interest	13	8	10	-	27	58
Due from other governments	-	-	-	-	9,485	9,485
Total assets	43,269	9,866	35,868	799	54,286	144,088
Liabilities & Fund Balances						
Liabilities:						
Accounts payable	-	39	-	-	-	39
Interfund payables	722	-	-	-	-	722
Deferred revenue:						
Succeeding year property tax	20,000	-	17,987	-	-	37,987
Total liabilities	20,722	39	17,987	-	-	38,748
Fund balances:						
Unreserved reported in:						
Special Revenue Funds	22,547	9,827	17,881	-	-	50,255
Capital Projects Funds	-	-	-	799	54,286	55,085
Total fund balances	22,547	9,827	17,881	799	54,286	105,340
Total liabilities and fund balances	43,269	9,866	35,868	799	54,286	144,088

LUVESNE COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	Special Revenue Funds				Capital Projects Fund	Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	District Support Trust Funds	Local Option Sales Tax	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	15,133	-	17,814	-	51,395	84,342
Other	336	21,173	60	558	133	22,260
Federal sources	-	-	8,790	-	-	8,790
Total revenues	<u>15,469</u>	<u>21,173</u>	<u>26,664</u>	<u>558</u>	<u>51,528</u>	<u>115,392</u>
Expenditures:						
Current:						
Instruction:						
Regular instruction	9,931	-	-	482	-	10,413
Other instruction	-	18,109	-	-	-	18,109
Support services:						
Administration services	372	-	-	-	-	372
Operation and maintenance of plant services	11,510	-	9,439	-	-	20,949
Transportation services	5,407	-	-	-	-	5,407
Other expenditures:						
Facilities acquisition	-	-	1,668	-	11,401	13,069
Total expenditures	<u>27,220</u>	<u>18,109</u>	<u>11,107</u>	<u>482</u>	<u>11,401</u>	<u>68,319</u>
Excess (deficiency) of revenues over (under) expenditures	(11,751)	3,064	15,557	76	40,127	47,073
Fund balances beginning of year	<u>34,298</u>	<u>6,763</u>	<u>2,324</u>	<u>723</u>	<u>14,159</u>	<u>58,267</u>
Fund balances end of year	<u><u>22,547</u></u>	<u><u>9,827</u></u>	<u><u>17,881</u></u>	<u><u>799</u></u>	<u><u>54,286</u></u>	<u><u>105,340</u></u>

LUVARNE COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Balance End of Year</u>
Juice account	849	1,349	1,275	923
Athletics	3	3,308	403	2,908
Vocal music	245	34	-	279
Instrumental music	249	386	314	321
OM	12	-	-	12
Class of 2006	-	71	-	71
8th grade	1,620	3,169	3,211	1,578
7th grade	449	115	-	564
Student council	1,284	1,447	1,534	1,197
Interest	1,467	84	202	1,349
LEA student incentive	585	11,210	11,170	625
Totals	<u>6,763</u>	<u>21,173</u>	<u>18,109</u>	<u>9,827</u>

LUVARNE COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2005	2004	2003	2002
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	659,244	761,027	727,463	643,785
Tuition	100,175	71,946	64,928	61,623
Other	37,646	44,015	40,797	76,675
State sources	334,521	226,221	260,134	241,180
Federal sources	74,642	104,779	77,764	72,273
Total revenues	<u>1,206,228</u>	<u>1,207,988</u>	<u>1,171,086</u>	<u>1,095,536</u>
Expenditures:				
Instruction:				
Regular instruction	483,556	510,032	552,887	591,016
Special instruction	161,298	114,884	124,531	125,177
Other instruction	126,573	73,882	50,558	63,405
Support services:				
Student services	82	19,748	20,471	30,398
Instructional staff services	4,474	7,358	20,612	20,281
Administration services	170,973	158,499	158,990	143,052
Operation and maintenance of plant services	110,660	129,903	83,141	91,029
Transportation services	60,513	53,798	110,484	57,937
Other expenditures:				
Facilities acquisition	13,069	18,301	2,285	7,014
AEA flowthrough	34,544	31,121	33,390	33,533
Total expenditures	<u>1,165,742</u>	<u>1,117,526</u>	<u>1,157,349</u>	<u>1,162,842</u>

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

To the Board of Education of
LuVerne Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of LuVerne Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 21, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items 05-I-A and 05-I-B are material weaknesses.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of LuVerne Community School District and other parties to whom LuVerne 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 LuVerne Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BURTON E. TRACY & CO., P.C.

Certified Public Accountants

LUVERNE COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

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

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

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

Conclusion: Response accepted.

05-I-B School Expenditure Supporting Documentation and Board Approval: We noted the following items during our testing of District expenditures:

General Fund – We tested fifteen disbursements and noted one payment for \$200 that was not on the list of bills approved by the board of directors

Student Activity Fund – We tested nine expenditures. Supporting documentation was not available for one \$150 disbursement and another disbursement for \$55 was not on the list of bills approved by the board of directors.

Recommendation: All District payments should be supported by detailed invoices, receipts, contracts or other documents prepared by or signed by entities outside of the District. These documents should specify exactly what the District is paying for and the amount to be paid.

The District should review its procedures for preparing the lists of bills for board approval. Chapter 179.29 of the Code of Iowa provides that "the Board shall audit all just claims against the corporation and no order shall be drawn upon the treasury until the claim therefore has been audited and allowed." Chapter 279.30 of the Code of Iowa allows payment of specific items, such as utilities, postage and printing, without prior Board approval. The Board may approve a resolution designating certain other disbursements that may be paid prior to a Board Meeting with the approval of the Board President. Except as expressly permitted, no checks should be prepared for claims that have not been properly audited and allowed. Any payments made prior to board approval as allowed should be approved by the board at the next meeting.

LUVERNE COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the Financial Statements (continued):

District Response: We will be more diligent about obtaining detailed supporting documentation and preparing the lists of bills for board approval in the future.

Conclusion: Response accepted.

LIVERNE COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting:

05-II-A Official Depositories: Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

05-II-B Certified Budget: Disbursements for the year ended June 30, 2005, exceeded the amount budgeted in the other expenditures functional area.

Iowa law requires that notice of a budget hearing be published at least ten, but not more than twenty days prior to the hearing. We noted that the notice for the 2006 budget hearing was only published seven days prior to the hearing.

Recommendation: The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget and future budget hearing notices should be published within the required time frame.

District Response: We did amend our budget, but year-end expenditure account number reclassifications caused the budget to be exceeded in the other expenditures area. Future budget hearing publications will be made within the required time frame.

Conclusion: Response accepted.

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

05-II-D Travel Expenses: No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

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

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

05-II-G Board Minutes: Except as explained in comment 05-I-B, we noted no transactions requiring Board approval that had not been approved by the Board.

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

05-II-I Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

05-II-J Certified Annual Report (CAR): The CAR was filed with the Iowa Department of Education timely and we noted no significant deficiencies in the amounts reported.

LUVERNE COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

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

05-II-K Public Hearing: The Code of Iowa requires that schools hold a public hearing for all capital improvements with a cost exceeding \$25,000. We noted that the Board approved a \$25,905 roof project without holding a public hearing.

Recommendation: The District should hold public hearings for all capital projects with cost in excess of \$25,000.

District Response: We will do this in the future.

Conclusion: Response accepted.

05-II-L Reclassification of Student Activity Fund Accounts: The Student Activity Fund is to be used to account for the District's extracurricular student activity program. Each account should be associated with a specific student extracurricular activity. We noted that a miscellaneous account was used during the year.

Recommendation: The miscellaneous account should be eliminated and the District should review the types of items being recorded in the Student Activity Fund to ensure that all are for extracurricular student activities.

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

Conclusion: Response accepted.

05-II-M Deficit Balances: The District has a deficit net assets balance of \$787 in the School Nutrition Fund at June 30, 2005.

Recommendation: The District should continue to monitor this fund and investigate alternatives to eliminate the deficit.

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

Conclusion: Response accepted.

05-II-N Payments to Tax Sheltered Annuities: For payroll reporting purposes the District has treated certain payments to employee tax sheltered annuities as employer contributions. However, employment contract language seems to indicate that these are elective deferrals. The District and the employee have not paid social security taxes or IPERS contributions on these tax sheltered annuity payments.

Recommendation: The District should have an attorney review the applicable employee contracts and the District's treatment of the contributions for payroll reporting purposes.

District Response: We will consult with our attorney.

Conclusion: Response accepted.