

LUVERNE COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

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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, 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 LuVerne 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 October 12, 2006, 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 34 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, 2005, (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

October 12, 2006

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

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

### **2006 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$1,090,836 in fiscal 2005 to \$1,129,097 in fiscal 2006, while General Fund expenditures decreased from \$1,097,423 in fiscal 2005 to \$1,080,726 in fiscal 2006. The District's General Fund balance increased from a balance of \$85,072 in fiscal 2005 to \$107,443 in fiscal 2006.
- While General Fund revenues increased by \$38,261, General Fund expenditures decreased by approximately \$16,697. This was due to a teacher that was not replaced from the year before.

### **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 net assets, 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, 2006 compared to June 30, 2005.

Figure A-1

	Condensed Statement of Net Assets						
	Governmental Activities		Business-type Activities		Total School District		Percentage Change 2005-2006
	2006	2005	2006	2005	2006	2005	
	\$	\$	\$	\$	\$	\$	
Current and other assets	1,198,832	1,079,657	8,004	2,132	1,206,836	1,081,789	11.6%
Capital assets	161,428	150,441	1,889	2,520	163,317	152,961	6.8%
<b>Total Assets</b>	<b>1,360,260</b>	<b>1,230,098</b>	<b>9,893</b>	<b>4,652</b>	<b>1,370,153</b>	<b>1,234,750</b>	<b>11%</b>
Long-term liabilities	-	-	-	-	-	-	-
Other liabilities	936,898	859,747	6,089	5,439	942,987	865,186	9%
<b>Total liabilities</b>	<b>936,898</b>	<b>859,747</b>	<b>6,089</b>	<b>5,439</b>	<b>942,987</b>	<b>865,186</b>	<b>9%</b>
Net Assets:							
Invested in capital assets, net of related debt	161,428	150,441	1,889	2,520	163,317	152,961	6.8%
Restricted	132,594	106,523	-	-	132,594	106,523	24.5%
Unrestricted	129,340	113,387	1,915	(3,307)	131,255	110,080	19.2%
<b>TOTAL NET ASSETS</b>	<b>423,362</b>	<b>370,351</b>	<b>3,804</b>	<b>(787)</b>	<b>427,166</b>	<b>369,564</b>	<b>15.6%</b>

The District's total net assets increased by nearly 15.6% or approximately \$57,602 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 \$26,071, or 24.5% over the prior year. The increase was primarily a result of sales tax revenues that were collected during 2006, 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 – increased approximately \$21,175, or 19.2%. The major reason for the increase in unrestricted net assets was decreased costs due to not replacing staff and declining enrollment.

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

Figure A-2

	Change in Net Assets						Percentage Change 2005-2006
	Governmental Activities		Business-type Activities		Total School District		
	2006	2005	2006	2005	2006	2005	
	\$	\$	\$	\$	\$	\$	
Revenues							
Program Revenues:							
Charges for services	154,304	129,306	18,868	21,617	173,172	150,923	14.7%
Operating grants & contributions	131,724	134,958	25,932	33,653	157,656	168,611	-6.5%
Capital grants & contributions	-	8,790	-	-	-	8,790	-100%
General Revenues:							
Property taxes	591,655	578,671	-	-	591,655	578,671	2.2%
Income Surtax	31,917	29,776	-	-	31,917	29,776	7.2%
Local option sales tax	68,671	51,395	-	-	68,671	51,395	33.6%
Unrestricted state grants	299,153	265,415	-	-	299,153	265,415	12.7%
Unrestricted investment earnings	5,216	8,478	6	21	5,222	8,499	-38.6%
Other revenue	-	37	-	-	-	37	-100%
<b>Total Revenues</b>	<b>1,282,640</b>	<b>1,206,826</b>	<b>44,806</b>	<b>55,291</b>	<b>1,327,446</b>	<b>1,262,117</b>	<b>5.2%</b>
Expenses:							
Instruction	768,957	776,810	-	-	768,957	776,810	-1.0%
Support services	381,720	365,431	-	-	381,720	365,431	4.5%
Non-instructional programs	-	-	66,215	66,721	66,215	66,721	-8%
Other expenditures	52,952	47,056	-	-	52,952	47,056	12.5%
<b>Total expenses</b>	<b>1,203,629</b>	<b>1,189,297</b>	<b>66,215</b>	<b>66,721</b>	<b>1,269,844</b>	<b>1,256,018</b>	<b>1.1%</b>
<b>Change in net assets before transfers</b>	<b>79,011</b>	<b>17,529</b>	<b>(21,409)</b>	<b>(11,430)</b>	<b>57,602</b>	<b>6,099</b>	<b>844%</b>
Transfers	(26,000)	(6,000)	26,000	6,000	-	-	-
<b>CHANGE IN NET ASSETS</b>	<b>53,011</b>	<b>11,529</b>	<b>(4,591)</b>	<b>(5,430)</b>	<b>57,602</b>	<b>6,099</b>	<b>844%</b>
Net assets beginning of year	370,351	358,822	(787)	4,643	369,564	363,465	1.7%
Net assets end of year	423,362	370,351	3,804	(787)	427,166	369,564	15.6%

Property tax and unrestricted state grants account for 67% 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 \$1,282,640 and expenses were \$1,203,629. The District is continuing to trim expenses, and not replacing staff contributes to increasing revenues.

- The cost financed by users of the District's programs was \$154,304. These revenues include tuition charged to other schools and proceeds from the sale of materials.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$131,724.
- The net cost of governmental activities was financed with \$692,243 in property and other local taxes and \$299,153 in unrestricted state grants.

### **Business Type Activities**

Revenues for business type activities were \$44,806 and expenses were \$66,215. 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 \$245,080, well above last year's ending fund balances of \$190,412. The primary reason for the increase in combined fund balances in fiscal 2006 is due increased sales tax revenues for 2006 that will be spent in the future.

### **Governmental Fund Highlights**

- The General Fund balance increased from \$85,072 to \$107,443, due to decrease in staff.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$17,881 in fiscal 2005 to \$28,755 in fiscal 2006 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 2006 ended with a balance of \$76,528. These funds will be used for future equipment purchases and capital improvements.

- **Proprietary Fund Highlights**

School Nutrition Fund net assets increased from a negative \$787 at June 30, 2005 to \$3,804 at June 30, 2006. Revenues from meal sales and the federal school

lunch program decreased due to declining enrollment, while total expenses remained steady. The loss incurred in the School Nutrition Fund was covered by a transfer from the General Fund.

**BUDGETARY HIGHLIGHTS**

The District’s receipts were \$65,026 more than budgeted receipts, a variance of 5%. The most significant variance resulted from the District receiving more grants and miscellaneous income than originally anticipated.

Total expenditures were \$154,397 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.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At June 30, 2006, the District had invested \$163,317, 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 increase of 6.8% from last year. More detailed information about the District’s capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$39,265.

*Figure A-3*

*Capital Assets (net of depreciation)*

	<b>Governmental</b>		<b>Business type</b>		<b>Total</b>		<b>Percentage</b>
	<b>Activities</b>		<b>Activities</b>		<b>School District</b>		
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2005-2006</b>
	\$	\$	\$	\$	\$	\$	
Land	9,000	9,000	-	-	9,000	9,000	0.0%
Buildings	71,170	32,700	-	-	71,170	32,700	117.6%
Improvements	16,093	18,167	-	-	16,093	18,167	-11.4%
Equipment & Furniture	65,165	90,574	1,889	2,520	67,054	93,094	-28%
<b>TOTAL</b>	<b>161,428</b>	<b>150,441</b>	<b>1,889</b>	<b>2,520</b>	<b>163,317</b>	<b>152,961</b>	<b>6.8%</b>

## **Long-Term Debt**

At June 30, 2006, 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 Rathke, District Secretary/Treasurer and Business Manager, LuVerne Community School District, 405 Hanna Avenue, LuVerne, Iowa 50560.

## BASIC FINANCIAL STATEMENTS

## LIVERNE COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and cash equivalents:			
ISCAP	145,797	-	145,797
Other	304,295	3,946	308,241
Receivables:			
Property tax:			
Delinquent	9,026	-	9,026
Succeeding year	687,374	-	687,374
Accounts	672	144	816
Accrued interest:			
ISCAP	45	-	45
Other	-	-	-
Due from other governments	45,155	-	45,155
Inventories	-	3,914	3,914
Prepaid expenses	6,468	-	6,468
Capital assets, net of accumulated depreciation	161,428	1,889	163,317
<b>Total assets</b>	<b>1,360,260</b>	<b>9,893</b>	<b>1,370,153</b>
<b>Liabilities</b>			
Accounts payable	6,325	-	6,325
Salaries and benefits payable	81,222	5,867	87,089
Deferred revenue:			
Succeeding year property tax	687,374	-	687,374
Other	4,064	222	4,286
ISCAP warrants payable	146,000	-	146,000
ISCAP accrued interest payable	37	-	37
ISCAP premium	1,111	-	1,111
Long-term liabilities:			
Portion due within one year:			
Termination benefits	10,765	-	10,765
<b>Total liabilities</b>	<b>936,898</b>	<b>6,089</b>	<b>942,987</b>

## LIVERNE COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Net assets</b>			
Invested in capital assets, net of related debt	161,428	1,889	163,317
Restricted for:			
Gifted and talented program	5,722	-	5,722
Management levy	13,024	-	13,024
Physical plant and equipment levy	28,755	-	28,755
Local option sales tax capital projects	76,528	-	76,528
Other special revenue purposes	8,565	-	8,565
Unrestricted	<u>129,340</u>	<u>1,915</u>	<u>131,255</u>
<b>Total net assets</b>	<u><u>423,362</u></u>	<u><u>3,804</u></u>	<u><u>427,166</u></u>

LUVERNE COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

<b>Functions/Programs</b>	Expenses	Charges for Services	Program Revenues	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular instruction	543,567	49,348	57,833	-
Special instruction	145,468	58,998	7,136	-
Other instruction	79,922	45,958	30,851	-
	<u>768,957</u>	<u>154,304</u>	<u>95,820</u>	<u>-</u>
Support services:				
Student services	190	-	-	-
Instructional staff services	5,108	-	-	-
Administration services	191,674	-	-	-
Operation and maintenance of plant services	105,561	-	-	-
Transportation services	79,187	-	-	-
	<u>381,720</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	8,749	-	-	-
AEA flowthrough	35,904	-	35,904	-
Depreciation (unallocated)*	8,299	-	-	-
	<u>52,952</u>	<u>-</u>	<u>35,904</u>	<u>-</u>
Total governmental activities	1,203,629	154,304	131,724	-
Business type activities:				
Non-instructional programs:				
Food service operations	66,215	18,868	25,932	-
Total	<u>1,269,844</u>	<u>173,172</u>	<u>157,656</u>	<u>-</u>
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
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.

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
\$	\$	\$
(436,386)	-	(436,386)
(79,334)	-	(79,334)
(3,113)	-	(3,113)
<u>(518,833)</u>	<u>-</u>	<u>(518,833)</u>
(190)	-	(190)
(5,108)	-	(5,108)
(191,674)	-	(191,674)
(105,561)	-	(105,561)
(79,187)	-	(79,187)
<u>(381,720)</u>	<u>-</u>	<u>(381,720)</u>
(8,749)	-	(8,749)
-	-	-
<u>(8,299)</u>	<u>-</u>	<u>(8,299)</u>
<u>(17,048)</u>	<u>-</u>	<u>(17,048)</u>
(917,601)	-	(917,601)
-	(21,415)	(21,415)
<u>(917,601)</u>	<u>(21,415)</u>	<u>(939,016)</u>
573,677	-	573,677
17,978	-	17,978
31,917	-	31,917
68,671	-	68,671
299,153	-	299,153
5,216	6	5,222
996,612	6	996,618
<u>(26,000)</u>	<u>26,000</u>	<u>-</u>
<u>970,612</u>	<u>26,006</u>	<u>996,618</u>
53,011	4,591	57,602
<u>370,351</u>	<u>(787)</u>	<u>369,564</u>
<u>423,362</u>	<u>3,804</u>	<u>427,166</u>

## LIVERNE COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2006

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
<b>Assets</b>			
Cash and pooled investments:			
ISCAP	145,797	-	145,797
Other	176,200	126,346	302,546
Receivables:			
Property tax:			
Delinquent	8,447	579	9,026
Succeeding year	628,491	58,883	687,374
Accounts	399	273	672
Accrued interest - ISCAP	45	-	45
Prepaid expense	6,468	-	6,468
Interfund receivable	722	-	722
Due from other governments	33,994	11,161	45,155
	<u>1,000,563</u>	<u>197,242</u>	<u>1,197,805</u>
<b>Total assets</b>	<b><u>1,000,563</u></b>	<b><u>197,242</u></b>	<b><u>1,197,805</u></b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	5,914	-	5,914
Salaries and benefits payable	81,222	-	81,222
Interfund payable	-	722	722
ISCAP warrants payable	146,000	-	146,000
ISCAP accrued interest payable	37	-	37
ISCAP premium	1,111	-	1,111
Deferred revenue:			
Succeeding year property tax	628,491	58,883	687,374
Other	30,345	-	30,345
Total liabilities	<u>893,120</u>	<u>59,605</u>	<u>952,725</u>
Fund balances:			
Reserved for:			
Prepaid expenses	6,468	-	6,468
Gifted and talented program	5,722	-	5,722
Unreserved reported in:			
General fund	95,253	-	95,253
Special revenue funds	-	61,109	61,109
Capital projects funds	-	76,528	76,528
Total fund balances	<u>107,443</u>	<u>137,637</u>	<u>245,080</u>
<b>Total liabilities and fund balances</b>	<b><u>1,000,563</u></b>	<b><u>197,242</u></b>	<b><u>1,197,805</u></b>

## LIVERNE COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

	\$
<b>Total fund balances of governmental funds (Exhibit C)</b>	245,080
<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.	161,428
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	26,281
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.	1,338
Long-term liabilities, including termination benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(10,765)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>423,362</u></u>

## LIVERNE COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	586,580	106,628	693,208
Tuition	94,148	-	94,148
Other	17,492	47,880	65,372
State sources	379,018	-	379,018
Federal sources	51,859	-	51,859
Total revenues	<u>1,129,097</u>	<u>154,508</u>	<u>1,283,605</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	472,067	50,637	522,704
Special instruction	145,468	-	145,468
Other instruction	79,284	-	79,284
	<u>696,819</u>	<u>50,637</u>	<u>747,456</u>
Support services:			
Student services	190	-	190
Instructional staff services	5,108	-	5,108
Administration services	190,324	1,128	191,452
Operation and maintenance of plant services	92,864	11,116	103,980
Transportation services	59,517	5,886	65,403
	<u>348,003</u>	<u>18,130</u>	<u>366,133</u>
Other expenditures:			
Facilities acquisition	-	53,444	53,444
AEA flowthrough	35,904	-	35,904
	<u>35,904</u>	<u>53,444</u>	<u>89,348</u>
Total expenditures	<u>1,080,726</u>	<u>122,211</u>	<u>1,202,937</u>
Excess (deficiency) of revenues over (under) expenditures	48,371	32,297	80,668
Other financing sources (uses):			
Operating transfers out	<u>(26,000)</u>	-	<u>(26,000)</u>
Net change in fund balances	22,371	32,297	54,668
Fund balances beginning of year	<u>85,072</u>	<u>105,340</u>	<u>190,412</u>
Fund balances end of year	<u><u>107,443</u></u>	<u><u>137,637</u></u>	<u><u>245,080</u></u>

## LUVARNE 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

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		54,668
<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. Capital outlay expenditures exceeded depreciation expense in the year as follows:		
Expenditures for capital assets	49,621	
Depreciation expense	<u>(38,634)</u>	10,987
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.		
		(965)
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:		
Termination benefits		(10,765)
An internal service fund is used by the District's management to charge the costs of the medical deductible reimbursement plan and the employee flexible benefit program to the individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.		
		<u>(914)</u>
<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>53,011</u></u>

## LUVERNE COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Funds

June 30, 2006

	Enterprise Fund <u>School Nutrition</u> \$	Governmental Activities - Internal Service Fund <u>                    </u> \$
<b>Assets</b>		
Cash and cash equivalents	3,946	1,749
Accounts receivable	144	-
Inventories	3,914	-
Capital assets, net of accumulated depreciation	<u>1,889</u>	<u>-</u>
<b>Total assets</b>	<u>9,893</u>	<u>1,749</u>
<b>Liabilities</b>		
Accounts payable	-	411
Salaries and benefits payable	5,867	-
Deferred revenue	222	-
<b>Total liabilities</b>	<u>6,089</u>	<u>411</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	1,889	-
Unrestricted	<u>1,915</u>	<u>1,338</u>
<b>Total net assets</b>	<u><u>3,804</u></u>	<u><u>1,338</u></u>

## LIVERNE COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Enterprise Fund <u>School Nutrition</u> \$	Governmental Activities - Internal Service Fund <u>Service Fund</u> \$
Operating revenue:		
Local sources:		
Charges for service	18,868	10,385
Operating expenses:		
Non-instructional programs:		
Salaries	31,944	-
Benefits	10,333	11,303
Purchased services	1,720	-
Supplies	21,587	-
Depreciation	631	-
	<u>66,215</u>	<u>11,303</u>
Operating gain (loss)	<u>(47,347)</u>	<u>(918)</u>
Non-operating revenue:		
State sources	590	-
Federal sources	25,342	-
Interest income	6	4
Total non-operating revenue	<u>25,938</u>	<u>4</u>
Gain (loss) before transfers	(21,409)	(914)
Transfers in	<u>26,000</u>	<u>-</u>
Change in net assets	4,591	(914)
Net assets beginning of year	<u>(787)</u>	<u>2,252</u>
Net assets end of year	<u><u>3,804</u></u>	<u><u>1,338</u></u>

## LIVERNE COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2006

	Enterprise Fund	Governmental Activities - Internal Service Fund
	School Nutrition	Service Fund
	\$	\$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	19,628	-
Cash received from other services	-	10,385
Cash payments to employees for services	(41,847)	(11,482)
Cash payments to suppliers for goods or services	(19,198)	-
Net cash provided by (used by) operating activities	<u>(41,417)</u>	<u>(1,097)</u>
Cash flows from non-capital financing activities:		
Loan from (repaid to) General Fund	(9,018)	-
Transfers from General Fund	26,000	-
State grants received	590	-
Federal grants received	20,633	-
Net cash provided by non-capital financing activities	<u>38,205</u>	<u>-</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	8	4
Net increase (decrease) in cash and cash equivalents	(3,204)	(1,093)
Cash and cash equivalents at beginning of year	7,150	2,842
Cash and cash equivalents at end of year	<u>3,946</u>	<u>1,749</u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>		
Operating gain (loss)	(47,347)	(918)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	4,709	-
Depreciation	631	-
Decrease (increase) in inventories	(600)	-
Decrease (increase) in accounts receivable	540	-
(Decrease) increase in accounts payable	-	(179)
(Decrease) increase in salaries and benefits payable	430	-
(Decrease) increase in deferred revenue	220	-
Net cash used in operating activities	<u>(41,417)</u>	<u>(1,097)</u>

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

During the year ended June 30, 2006, the District received \$4,709 of federal commodities.

LUVERNE COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Funds

June 30, 2006

	<u>Agency</u>
	\$
<b>Assets</b>	
Cash and pooled investments	1,021
<b>Liabilities</b>	
Other payables	<u>1,021</u>
<b>Net Assets</b>	<u><u>-</u></u>

# LUVERNE COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2006

### 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.

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 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 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, 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	-
Buildings	1,000
Improvements other than buildings	1,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	1,000

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	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.

**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.

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3 as amended by Statement No. 40.

**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	Nonmajor governmental: Management Fund	722

**4. Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount \$
Enterprise: School Nutrition Fund	General Fund	26,000

The General Fund transferred \$26,000 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, 2006, is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments \$	Accrued Interest Receivable \$	Warrants Payable \$	Accrued Interest Payable \$
2006-07A	6/28/06	6/28/07	145,797	45	146,000	37

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, 2006, is as follows:

Balance Beginning of Year \$	Advances Received \$	Advances Repaid \$	Balance End of Year \$
-	-	-	-

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 %
2005-06A	4.000	3.903
2006-07A	4.500	5.676

## 6. 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
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	9,000	-	-	9,000
Capital assets being depreciated:				
Buildings	465,574	44,695	-	510,269
Improvements other than buildings	37,621	-	-	37,621
Furniture and equipment	435,271	4,926	30,344	409,853
Total capital assets being deprec.	<u>938,466</u>	<u>49,621</u>	<u>30,344</u>	<u>957,743</u>
Less accumulated depreciation for:				
Buildings	432,874	6,225	-	439,099
Improvements other than buildings	19,454	2,074	-	21,528
Furniture and equipment	344,697	30,335	30,344	344,688
Total accumulated depreciation	<u>797,025</u>	<u>38,634</u>	<u>30,344</u>	<u>805,315</u>
Total capital assets being depreciated, net	<u>141,441</u>	<u>10,987</u>	-	<u>152,428</u>
Governmental activities capital assets, net	<u>150,441</u>	<u>10,987</u>	-	<u>161,428</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Business type activities:</b>				
Furniture and equipment	29,213	-	-	29,213
Less accumulated depreciation	<u>26,693</u>	<u>631</u>	-	<u>27,324</u>
Business type activities capital assets, net	<u>2,520</u>	<u>(631)</u>	-	<u>1,889</u>
Depreciation expense was charged to the following functions:				\$
Governmental activities:				
Instruction:				
Regular				14,110
Other				638
Support Services:				
Administration services				222
Operation and maintenance of plant services				1,581
Transportation				13,784
				<u>30,335</u>
Unallocated depreciation				<u>8,299</u>
Total depreciation expense – governmental activities				<u>38,634</u>

Business type activities:  
Food services

631

**7. 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
	\$	\$	\$	\$	\$
Termination Benefits	-	10,765	-	10,765	10,765

Termination Benefits

The District offered a voluntary early retirement plan to its employees. Eligible employees must have completed at least twenty years of full-time service to the District and must have reached the age of fifty-five on or before June 30, 2006. The application for early retirement is subject to approval by the Board of Education.

Early retirement benefits consisted of a \$8,000 cash payment and payment of \$20 per day for unused sick leave.

Early retirement benefits will be paid in one installment in the month following retirement.

At June 30, 2006, the District has obligations to one participant with a total liability of \$10,675. There were no early retirement benefits paid during the year ended June 30, 2006

**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, 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 \$34,272, \$32,353 and \$30,977 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 \$35,904 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.

## 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>
	\$
2007	8,784
2008	8,784
2009	8,784
2010	5,124

The District paid \$8,784 of rent in fiscal year 2006.

REQUIRED SUPPLEMENTARY INFORMATION

LUVERNE 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	852,728	18,874	871,602	793,514	793,514	78,088
State sources	379,018	590	379,608	373,871	373,871	5,737
Federal sources	51,859	25,342	77,201	96,000	96,000	(18,799)
Total revenues	<u>1,283,605</u>	<u>44,806</u>	<u>1,328,411</u>	<u>1,263,385</u>	<u>1,263,385</u>	<u>65,026</u>
Expenditures:						
Instruction	747,456	-	747,456	819,349	819,349	71,893
Support services	366,133	-	366,133	418,677	418,677	52,544
Non-instructional programs	-	66,215	66,215	72,000	72,000	5,785
Other expenditures	89,348	-	89,348	113,523	113,523	24,175
Total expenditures	<u>1,202,937</u>	<u>66,215</u>	<u>1,269,152</u>	<u>1,423,549</u>	<u>1,423,549</u>	<u>154,397</u>
Excess (deficiency) of revenues over (under) expenditures	80,668	(21,409)	59,259	(160,164)	(160,164)	219,423
Other financing sources (uses) net	<u>(26,000)</u>	<u>26,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	54,668	4,591	59,259	(160,164)	(160,164)	219,423
Balance beginning of year	<u>190,412</u>	<u>(787)</u>	<u>189,625</u>	<u>199,506</u>	<u>199,506</u>	<u>(9,881)</u>
Balance end of year	<u><u>245,080</u></u>	<u><u>3,804</u></u>	<u><u>248,884</u></u>	<u><u>39,342</u></u>	<u><u>39,342</u></u>	<u><u>209,542</u></u>

## LUVERNE 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. The District did not amend its budget during the year.

OTHER SUPPLEMENTARY INFORMATION

## LIVERNE COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2006

Assets	Special Revenue Funds			Capital Projects Fund	Total
	Management	Student	Physical	Local	
	Levy	Activity	Plant and Equipment	Option Sales Tax	
	\$	\$	\$	\$	\$
Cash and pooled investments	24,206	8,565	28,208	65,367	126,346
Receivables:					
Property tax:					
Delinquent	305	-	274	-	579
Succeeding year	40,000	-	18,883	-	58,883
Accounts	-	-	273	-	273
Due from other governments	-	-	-	11,161	11,161
<b>Total assets</b>	<b>64,511</b>	<b>8,565</b>	<b>47,638</b>	<b>76,528</b>	<b>197,242</b>
<b>Liabilities &amp; Fund Balances</b>					
Liabilities:					
Interfund payables	722	-	-	-	722
Deferred revenue:					
Succeeding year property tax	40,000	-	18,883	-	58,883
Total liabilities	40,722	-	18,883	-	59,605
Fund balances:					
Unreserved reported in:					
Special Revenue Funds	23,789	8,565	28,755	-	61,109
Capital Projects Funds	-	-	-	76,528	76,528
Total fund balances	23,789	8,565	28,755	76,528	137,637
<b>Total liabilities and fund balances</b>	<b>64,511</b>	<b>8,565</b>	<b>47,638</b>	<b>76,528</b>	<b>197,242</b>

## LUVESNE COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	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	19,979	-	17,978	-	68,671	106,628
Other	1,297	46,069	253	-	261	47,880
Total revenues	<u>21,276</u>	<u>46,069</u>	<u>18,231</u>	<u>-</u>	<u>68,932</u>	<u>154,508</u>
Expenditures:						
Current:						
Instruction:						
Regular instruction	2,507	47,331	-	799	-	50,637
Support services:						
Administration services	1,128	-	-	-	-	1,128
Operation and maintenance plant services	11,116	-	-	-	-	11,116
Transportation services	5,283	-	603	-	-	5,886
Other expenditures:						
Facilities acquisition	-	-	6,754	-	46,690	53,444
Total expenditures	<u>20,034</u>	<u>47,331</u>	<u>7,357</u>	<u>799</u>	<u>46,690</u>	<u>122,211</u>
Excess (deficiency) of revenues over (under) expenditures	1,242	(1,262)	10,874	(799)	22,242	32,297
Fund balances beginning of year	<u>22,547</u>	<u>9,827</u>	<u>17,881</u>	<u>799</u>	<u>54,286</u>	<u>105,340</u>
Fund balances end of year	<u><u>23,789</u></u>	<u><u>8,565</u></u>	<u><u>28,755</u></u>	<u><u>-</u></u>	<u><u>76,528</u></u>	<u><u>137,637</u></u>

## LIVERNE 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
	\$	\$	\$	\$
Juice account	923	1,440	1,428	935
Athletics	2,908	3,858	4,673	2,093
Vocal music	279	-	-	279
Instrumental music	321	239	253	307
OM	12	26,348	25,009	1,351
Class of 2006	71	-	-	71
9th grade	1,578	-	1,578	-
8th grade	564	730	284	1,010
7th grade	-	100	-	100
6th grade	-	57	-	57
Student council	1,197	2,673	2,931	939
Interest	1,349	111	56	1,404
LEA student incentive	625	10,513	11,119	19
	<u>9,827</u>	<u>46,069</u>	<u>47,331</u>	<u>8,565</u>
Totals	<u>9,827</u>	<u>46,069</u>	<u>47,331</u>	<u>8,565</u>

## LIVERNE COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Fund

Year ended June 30, 2006

	Faculty Pop	RIF	Total
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Balance beginning of year	-	-	-
Additions	1,047	151	1,198
Payments	<u>124</u>	<u>53</u>	<u>177</u>
Balance end of year	<u><u>923</u></u>	<u><u>98</u></u>	<u><u>1,021</u></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			
	2006	2005	2004	2003
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	693,208	659,244	761,027	727,463
Tuition	94,148	100,175	71,946	64,928
Other	65,372	37,646	44,015	40,797
State sources	379,018	334,521	226,221	260,134
Federal sources	51,859	74,642	104,779	77,764
Total revenues	<u>1,283,605</u>	<u>1,206,228</u>	<u>1,207,988</u>	<u>1,171,086</u>
Expenditures:				
Instruction:				
Regular instruction	522,704	483,556	510,032	552,887
Special instruction	145,468	161,298	114,884	124,531
Other instruction	79,284	126,573	73,882	50,558
Support services:				
Student services	190	82	19,748	20,471
Instructional staff services	5,108	4,474	7,358	20,612
Administration services	191,452	170,973	158,499	158,990
Operation and maintenance of plant services	103,980	110,660	129,903	83,141
Transportation services	65,403	60,513	53,798	110,484
Other expenditures:				
Facilities acquisition	53,444	13,069	18,301	2,285
AEA flowthrough	35,904	34,544	31,121	33,390
Total expenditures	<u>1,202,937</u>	<u>1,165,742</u>	<u>1,117,526</u>	<u>1,157,349</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, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 12, 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 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 item 06-I-A is a material weakness.

### 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, 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 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

October 12, 2006

LUVERNE 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.

LIVERNE 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: Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
		\$
Chris McPeak, Board Member, Brother is Kevin McPeak	Snow removal	380

Recommendation: Business with district officials is not a conflict of interest if bids are taken or total amount is less than \$2,500. The District should consult with legal council before entering into any business transactions with board members or their families.

District Response: We will consult with our attorney.

Conclusion: Response accepted.

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 overstated by two students.

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.

LUVERNE COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

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

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 Certified Annual Report was not due at the date of our audit.

06-II-J Physical Plant and Equipment Levy Fund (PPEL) and Local Option Sales Tax Capital Projects Fund (LOST) Expenditures: PPEL and LOST funds may be used to purchase a single unit of equipment with a cost that exceeds \$500. Equipment repairs are not allowed expenditures. We noted that the PPEL Fund paid \$603 for bus tires and that the LOST fund paid \$1,995 for chairs.

Recommendation: The District should aware of the limitation on types of expenditures allowed from these funds and the General Fund should reimburse these two funds for the tires and chairs.

District Response: We will monitor PPEL and LOST fund expenditures and make the reimbursement.

Conclusion: Response accepted.