

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

June 30, 2006

Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-10
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	12
Statement of Activities	B	13-14
Governmental Fund Financial Statements:		
Balance Sheet	C	15
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	16
Statement of Revenues, Expenditures and Changes in Fund Balances	E	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	18
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	19
Statement of Revenues, Expenses, and Changes in Net Assets	H	20
Statement of Cash Flows	I	21
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	22
Statement of Changes in Fiduciary Net Assets	K	23
Notes to Financial Statements		24-31
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		33
Notes to Required Supplementary Information - Budgetary Reporting		34
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	36
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	37
Nonmajor Enterprise Funds:		
Combining Schedule of Net Assets	3	38
Combining Schedule of Revenues, Expenses and Changes in Net Assets	4	39
Combining Schedule of Cash Flows	5	40
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	6	41
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	7	42
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	8	43
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 <u>Government Auditing Standards</u> :		44-45
Schedule of Findings		46-48

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Independent Auditor's Report

To the Board of Education of
HLV Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of HLV Community School District, Victor, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of HLV Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 6, 2006, on our consideration of HLV Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 33 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise HLV Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 8, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

September 6, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The HLV Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor 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 three kinds of funds:

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

The District's governmental funds include the General Fund, Special Revenue Funds, Physical Plant and Equipment Levy Fund and Capital Projects Fund.

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

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. provide The District currently has four Enterprise Funds, the School Nutrition Fund, the Preschool Fund, the Student Constructed House Fund, and the Marketing Class Fund. The District uses *internal service funds*, the other kind of proprietary fund, to report activities that provide supplies and services for its other programs and activities. The District currently has two internal service funds used to account for the District's employee flexible benefit plan and retiree health.

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

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

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

Reconciliations between the government-wide financial statements and the fund financial statements follow 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, 2006.

Figure A-1

	Condensed Statement of Net Assets						Percentage Change 2005-2006
	Governmental Activities		Business-type Activities		Total School District		
	2005	2006	2005	2006	2005	2006	
	\$	\$	\$	\$	\$	\$	
Current and other assets	3,685,029	4,033,390	45,279	50,638	3,730,308	4,084,028	9%
Capital assets	1,898,959	1,892,957	7,930	6,613	1,906,889	1,899,570	-0%
Total assets	5,583,988	5,926,347	53,209	57,251	5,637,197	5,983,598	6%
Long-term liabilities	67,289	78,224	-	-	67,289	78,224	16%
Other liabilities	1,972,932	1,876,068	6,638	2,485	1,979,570	1,878,553	-5%
Total liabilities	2,040,221	1,954,292	6,638	2,485	2,046,859	1,956,777	-4%
Net Assets:							
Invested in capital assets, net of related debt	1,898,959	1,892,957	7,930	6,613	1,906,889	1,899,570	-0%
Restricted	886,493	1,198,559	-	-	886,493	1,198,559	35%
Unrestricted	758,315	880,539	38,641	48,153	796,956	928,692	16%
TOTAL NET ASSETS	3,543,767	3,972,055	46,571	54,766	3,590,338	4,026,821	12%

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

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$312,066 or 35% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$131,736 or 16%.

Figure A-2 shows the change in net assets for the years ended June 30, 2005 and 2006.

Figure A-2

	Change in Net Assets						Percentage Change 2005-2006
	Governmental Activities		Business-type Activities		Total School District		
	2005	2006	2005	2006	2005	2006	
	\$	\$	\$	\$	\$	\$	
Revenues							
Program Revenues:							
Charges for services	305,654	351,440	242,179	296,790	547,833	648,230	18%
Operating grants & contributions	347,254	419,127	49,088	47,357	396,342	466,484	17%
Capital grants & contributions	-	-	-	-	-	-	0%
General Revenues:							
Property taxes	1,498,167	1,489,606	-	-	1,498,167	1,489,606	-1%
Income Surtax	168,949	198,306	-	-	168,949	198,306	17%
Local option sales tax	52,689	142,744	-	-	52,689	142,744	171%
Unrestricted state grants	1,324,531	1,384,019	-	-	1,324,531	1,384,019	5%
Unrestricted investment earnings	24,269	63,001	33	278	24,302	63,279	160%
Other revenue	3,101	434	-	-	3,101	434	-86%
Total Revenues	3,724,614	4,048,677	291,300	344,425	4,015,914	4,393,102	34%
Expenses:							
Instruction	2,274,861	2,158,598	-	-	2,274,861	2,158,598	-5%
Support services	1,127,699	1,138,252	-	-	1,127,699	1,138,252	1%
Non-instructional programs	-	-	278,080	336,230	278,080	336,230	21%
Other expenditures	337,198	323,539	-	-	337,198	323,539	4%
Total expenses	3,739,758	3,620,389	278,080	336,230	4,017,838	3,956,619	-2%
Change in net assets before Transfers	(15,144)	428,288	13,220	8,195	(1,924)	436,483	
Transfers	-	-	-	-	-	-	0%
CHANGE IN NET ASSETS	(15,144)	428,288	13,220	8,195	(1,924)	436,483	
Net assets beginning of year	3,558,911	3,543,767	33,351	46,571	3,592,262	3,590,338	0%
Net assets end of year	3,543,767	3,972,055	46,571	54,766	3,590,338	4,026,821	12%

Property tax and unrestricted state grants account for 65% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 83% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$4,048,677 and expenses were \$3,620,389. The District spent \$428,288 less than the available revenues.

- The net cost of governmental activities was financed with \$1,830,656 in property and other taxes and \$1,384,019 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$344,425 and expenses were \$336,230. The District's business type activities include the School Nutrition Fund, the Student Constructed House Project, the Preschool, and the Marketing Class. Revenues for these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

Governmental Fund Highlights

- The District's General Fund financial position is the result of many factors. Growth during the year in tax revenues and grants resulted in an increase in revenues.
- The General Fund balance increased from \$663,013 to \$788,158.
- The Physical Plant and Equipment Levy (PEL) Fund balance increased from \$464,234 in fiscal 2005 to \$535,096 in fiscal 2006.
- The Capital Projects Fund balance was \$261,252 as of June 30, 2006.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$6,263 at June 30, 2005 to \$10,988 at June 30, 2006. For Fiscal 2006, the District increased meal prices, resulting in an increase in net assets. The District also increased charges for student ala carte items. The District is aggressively working to keep family account at a positive level.

Preschool Fund net assets increased from (\$4,891) in 2005 to \$8,501 in 2006. Last year the District continued a more structured payment plan for parents, with charges for all preschool days, no matter if the preschooler is ill or not in attendance. This has resulted in increased revenue for the program. Empowerment funding also helped the District increase revenue in the 2005-2006 year by providing payments for children whose parents qualify.

The Student Constructed House Fund net assets decreased from \$44,358 in 2005 to \$34,674 in 2006. The house was sold before the end of the fiscal year in 2006, thus increasing the District's assets.

The Marketing Class Fund net assets decreased for \$841 in 2005 to \$603 in 2006.

BUDGETARY HIGHLIGHTS

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

The District's receipts were \$251,937 more than budgeted receipts.

Total expenditures were 1,159,044 less than budgeted. It is the District's practice to budget expenditures at sufficient levels in the 4 program areas, (instruction, non-instruction, support services and other), so that the District does not exceed spending limitations in any of these areas. As a result, the District's certified budget would, under normal circumstances, usually exceed actual expenditures for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had 1,899,570, 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 1% from last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements.

Figure A-6

Capital Assets (net of depreciation)

	Governmental		Business type		Total		Percentage Change 2005-2006
	Activities		Activities		School District		
	2005	2006	2005	2006	2005	2006	
	\$	\$	\$	\$	\$	\$	
Land	10,000	10,000	-	-	10,000	10,000	0%
Construction in progress	-	-	-	-	-	-	0%
Buildings	1,741,734	1,681,800	-	-	1,741,734	1,681,800	-3%
Improvements	79,669	75,912	-	-	79,669	75,912	-5%
Equipment & Furniture	67,556	125,245	7,930	6,613	75,486	131,858	75%
TOTAL	1,898,959	1,892,957	7,930	6,613	1,906,889	1,899,570	-1%

Long-Term Debt

At June 30, 2006, the District had \$78,224 in long-term debt outstanding. This represents an increase of approximately 16% from last year. (See Figure A-4)

Figure A-4

Outstanding Long-Term Obligations

	Total School District		Percentage Change 2005-2006
	2005	2006	
	\$	\$	
Early Retirement	2,500	8,500	240%
Compensated Absences	64,789	69,724	8%
	67,289	78,224	16%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Iowa County approved a 1% Local Option Sales and Services Tax for schools in June of 2005. This money began being received by the District in 2005-2006. This money can be used for school infrastructure as defined by law.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lori McClenathan, District Treasurer and Bookkeeper, HLV Community School District, 501 4th St., Victor, Iowa, 52347.

BASIC FINANCIAL STATEMENTS

HLV COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	2,237,341	53,579	2,290,920
Receivables:			
Property tax:			
Delinquent	21,024	-	21,024
Succeeding year	1,548,644	-	1,548,644
Accounts	-	1,415	1,415
Interfund receivable(payable)	9,157	(9,157)	-
Due from other governments	217,224	-	217,224
Inventories	-	4,801	4,801
Capital assets, net of accumulated depreciation	1,892,957	6,613	1,899,570
Total assets	5,926,347	57,251	5,983,598
Liabilities			
Salaries and benefits payable	327,424	-	327,424
Deferred revenue:			
Succeeding year property tax	1,548,644	-	1,548,644
Other	-	2,485	2,485
Long-term liabilities:			
Portion due within one year:			
Early retirement	8,500	-	8,500
Compensated absences	13,944	-	13,944
Portion due after one year:			
Compensated absences	55,780	-	55,780
Total liabilities	1,954,292	2,485	1,956,777
Net assets			
Invested in capital assets, net of related debt	1,892,957	6,613	1,899,570
Restricted for:			
Management levy	353,755	-	353,755
Physical plant & equipment levy	535,096	-	535,096
Local option sales tax capital projects	261,252	-	261,252
Other special revenue purposes	48,456	-	48,456
Unrestricted	880,539	48,153	928,692
Total net assets	3,972,055	54,766	4,026,821

HLV COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular instruction	1,488,087	211,223	156,532	-
Special instruction	324,762	6,963	54,426	-
Other instruction	345,749	133,254	1,076	-
	<u>2,158,598</u>	<u>351,440</u>	<u>212,034</u>	<u>-</u>
Support services:				
Student services	93,066	-	50,271	-
Instructional staff services	123,179	-	34,607	-
Administration services	472,468	-	-	-
Operation and maintenance of plant services	322,761	-	-	-
Transportation services	126,778	-	-	-
	<u>1,138,252</u>	<u>-</u>	<u>84,878</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	137,633	-	-	-
AEA flowthrough	122,215	-	122,215	-
Depreciation (unallocated)*	63,691	-	-	-
	<u>323,539</u>	<u>-</u>	<u>122,215</u>	<u>-</u>
Total governmental activities	<u>3,620,389</u>	<u>351,440</u>	<u>419,127</u>	<u>-</u>
Business type activities:				
Non-instructional programs:				
Food service operations	171,358	128,448	47,357	-
Student construction project	151,997	142,313	-	-
Preschool	11,452	24,844	-	-
Marketing project	1,423	1,185	-	-
Total business-type activities	<u>336,230</u>	<u>296,790</u>	<u>47,357</u>	<u>-</u>
Total	<u>3,956,619</u>	<u>648,230</u>	<u>466,484</u>	<u>-</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				

Change in net assets

Net assets beginning of year

Net assets end of year

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

HLV COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
\$	\$	\$
(1,120,332)	-	(1,120,332)
(263,373)	-	(263,373)
(211,419)	-	(211,419)
<u>(1,595,124)</u>	<u>-</u>	<u>(1,595,124)</u>
(42,795)	-	(42,795)
(88,572)	-	(88,572)
(472,468)	-	(472,468)
(322,761)	-	(322,761)
(126,778)	-	(126,778)
<u>(1,053,374)</u>	<u>-</u>	<u>(1,053,374)</u>
(137,633)	-	(137,633)
-	-	-
(63,691)	-	(63,691)
<u>(201,324)</u>	<u>-</u>	<u>(201,324)</u>
<u>(2,849,822)</u>	<u>-</u>	<u>(2,849,822)</u>
-	4,447	4,447
-	(9,684)	(9,684)
-	13,392	13,392
-	(238)	(238)
<u>-</u>	<u>7,917</u>	<u>7,917</u>
<u>(2,849,822)</u>	<u>7,917</u>	<u>(2,841,905)</u>
1,283,918	-	1,283,918
205,688	-	205,688
198,306	-	198,306
142,744	-	142,744
1,384,019	-	1,384,019
63,001	278	63,279
434	-	434
<u>3,278,110</u>	<u>278</u>	<u>3,278,388</u>
428,288	8,195	436,483
<u>3,543,767</u>	<u>46,571</u>	<u>3,590,338</u>
<u>3,972,055</u>	<u>54,766</u>	<u>4,026,821</u>

HLV COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2006

	General Fund	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	1,076,025	538,523	622,792	2,237,340
Receivables:				
Property tax:				
Delinquent	15,636	2,920	2,468	21,024
Succeeding year	1,298,909	209,735	40,000	1,548,644
Interfund receivable	10,755	-	4,749	15,504
Due from other governments	175,270	-	41,954	217,224
Total assets	<u>2,576,595</u>	<u>751,178</u>	<u>711,963</u>	<u>4,039,736</u>
Liabilities and Fund Balances				
Liabilities:				
Interfund payable	-	6,347	-	6,347
Salaries and benefits payable	327,424	-	-	327,424
Deferred revenue:				
Succeeding year property tax	1,298,909	209,735	40,000	1,548,644
Other	162,104	-	-	162,104
Total liabilities	<u>1,788,437</u>	<u>216,082</u>	<u>40,000</u>	<u>2,044,519</u>
Fund balances:				
Reserved for:				
School improvement and technology	15,602	-	-	15,602
Unreserved reported in:				
General fund	772,556	-	-	772,556
Special revenue funds	-	535,096	410,711	945,807
Capital projects funds	-	-	261,252	261,252
Total fund balances	<u>788,158</u>	<u>535,096</u>	<u>671,963</u>	<u>1,995,217</u>
Total liabilities and fund balances	<u>2,576,595</u>	<u>751,178</u>	<u>711,963</u>	<u>4,039,736</u>

HLV COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

	\$
Total fund balances of governmental funds (Exhibit C)	1,995,217
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,892,957
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	162,104
Long-term liabilities, including compensated absences and early retirement benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(78,223)</u>
Net assets of governmental activities (Exhibit A)	<u><u>3,972,055</u></u>

HLV COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	General Fund	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,305,319	205,688	451,260	1,962,267
Tuition	87,560	-	-	87,560
Other	176,842	16,324	525	193,691
State sources	1,658,599	-	-	1,658,599
Federal sources	144,547	-	-	144,547
Total revenues	<u>3,372,867</u>	<u>222,012</u>	<u>451,785</u>	<u>4,046,664</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	1,460,499	12,758	2,500	1,475,757
Special instruction	346,172	-	-	346,172
Other instruction	207,798	-	136,271	344,069
	<u>2,014,469</u>	<u>12,758</u>	<u>138,771</u>	<u>2,165,998</u>
Support services:				
Student services	93,066	-	-	93,066
Instructional staff services	118,979	-	-	118,979
Administration services	440,211	-	25,137	465,348
Operation and maintenance of plant services	293,901	-	28,860	322,761
Transportation services	164,880	759	11,813	177,452
	<u>1,111,037</u>	<u>759</u>	<u>65,810</u>	<u>1,177,606</u>
Other expenditures:				
Facilities acquisition	-	137,633	-	137,633
AEA flowthrough	122,216	-	-	122,216
	<u>122,216</u>	<u>137,633</u>	<u>-</u>	<u>259,849</u>
Total expenditures	<u>3,247,722</u>	<u>151,150</u>	<u>204,581</u>	<u>3,603,453</u>
Excess (deficiency) of revenues over (under) expenditures	125,145	70,862	247,204	443,211
Fund balances beginning of year	<u>663,013</u>	<u>464,234</u>	<u>424,759</u>	<u>1,552,006</u>
Fund balances end of year	<u><u>788,158</u></u>	<u><u>535,096</u></u>	<u><u>671,963</u></u>	<u><u>1,995,217</u></u>

HLV COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		443,211
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the year as follows:		
Expenditures for capital assets	94,069	
Depreciation expense	<u>(100,071)</u>	(6,002)
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.		
		2,013
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Early retirement	(6,000)	
Compensated absences	<u>(4,934)</u>	<u>(10,934)</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>428,288</u></u>

HLV COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2006

	Nonmajor Enterprise Funds
	<u> </u>
	\$
Assets	
Cash and cash equivalents	53,579
Accounts receivable	1,415
Inventories	4,801
Capital assets, net of accumulated depreciation	<u>6,613</u>
Total assets	<u>66,408</u>
Liabilities	
Payable to General Fund	9,157
Deferred revenue	<u>2,485</u>
Total liabilities	<u>11,642</u>
Net assets	
Invested in capital assets, net of related debt	6,613
Unrestricted	<u>48,153</u>
Total net assets	<u><u>54,766</u></u>

HLV COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Nonmajor Enterprise Funds
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>296,790</u>
Operating expenses:	
Non-instructional programs:	
Salaries	78,696
Benefits	10,690
Purchased services	5,859
Supplies	239,262
Depreciation	1,317
Other	406
	<u>336,230</u>
Operating gain (loss)	<u>(39,440)</u>
Non-operating revenue:	
State sources	2,055
Federal sources	45,302
Interest income	278
Total non-operating revenue	<u>47,635</u>
Change in net assets	8,195
Net assets beginning of year	<u>46,571</u>
Net assets end of year	<u><u>54,766</u></u>

HLV COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2006

	Nonmajor Enterprise Funds
	\$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	128,498
Cash received from other services	26,182
Cash received from sale of house	142,896
Cash payments to employees for services	(89,514)
Cash payments to suppliers for goods or services	(237,761)
Net cash used by operating activities	<u>(29,699)</u>
Cash flows from non-capital financing activities:	
State grants received	2,055
Federal grants received	32,528
Net cash provided by non-capital financing activities	<u>34,583</u>
Cash flows from capital and related financing activities:	
Interfund loans	<u>(14,168)</u>
Cash flows from investing activities:	
Interest on investments	<u>278</u>
Net increase (decrease) in cash and cash equivalents	(9,006)
Cash and cash equivalents at beginning of year	<u>62,585</u>
Cash and cash equivalents at end of year	<u><u>53,579</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(39,440)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	12,774
Depreciation	1,317
Decrease (increase) in inventories	(263)
Decrease (increase) in accounts receivable	67
(Decrease) increase in accounts payable	(4,344)
(Decrease) increase in salaries and benefits payable	(128)
(Decrease) increase in deferred revenue	318
Net cash used in operating activities	<u><u>(29,699)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received \$12,774 of federal commodities.

HLV COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2006

	Private Purpose Trust Scholarship <u> </u> \$	Agency <u> </u> \$
Assets		
Cash and pooled investments	51,774	5,587
Liabilities		
Other current liabilities	<u> -</u>	<u> 5,587</u>
Net Assets		
Reserved for scholarships	<u> 51,774</u>	<u> -</u>

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

Year ended June 30, 2006

	Private Purpose Trust Scholarship <u>\$</u>
Additions	
Local sources:	
Gifts and contributions	2,670
Interest	790
Total additions	<u>3,460</u>
Deductions	<u>-</u>
Change in net assets	3,460
Net assets beginning of year	<u>48,314</u>
Net assets end of year	<u><u>51,774</u></u>

HLV COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

1. Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The Physical Plant and Equipment Levy Fund is used to account for resources used in the acquisition and construction and repair of capital facilities.

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as

soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005, through June 30, 2006, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

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

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

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

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	500
Buildings	5,000
Improvements other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	5,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	5-20 years
Furniture and equipment	3-15 years

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

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

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

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

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures did not exceed the amounts budgeted.

2. **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This

chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
	\$
Diversified Portfolio	340,017

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

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

3. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2006 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
		\$
General Fund	Physical Plant and Equipment Levy Fund	1,598
General Fund	Enterprise, School Nutrition Fund	9,157
Capital projects	Physical Plant and Equipment Levy Fund	4,749

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

4. Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	10,000	-	-	10,000
Capital assets being depreciated:				
Buildings	3,281,246	-	-	3,281,246
Improvements other than buildings	199,763	-	-	199,763
Furniture and equipment	409,852	94,069	1,500	502,421
Total capital assets being deprec.	<u>3,890,861</u>	<u>94,069</u>	<u>1,500</u>	<u>3,983,430</u>

Less accumulated depreciation for:				
Buildings	1,539,512	59,934	-	1,599,446
Improvements other than buildings	120,094	3,757	-	123,851
Furniture and equipment	342,296	36,380	1,500	377,176
Total accumulated depreciation	<u>2,001,902</u>	<u>100,071</u>	<u>1,500</u>	<u>2,100,473</u>
Total capital assets being depreciated, net	<u>1,888,959</u>	<u>(6,002)</u>	<u>-</u>	<u>1,882,957</u>
Governmental activities capital assets, net	<u>1,898,959</u>	<u>(6,002)</u>	<u>-</u>	<u>1,892,957</u>
	Balance			Balance
	Beginning of			End
	Year	Increases	Decreases	of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	37,336	-	-	37,336
Less accumulated depreciation	<u>29,406</u>	<u>1,317</u>	<u>-</u>	<u>30,723</u>
Business type activities capital assets, net	<u>7,930</u>	<u>(1,317)</u>	<u>-</u>	<u>6,613</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	6,330
Special	5,352
Other	1,680
Support Services:	
Instructional staff services	4,200
Administration services	2,185
Transportation	<u>16,633</u>
	36,380
Unallocated depreciation	<u>63,691</u>
Total depreciation expense – governmental activities	<u>100,071</u>
Business type activities:	
Food services	<u>1,371</u>

6. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Compensated absences	64,789	17,892	12,957	69,724	13,944
Termination benefits	2,500	8,500	2,500	8,500	8,500
Total	67,289	26,392	15,457	78,224	22,444

Termination Benefits

The District offers a voluntary early retirement plan to its employees. Eligible employees must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education.

At June 30, 2006, the District has obligations to one participant with a total liability of \$8,500. Actual early retirement expenditures for the year ended June 30, 2006 totaled \$2,500.

General Obligation Bonds Payable

The District had no bond indebtedness at June 30, 2006.

7. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$117,279, \$114,391 and \$105,901 respectively, equal to the required contributions for each year.

8. Risk Management

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

9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$122,215 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

HLV COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2006

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues						
Local sources	2,243,518	297,068	2,540,586	2,315,932	2,315,932	224,654
State sources	1,658,599	2,055	1,660,654	1,682,220	1,682,220	(21,566)
Federal sources	144,547	45,302	189,849	141,000	141,000	48,849
Total revenues	<u>4,046,664</u>	<u>344,425</u>	<u>4,391,089</u>	<u>4,139,152</u>	<u>4,139,152</u>	<u>251,937</u>
Expenditures:						
Instruction	2,165,998	-	2,165,998	2,691,000	2,691,000	525,002
Support services	1,177,606	-	1,177,606	1,141,100	1,350,000	172,394
Non-instructional programs	-	336,230	336,230	365,500	400,000	63,770
Other expenditures	259,849	-	259,849	657,727	657,727	397,878
Total expenditures	<u>3,603,453</u>	<u>336,230</u>	<u>3,939,683</u>	<u>4,855,327</u>	<u>5,098,727</u>	<u>1,159,044</u>
Excess (deficiency) of revenues over (under) expenditures	443,211	8,195	451,406	(716,175)	(959,575)	1,410,981
Balance beginning of year	<u>1,552,006</u>	<u>46,571</u>	<u>1,598,577</u>	<u>1,546,242</u>	<u>1,546,242</u>	<u>52,335</u>
Balance end of year	<u><u>1,995,217</u></u>	<u><u>54,766</u></u>	<u><u>2,049,983</u></u>	<u><u>830,067</u></u>	<u><u>586,667</u></u>	<u><u>1,463,316</u></u>

HLV COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2006

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 a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$243,400.

OTHER SUPPLEMENTARY INFORMATION

HLV COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2006

Assets	Special Revenue Funds		Capital Projects Fund	Total
	Management Levy	Student Activity Fund	Local Option Sales Tax	
	\$	\$	\$	
Cash and pooled investments	359,787	48,456	214,549	622,792
Receivables:				
Property tax:				
Delinquent	2,468	-	-	2,468
Succeeding year	40,000	-	-	40,000
Interfund receivable	-	-	4,749	4,749
Due from other governments	-	-	41,954	41,954
Total assets	402,255	48,456	261,252	711,963
Liabilities & Fund Balances				
Liabilities				
Deferred revenue:				
Succeeding year property tax	40,000	-	-	40,000
Fund balances:				
Unreserved reported in:				
Special revenue funds	362,255	48,456	-	410,711
Capital projects funds	-	-	261,252	261,252
Total fund balances	362,255	48,456	261,252	671,963
Total liabilities and fund balances	402,255	48,456	261,252	711,963

HLV COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	<u>Special Revenue Funds</u>		<u>Capital Projects Fund</u>	<u>Total</u>
	<u>Management Levy</u>	<u>Student Activity Fund</u>	<u>Local Option Sales Tax</u>	
	<u>\$</u>	<u>\$</u>	<u>\$</u>	
Revenues:				
Local sources:				
Local tax	174,892	133,624	142,744	451,260
Other	244	-	281	525
Total revenues	<u>175,136</u>	<u>133,624</u>	<u>143,025</u>	<u>451,785</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	2,500	-	-	2,500
Other instruction	-	136,271	-	136,271
Support services:				
Administration services	25,137	-	-	25,137
Operation and maintenance of plant services	28,860	-	-	28,860
Transportation services	11,813	-	-	11,813
Total expenditures	<u>68,310</u>	<u>136,271</u>	<u>-</u>	<u>204,581</u>
Excess (deficiency) of revenues over (under) expenditures	106,826	(2,647)	143,025	247,204
Fund balances beginning of year	<u>255,429</u>	<u>51,103</u>	<u>118,227</u>	<u>424,759</u>
Fund balances end of year	<u><u>362,255</u></u>	<u><u>48,456</u></u>	<u><u>261,252</u></u>	<u><u>671,963</u></u>

HLV COMMUNITY SCHOOL DISTRICT

Combining Schedule of Net Assets
Nonmajor Enterprise Funds

June 30, 2006

	Enterprise Funds				Total Nonmajor Enterprise Funds
	Nutrition	Preschool	Marketing Project	Student House Construction	
	\$	\$	\$	\$	\$
Assets					
Cash and cash equivalents	9,801	8,501	603	34,674	53,579
Accounts receivable	1,415	-	-	-	1,415
Inventories	4,801	-	-	-	4,801
Capital assets, net of accumulated depreciation	6,613	-	-	-	6,613
Total assets	22,630	8,501	603	34,674	66,408
Liabilities					
Payable to general fund	9,157	-	-	-	9,157
Deferred revenue	2,485	-	-	-	2,485
Total liabilities	11,642	-	-	-	11,642
Net assets					
Invested in capital assets, net of related debt	6,613	-	-	-	6,613
Unrestricted	4,375	8,501	603	34,674	48,153
Total net assets	10,988	8,501	603	34,674	54,766

HLV COMMUNITY SCHOOL DISTRICT

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

Year ended Jun d 30, 2006

	Nutrition	Preschool	Marketing Project	Student House Const.	Total Nonmajor Enterprise Funds
	\$	\$	\$	\$	\$
Operating revenue:					
Local sources:					
Charges for service	128,448	24,844	1,185	142,313	296,790
Operating expenses:					
Non-instructional programs:					
Salaries	69,058	9,638	-	-	78,696
Benefits	9,399	1,291	-	-	10,690
Purchased services	4,859	-	-	1,000	5,859
Supplies	86,319	523	1,423	150,997	239,262
Depreciation	1,317	-	-	-	1,317
Other	406	-	-	-	406
	<u>171,358</u>	<u>11,452</u>	<u>1,423</u>	<u>151,997</u>	<u>336,230</u>
Operating gain (loss)	<u>(42,910)</u>	<u>13,392</u>	<u>(238)</u>	<u>(9,684)</u>	<u>(39,440)</u>
Non-operating revenue:					
State sources	2,055	-	-	-	2,055
Federal sources	45,302	-	-	-	45,302
Interest income	278	-	-	-	278
Total non-operating revenue	<u>47,635</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,635</u>
Change in net assets	4,725	13,392	(238)	(9,684)	8,195
Net assets beginning of year	<u>6,263</u>	<u>(4,891)</u>	<u>841</u>	<u>44,358</u>	<u>46,571</u>
Net assets end of year	<u><u>10,988</u></u>	<u><u>8,501</u></u>	<u><u>603</u></u>	<u><u>34,674</u></u>	<u><u>54,766</u></u>

HLV COMMUNITY SCHOOL DISTRICT

Combining Schedule of Cash Flows
Nonmajor Enterprise Funds

Year ended June 30, 2006

	Nutrition	Preschool	Marketing Project	Student House Const.	Total Nonmajor Enterprise Funds
	\$	\$	\$	\$	\$
Cash flows from operating activities:					
Cash received from sale of lunches and breakfasts	128,498	-	-	-	128,498
Cash received from other services	-	24,997	1,185	-	26,182
Cash received from sale of house	-	-	-	142,896	142,896
Cash payments to employees for services	(78,585)	(10,929)	-	-	(89,514)
Cash payments to suppliers for goods or services	(79,074)	(523)	(1,423)	(156,741)	(237,761)
Net cash used by operating activities	(29,161)	13,545	(238)	(13,845)	(29,699)
Cash flows from non-capital financing activities:					
State grants received	2,055	-	-	-	2,055
Federal grants received	32,528	-	-	-	32,528
Net cash provided by non-capital financing activities	34,583	-	-	-	34,583
Cash flows from capital and related financing activities:					
Interfund loans	(6,474)	(7,694)	-	-	(14,168)
Cash flows from investing activities:					
Interest on investments	278	-	-	-	278
Net increase (decrease) in cash and cash equivalents	(774)	5,851	(238)	(13,845)	(9,006)
Cash and cash equivalents at beginning of year	10,575	2,650	841	48,519	62,585
Cash and cash equivalents at end of year	9,801	8,501	603	34,674	53,579
Reconciliation of operating gain (loss) to net cash used by operating activities:					
Operating gain (loss)	(42,910)	13,392	(238)	(9,684)	(39,440)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:					
Commodities used	12,774	-	-	-	12,774
Depreciation	1,317	-	-	-	1,317
Decrease (increase) in inventories	(263)	-	-	-	(263)
Decrease (increase) in accounts receivable	(269)	153	-	183	67
(Decrease) increase in accounts payable	-	-	-	(4,344)	(4,344)
(Decrease) increase in salaries and benefits payable	(128)	-	-	-	(128)
(Decrease) increase in deferred revenue	318	-	-	-	318
Net cash used in operating activities	(29,161)	13,545	(238)	(13,845)	(29,699)

HLV COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Balance end of Year
	\$	\$	\$	\$
Speech and drama	(602)	1,389	2,278	(1,491)
Music	(5,859)	4,691	8,576	(9,744)
Athletic	1,165	56,585	61,897	(4,147)
SICL	3,661	2,731	3,535	2,857
Annual	2,243	6,550	7,692	1,101
Student council	(823)	249	842	(1,416)
Interest	1,102	371	-	1,473
Recreation program	-	4,199	4,350	(151)
German club	563	3,841	4,636	(232)
National Honor Society	1,175	611	1,950	(164)
Pep club	1,277	5,214	5,291	1,200
Towel service	1,848	-	-	1,848
Washington trip	28,818	20,435	9,818	39,435
Win with wellness	676	-	-	676
Miscellaneous	62	3,835	3,351	546
Library	1,063	1,590	1,589	1,064
Special olympics	2,403	406	-	2,809
Pop machine	9,576	12,247	11,219	10,604
Sale of supplies	1	41	-	42
Elementary	220	-	25	195
Insurance	148	-	-	148
Class of 2005	940	1,133	620	1,453
Class of 2006	1,446	7,506	8,602	350
	<u>51,103</u>	<u>133,624</u>	<u>136,271</u>	<u>48,456</u>
Total	<u>51,103</u>	<u>133,624</u>	<u>136,271</u>	<u>48,456</u>

HLV COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds

Year ended June 30, 2006

	<u>Employee Flex</u> \$	<u>Flower Fund</u> \$	<u>Employee Health</u> \$	<u>Total</u> \$
Balance beginning of year	5,868	123	2,497	8,488
Additions:				
Collections	-	-	6,908	6,908
Deductions:				
Miscellaneous	<u>2,929</u>	<u>23</u>	<u>6,857</u>	<u>9,809</u>
Balance end of year	<u><u>2,939</u></u>	<u><u>100</u></u>	<u><u>2,548</u></u>	<u><u>5,587</u></u>

HLV COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2006	2005	2004	2003
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,962,267	1,638,268	1,707,806	1,757,120
Tuition	87,560	118,977	117,059	107,581
Other	193,691	212,162	217,657	290,568
State sources	1,658,599	1,586,717	1,539,341	1,513,537
Federal sources	144,547	85,068	74,384	96,651
Total revenues	<u>4,046,664</u>	<u>3,641,192</u>	<u>3,656,247</u>	<u>3,767,394</u>
Expenditures:				
Instruction:				
Regular instruction	1,475,757	1,545,876	1,512,808	1,416,352
Special instruction	346,172	417,470	413,724	398,201
Other instruction	344,069	315,221	259,963	305,604
Support services:				
Student services	93,066	79,870	80,928	78,629
Instructional staff services	118,979	59,156	42,657	40,913
Administration services	465,348	470,587	488,968	457,762
Operation and maintenance of plant services	322,761	341,284	269,326	259,074
Transportation services	177,452	157,474	155,035	158,313
Other expenditures:				
Facilities acquisition	137,633	184,179	78,373	88,059
AEA flowthrough	122,216	121,078	123,395	127,614
Total expenditures	<u>3,603,453</u>	<u>3,692,195</u>	<u>3,425,177</u>	<u>3,330,521</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
HLV Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of HLV Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 6, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 06-I-A is a material weakness.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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

September 6, 2006

HLV COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

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

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

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

Conclusion: Response accepted.

HLV COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting:

06-II-A Certified Budget: Expenditures for the year ended June 30, 2006, did not exceed the amounts budgeted.

06-II-B 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.

06-II-C 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.

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

06-II-E 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.

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

06-II-G Certified Enrollment: The number of basic resident students reported to the Iowa Department of Education on Line 7 of the Certified Enrollment Certification Form for September 2005, was understated by two students. Also the number of open enrollment-in students was understated by one student.

Recommendation: The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

District Response: We will contact these departments.

Conclusion: Response accepted.

06-II-H 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.

06-II-I Certified Annual Report (CAR): The audit field work was completed prior to the time the District's Certified Annual Report was certified to the Iowa Department of Education.

06-II-J Financial Condition: The Student Activity Fund has a few accounts with deficit balances at June 30, 2006.

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

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

Conclusion: Response accepted.

HLV COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

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

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

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

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

Conclusion: Response accepted.