

LUVERNE COMMUNITY SCHOOL DISTRICT

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

June 30, 2007

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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, 2007, 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, 2007, 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 March 29, 2008, 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 11 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, 2006, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary 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

March 29, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

LuVerne Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$1,129,097 in fiscal 2006 to \$1,123,903 in fiscal 2007, while General Fund expenditures increased from \$1,080,726 in fiscal 2006 to \$1,085,833 in fiscal 2007. The District's General Fund balance increased from \$107,433 in fiscal 2006 to \$113,353 in fiscal 2007.
- The decrease in General Fund revenues was attributable to a decrease in state revenue in fiscal 2007. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures.

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

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.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

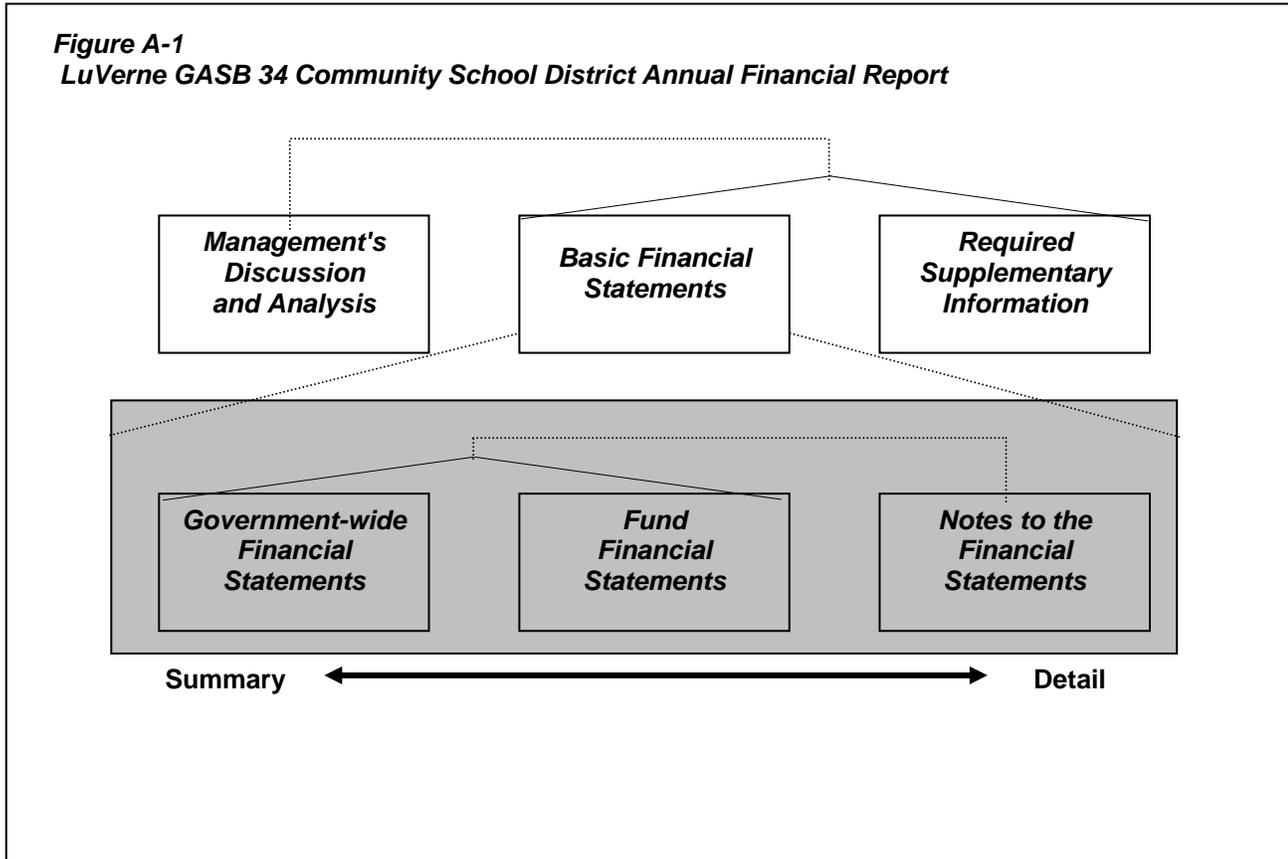


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

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, 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 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 current has one internal service fund used to account for the District's employee flexible benefit plan.

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 Agency Funds.
 - Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other entities.

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.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2006-2007
	Governmental Activities		Business-type Activities		Total School District		
	2007	2006	2007	2006	2007	2006	
	\$	\$	\$	\$	\$	\$	
Current and other assets	1,448,964	1,198,832	10,540	8,004	1,459,504	1,206,836	21%
Capital assets	159,271	161,428	1,258	1,889	160,529	163,317	-2%
Total assets	1,608,235	1,360,260	11,798	9,893	1,620,033	1,370,153	19%
Long-term liabilities	-	-	-	-	-	-	-
Other liabilities	1,110,673	936,898	6,543	6,089	1,117,216	942,987	19%
Total liabilities	1,110,673	936,898	6,543	6,089	1,117,216	942,987	19%
Net Assets:							
Invested in capital assets, net of related debt	159,271	161,428	1,258	1,889	160,529	163,317	-2%
Restricted	205,747	132,594	-	-	205,747	132,594	55%
Unrestricted	132,544	129,340	3,997	1,915	136,541	131,255	4%
TOTAL NET ASSETS	497,562	423,362	5,255	3,804	502,817	427,166	18%

The District's combined net assets increased by nearly 18%, or approximately \$75,000, 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. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

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 \$73,000 or 55% over the prior year. The increase was primarily a result of decreased expenditures in the Capital Projects Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$5,300, or 4%.

Figure A-4 shows the change in net assets for the years ended June 30, 2007 and 2006.

Figure A-4

	Change in Net Assets						Percentage Change 2006-2007 %
	Governmental Activities		Business-type Activities		Total School District		
	2007 \$	2006 \$	2007 \$	2006 \$	2007 \$	2006 \$	
Revenues							
Program Revenues:							
Charges for services	143,825	154,304	13,234	18,868	157,059	173,172	-9
Operating grants & contributions	141,362	131,724	19,398	25,932	160,760	157,656	2
Capital grants & contributions	-	-	-	-	-	-	-
General Revenues:							
Property taxes	691,110	591,655	-	-	691,110	591,655	17
Income Surtax	31,756	31,917	-	-	31,756	31,917	-
Local option sales tax	66,171	68,671	-	-	66,171	68,671	-3
Unrestricted state grants	207,810	299,153	-	-	207,810	299,153	-31
Unrestricted investment earnings	16,529	5,216	-	6	16,529	5,222	216
Other revenue	5,941	-	-	-	5,941	-	-
Total Revenues	1,304,504	1,282,640	32,632	44,806	1,337,136	1,327,446	1
Expenses:							
Instruction	740,988	768,957	-	-	740,988	768,957	-4
Support services	402,488	381,720	-	-	402,488	381,720	5
Non-instructional programs	-	-	63,341	66,215	63,341	66,215	5
Other expenditures	54,668	52,952	-	-	54,668	52,952	3
Total expenses	1,198,144	1,203,629	63,341	66,215	1,261,485	1,269,844	1
Change in net assets before transfers	106,360	79,011	(30,709)	(21,409)	75,651	57,602	32
Transfers	(32,160)	(26,000)	32,160	26,000	-	-	
CHANGE IN NET ASSETS	74,200	53,011	1,451	4,591	75,651	57,602	32
Net assets beginning of year	423,362	370,351	3,804	(787)	427,166	369,564	16
Net assets end of year	497,562	423,362	5,255	3,804	502,817	427,166	18

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 \$1,304,504 and expenses were \$1,198,144. The District was able to balance the budget by trimming expenses to match available revenues.

- The cost financed by users of the District's programs was \$143,825. Most of these revenues are derived from tuition charged to other school districts and from student activities.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$141,362.
- The net cost of governmental activities was financed with \$794,978 in property and local other taxes and \$207,810 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$32,632 and expenses were \$63,341. 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. The General Fund transferred \$32,160 to the School Nutrition Fund.

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 \$307,789, well above last year's ending fund balances of \$245,080.

Governmental Fund Highlights

- The District's General Fund financial position increased \$6,000 during the year. During the year tax and grants resulted in a decrease in revenues. However, the decrease in revenues was more than offset by the District's management of General Fund expenditures.
- The General Fund balance increased from \$107,443 to \$113,353.
- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$28,755 in fiscal 2006 to \$22,104 in fiscal 2007. While revenues remained approximately the same, the District substantially increased spending from the PPEL Fund.
- The Capital Projects Fund balance increased \$55,751. The District ended fiscal 2007 with a balance of \$132,279.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$3,804 at June 30, 2006 to \$5,255 at June 30, 2007, representing an increase of approximately 38%. For fiscal 2007, the General Fund transferred \$32,160 to the School Nutrition Fund.

BUDGETARY HIGHLIGHTS

LuVerne Community School District did not amend its annual budget.

The District's receipts were \$32,447 more than budgeted receipts, a variance of 2%. The most significant variance resulted from the District receiving less in state aid than originally anticipated.

Total expenditures were 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, 2007, the District had invested \$.16 million, 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-6) This represents a net decrease of 2% 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 \$29,341.

The original cost of the District's capital assets was \$.99 million. Governmental funds account for \$.98 million, with the remainder of \$.1 million accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the building improvements category.

Figure A-6

Capital Assets (net of depreciation)

	Governmental Activities		Business type Activities		Total School District		Percentage Change 2006-2007 %
	2007	2006	2007	2006	2007	2006	
	\$	\$	\$	\$	\$	\$	
Land	9,000	9,000	-	-	9,000	9,000	-
Construction in progress	-	-	-	-	-	-	-
Buildings	86,777	71,170	-	-	86,777	71,170	22
Improvements	13,734	16,093	-	-	13,734	16,093	-15
Equipment & Furniture	49,760	65,165	1,258	1,889	51,018	67,054	-24
TOTAL	159,271	161,428	1,258	1,889	160,529	163,317	-2

Long-Term Debt

At June 30, 2007, 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 several existing circumstances that could significantly affect its financial health in the future:

- School financing is highly dependent upon student enrollment. The District's October 2007 enrollment decreased by ten students. This drop in enrollment will decrease the District's funding for fiscal year 2009.
- The District has evaluated the condition of its transportation vehicles and has determined that one of the buses must be replaced during fiscal 2008 at a cost of \$68,000. The bus will be paid for out of the Capital Projects fund.

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, LuVerne, IA 50560.

BASIC FINANCIAL STATEMENTS

LUVERNE COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2007

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents:			
ISCAP	329,308	-	329,308
Other	357,805	5,708	363,513
Receivables:			
Property tax:			
Delinquent	10,462	-	10,462
Succeeding year	682,747	-	682,747
Accounts	6,801	211	7,012
Accrued interest:			
ISCAP	4,009	-	4,009
Due from other governments	51,344	-	51,344
Inventories	-	4,621	4,621
Prepaid expenses	6,488	-	6,488
Capital assets, net of accumulated depreciation	159,271	1,258	160,529
Total assets	1,608,235	11,798	1,620,033
Liabilities			
Accounts payable	2,748	6,287	9,035
Salaries and benefits payable	81,870	-	81,870
Deferred revenue:			
Succeeding year property tax	682,747	-	682,747
Other	8,191	256	8,447
ISCAP warrants payable	330,000	-	330,000
ISCAP accrued interest payable	3,406	-	3,406
ISCAP premium	1,711	-	1,711
Total liabilities	1,110,673	6,543	1,117,216
Net assets			
Invested in capital assets, net of related debt	159,271	1,258	160,529
Restricted for:			
Gifted and talented program	5,722	-	5,722
Iowa early intervention block grant	5,589	-	5,589
Management levy	33,828	-	33,828
Physical plant and equipment levy	22,104	-	22,104
Local option sales tax capital projects	132,279	-	132,279
Other special revenue purposes	6,225	-	6,225
Unrestricted	132,544	3,997	136,541
Total net assets	497,562	5,255	502,817

LUVERNE COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2007

Functions/Programs	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues</u>	
			<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular	411,511	74,729	67,041	-
Special	193,214	55,114	6,040	-
Other	136,263	13,982	27,776	-
	<u>740,988</u>	<u>143,825</u>	<u>100,857</u>	<u>-</u>
Support services:				
Student	73	-	-	-
Instructional staff	4,969	-	4,428	-
Administration	174,662	-	-	-
Operation and maintenance of plant	133,041	-	-	-
Transportation	89,743	-	-	-
	<u>402,488</u>	<u>-</u>	<u>4,428</u>	<u>-</u>
Other expenditures:				
AEA flowthrough	36,077	-	36,077	-
Depreciation (unallocated)*	18,591	-	-	-
	<u>54,668</u>	<u>-</u>	<u>36,077</u>	<u>-</u>
Total governmental activities	1,198,144	143,825	141,362	-
Business type activities:				
Non-instructional programs:				
Food service operations	63,341	13,234	19,398	-
Total	<u>1,261,485</u>	<u>157,059</u>	<u>160,760</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				
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
\$	\$	\$
(269,741)	-	(269,741)
(132,060)	-	(132,060)
(94,505)	-	(94,505)
<u>(496,306)</u>	<u>-</u>	<u>(496,306)</u>
(73)	-	(73)
(541)	-	(541)
(174,662)	-	(174,662)
(133,041)	-	(133,041)
(89,743)	-	(89,743)
<u>(398,060)</u>	<u>-</u>	<u>(398,060)</u>
-	-	-
<u>(18,591)</u>	<u>-</u>	<u>(18,591)</u>
<u>(18,591)</u>	<u>-</u>	<u>(18,591)</u>
(912,957)	-	(912,957)
-	(30,709)	(30,709)
<u>(912,957)</u>	<u>(30,709)</u>	<u>(943,666)</u>
672,179	-	672,179
18,931	-	18,931
31,756	-	31,756
66,171	-	66,171
207,810	-	207,810
16,529	-	16,529
5,941	-	5,941
1,019,317	-	1,019,317
<u>(32,160)</u>	32,160	<u>-</u>
<u>987,157</u>	<u>32,160</u>	<u>1,019,317</u>
74,200	1,451	75,651
<u>423,362</u>	<u>3,804</u>	<u>427,166</u>
<u>497,562</u>	<u>5,255</u>	<u>502,817</u>

LIVERNE COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2007

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Assets			
Cash and pooled investments:			
ISCAP	329,308	-	329,308
Other	163,117	192,624	355,741
Receivables:			
Property tax:			
Delinquent	9,567	895	10,462
Succeeding year	624,121	58,626	682,747
Accounts	6,801	-	6,801
Accrued interest - ISCAP	4,009	-	4,009
Prepaid expense	6,488	-	6,488
Interfund receivable	10,765	-	10,765
Due from other governments	39,662	11,682	51,344
	<u>1,193,838</u>	<u>263,827</u>	<u>1,457,665</u>
Total assets	1,193,838	263,827	1,457,665
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	2,168	-	2,168
Salaries and benefits payable	81,870	-	81,870
Interfund payable	-	10,765	10,765
ISCAP warrants payable	330,000	-	330,000
ISCAP accrued interest payable	3,406	-	3,406
ISCAP premium	1,711	-	1,711
Deferred revenue:			
Succeeding year property tax	624,121	58,626	682,747
Other	37,209	-	37,209
Total liabilities	<u>1,080,485</u>	<u>69,391</u>	<u>1,149,876</u>
Fund balances:			
Reserved for:			
Gifted and talented program	5,722	-	5,722
Iowa early intervention block grant	5,589	-	5,589
Unreserved reported in:			
General fund	102,042	-	102,042
Special revenue funds	-	62,157	62,157
Capital projects funds	-	132,279	132,279
Total fund balances	<u>113,353</u>	<u>194,436</u>	<u>307,789</u>
Total liabilities and fund balances	1,193,838	263,827	1,457,665

LUVERNE COMMUNITY SCHOOL DISTRICT

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

June 30, 2007

	\$
Total fund balances of governmental funds (Exhibit C)	307,789
<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.	159,271
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	29,018
An internal service fund is used by the District's management to charge the costs of the medical deductible reimbursement plan and the employee flexible benefit program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	<u>1,484</u>
Net assets of governmental activities (Exhibit A)	<u><u>497,562</u></u>

LIVERNE COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	661,097	125,204	786,301
Tuition	92,724	-	92,724
Other	20,910	48,750	69,660
State sources	293,275	-	293,275
Federal sources	55,897	-	55,897
Total revenues	<u>1,123,903</u>	<u>173,954</u>	<u>1,297,857</u>
Expenditures:			
Current:			
Instruction:			
Regular	398,927	13,485	412,412
Special	193,214	-	193,214
Other	87,412	48,851	136,263
	<u>679,553</u>	<u>62,336</u>	<u>741,889</u>
Support services:			
Student	73	-	73
Instructional staff	5,115	-	5,115
Administration	175,711	13,206	188,917
Operation and maintenance of plant	113,441	18,257	131,698
Transportation	75,863	5,042	80,905
	<u>370,203</u>	<u>36,505</u>	<u>406,708</u>
Other expenditures:			
Facilities acquisition	-	18,314	18,314
AEA flowthrough	36,077	-	36,077
	<u>36,077</u>	<u>18,314</u>	<u>54,391</u>
Total expenditures	<u>1,085,833</u>	<u>117,155</u>	<u>1,202,988</u>
Excess (deficiency) of revenues over (under) expenditures	38,070	56,799	94,869
Other financing sources (uses):			
Operating transfers out	<u>(32,160)</u>	<u>-</u>	<u>(32,160)</u>
Net change in fund balances	5,910	56,799	62,709
Fund balances beginning of year	<u>107,443</u>	<u>137,637</u>	<u>245,080</u>
Fund balances end of year	<u><u>113,353</u></u>	<u><u>194,436</u></u>	<u><u>307,789</u></u>

LIVERNE COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		62,709
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
<p>Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the current year, as follows:</p>		
Disposal of assets	3,910	
Expenditures for capital assets	23,281	
Depreciation expense	<u>(29,348)</u>	(2,157)
<p>Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.</p>		
		2,737
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:</p>		
Termination benefits		10,765
<p>An internal service fund is used by the District's management to charge the costs of the medical deductible reimbursement plan and the employee flexible benefit program to the individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.</p>		
		<u>146</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>74,200</u></u>

LIVERNE COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2007

	Enterprise Fund <u>Nonmajor School Nutrition</u> \$	Governmental Activities - Internal Service Fund <u> </u> \$
Assets		
Cash and cash equivalents	5,708	2,064
Accounts receivable	211	-
Inventories	4,621	-
Capital assets, net of accumulated depreciation	<u>1,258</u>	<u>-</u>
Total assets	<u>11,798</u>	<u>2,064</u>
Liabilities		
Accounts payable	6,287	580
Deferred revenue	<u>256</u>	<u>-</u>
Total liabilities	<u>6,543</u>	<u>580</u>
Net assets		
Invested in capital assets, net of related debt	1,258	-
Unrestricted	<u>3,997</u>	<u>1,484</u>
Total net assets	<u><u>5,255</u></u>	<u><u>1,484</u></u>

LUVERNE COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	Enterprise Fund	Governmental Activities - Internal Service Fund
	<u>Nonmajor School Nutrition</u>	<u>Service Fund</u>
	\$	\$
Operating revenues:		
Local sources:		
Charges for service	13,234	5,263
Operating expenses:		
Non-instructional programs:		
Salaries	34,839	-
Benefits	11,292	5,120
Purchased services	458	-
Supplies	16,121	-
Depreciation	631	-
	<u>63,341</u>	<u>5,120</u>
Operating gain (loss)	<u>(50,107)</u>	<u>143</u>
Non-operating revenues:		
State sources	429	-
Federal sources	18,969	-
Interest income	-	3
Total non-operating revenues	<u>19,398</u>	<u>3</u>
Gain (loss) before transfers	(30,709)	146
Transfers in	<u>32,160</u>	<u>-</u>
Change in net assets	1,451	146
Net assets beginning of year	<u>3,804</u>	<u>1,338</u>
Net assets end of year	<u><u>5,255</u></u>	<u><u>1,484</u></u>

LIVERNE COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2007

	Enterprise Fund	Governmental Activities - Internal Service Fund
	Nonmajor School Nutrition	
	\$	\$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	13,201	-
Cash received from other services	-	5,263
Cash payments to employees for services	(45,711)	(4,951)
Cash payments to suppliers for goods or services	(14,304)	-
Net cash provided by (used by) operating activities	<u>(46,814)</u>	<u>312</u>
Cash flows from non-capital financing activities:		
Transfers from General Fund	32,160	-
State grants received	429	-
Federal grants received	15,987	-
Net cash provided by non-capital financing activities	<u>48,576</u>	<u>-</u>
Cash flows from capital and related financing activities	-	-
Cash flows from investing activities:		
Interest on investments	-	3
Net increase (decrease) in cash and cash equivalents	1,762	315
Cash and cash equivalents at beginning of year	3,946	1,749
Cash and cash equivalents at end of year	<u>5,708</u>	<u>2,064</u>
Reconciliation of operating gain (loss) to net cash used by operating activities:		
Operating gain (loss)	(50,107)	143
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	2,982	-
Depreciation	631	-
Decrease (increase) in inventories	(707)	-
Decrease (increase) in accounts receivable	(67)	-
(Decrease) increase in accounts payable	-	169
(Decrease) increase in salaries and benefits payable	420	-
(Decrease) increase in deferred revenue	34	-
Net cash used in operating activities	<u>(46,814)</u>	<u>312</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2007, the District received \$2,982 of federal commodities.

LUVERNE COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2007

	<u>Agency</u>
	\$
Assets	
Cash and pooled investments	946
Liabilities	
Other payables	<u>946</u>
Net Assets	<u><u>-</u></u>

LUVERNE COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2007

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 not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which 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 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 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 non-operating 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 non-operating 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 financial statements:

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, 2005 assessed property valuations; is for the tax accrual period July 1, 2006, through June 30, 2007, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

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 not available for appropriation or 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 are 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, 2007 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, 2007 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
		\$
General Fund	Nonmajor governmental: Management Fund	10,765

4. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer To	Transfer From	Amount \$
Enterprise: School Nutrition Fund	General Fund	32,160

The General Fund transferred \$32,160 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, 2007, is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments \$	Accrued Interest Receivable \$	Warrants Payable \$	Accrued Interest Payable \$
2006-07B	01/26/07	01/25/08	175,551	3,962	176,000	3,368
2007-08A	06/27/07	06/27/08	<u>153,757</u>	<u>47</u>	<u>154,000</u>	<u>38</u>
			<u>329,308</u>	<u>4,009</u>	<u>330,000</u>	<u>3,406</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2007, 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 %
2006-07B	4.250	5.315
2007-08A	4.500	5.455

6. Capital Assets

Capital assets activity for the year ended June 30, 2007 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	9,000	-	-	9,000
Capital assets being depreciated:				
Buildings	510,269	22,026	10,433	521,862
Improvements other than buildings	37,621	-	-	37,621
Furniture and equipment	409,853	1,255	19,520	391,588
Total capital assets being deprec.	<u>957,743</u>	<u>23,281</u>	<u>29,953</u>	<u>951,071</u>
Less accumulated depreciation for:				
Buildings	439,099	6,851	10,865	435,085
Improvements other than buildings	21,528	2,074	-285	23,387
Furniture and equipment	344,688	20,423	23,283	341,828
Total accumulated depreciation	<u>805,315</u>	<u>29,348</u>	<u>33,863</u>	<u>800,800</u>
Total capital assets being depreciated, net	<u>152,428</u>	<u>-6,067</u>	<u>-3,910</u>	<u>150,271</u>
Governmental activities capital assets, net	<u>161,428</u>	<u>-6,067</u>	<u>-3,910</u>	<u>159,271</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	29,213	-	-	29,213
Less accumulated depreciation	<u>27,324</u>	<u>631</u>	-	<u>27,955</u>
Business type activities capital assets, net	<u>1,889</u>	<u>-631</u>	-	<u>1,258</u>
Depreciation expense was charged to the following functions:				\$
Governmental activities:				
Instruction:				
Regular				354
Support Services:				
Administration services				222
Operation and maintenance of plant services				1,343
Transportation				8,838
				<u>10,757</u>
Unallocated depreciation				<u>18,591</u>
Total depreciation expense – governmental activities				<u>29,348</u>
Business type activities:				
Food services				<u>631</u>

7. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2007, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Termination Benefits	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, 2007. 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, 2007, the District has no obligations to participants. The early retirement benefits paid during the year ended June 30, 2007 were \$10,765.

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, 2007, 2006 and 2005. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$32,145, \$34,272 and \$32,353 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 \$36,077 for the year ended June 30, 2007 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</u> <u>June 30,</u>	<u>Lease Payment</u> \$
2008	8,784
2009	8,784
2010	5,124

The District paid \$8,784 of rent in fiscal year 2007.

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, 2007

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	948,685	13,234	961,919	886,199	886,199	75,720
State sources	293,275	429	293,704	315,843	315,843	(22,139)
Federal sources	55,897	18,969	74,866	96,000	96,000	(21,134)
Total revenues	<u>1,297,857</u>	<u>32,632</u>	<u>1,330,489</u>	<u>1,298,042</u>	<u>1,298,042</u>	<u>32,447</u>
Expenditures:						
Instruction	741,889	-	741,889	782,358	782,358	40,469
Support services	406,708	-	406,708	425,831	425,831	19,123
Non-instructional programs	-	63,341	63,341	67,000	67,000	3,659
Other expenditures	54,391	-	54,391	77,883	77,883	23,492
Total expenditures	<u>1,202,988</u>	<u>63,341</u>	<u>1,266,329</u>	<u>1,353,072</u>	<u>1,353,072</u>	<u>86,743</u>
Excess (deficiency) of revenues over (under) expenditures	94,869	(30,709)	64,160	(55,030)	(55,030)	119,190
Other financing sources (uses) net	<u>(32,160)</u>	<u>32,160</u>	<u>-</u>	<u>10,000</u>	<u>10,000</u>	<u>(10,000)</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	62,709	1,451	64,160	(45,030)	(45,030)	109,190
Balance beginning of year	<u>245,080</u>	<u>3,804</u>	<u>248,884</u>	<u>170,387</u>	<u>170,387</u>	<u>78,497</u>
Balance end of year	<u><u>307,789</u></u>	<u><u>5,255</u></u>	<u><u>313,044</u></u>	<u><u>125,357</u></u>	<u><u>125,357</u></u>	<u><u>187,687</u></u>

LUVERNE COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2007

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 function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. 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, 2007

Assets	Special Revenue Funds			Capital Projects Fund	Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	Local Option Sales Tax	
	\$	\$	\$	\$	\$
Cash and pooled investments	43,985	6,225	21,817	120,597	192,624
Receivables:					
Property tax:					
Delinquent	608	-	287	-	895
Succeeding year	40,000	-	18,626	-	58,626
Due from other governments	-	-	-	11,682	11,682
Total assets	84,593	6,225	40,730	132,279	263,827
Liabilities & Fund Balances					
Liabilities:					
Interfund payables	10,765	-	-	-	10,765
Deferred revenue:					
Succeeding year property tax	40,000	-	18,626	-	58,626
Total liabilities	<u>50,765</u>	<u>-</u>	<u>18,626</u>	<u>-</u>	<u>69,391</u>
Fund balances:					
Unreserved reported in:					
Special Revenue Funds	33,828	6,225	22,104	-	62,157
Capital Projects Funds	-	-	-	132,279	132,279
Total fund balances	<u>33,828</u>	<u>6,225</u>	<u>22,104</u>	<u>132,279</u>	<u>194,436</u>
Total liabilities and fund balances	84,593	6,225	40,730	132,279	263,827

LUVESNE COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	Special Revenue Funds			Capital Projects Fund	Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	Local Option Sales Tax	
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	40,102	-	18,931	66,171	125,204
Other	355	46,511	244	1,640	48,750
Total revenues	<u>40,457</u>	<u>46,511</u>	<u>19,175</u>	<u>67,811</u>	<u>173,954</u>
Expenditures:					
Current:					
Instruction:					
Regular	13,485	-	-	-	13,485
Other	-	48,851	-	-	48,851
Support services:					
Administration	1,146	-	-	12,060	13,206
Operation and maintenance of plant	10,745	-	7,512	-	18,257
Transportation	5,042	-	-	-	5,042
Other expenditures:					
Facilities acquisition	-	-	18,314	-	18,314
Total expenditures	<u>30,418</u>	<u>48,851</u>	<u>25,826</u>	<u>12,060</u>	<u>117,155</u>
Excess (deficiency) of revenues over (under) expenditures	10,039	(2,340)	(6,651)	55,751	56,799
Fund balances beginning of year	<u>23,789</u>	<u>8,565</u>	<u>28,755</u>	<u>76,528</u>	<u>137,637</u>
Fund balances end of year	<u><u>33,828</u></u>	<u><u>6,225</u></u>	<u><u>22,104</u></u>	<u><u>132,279</u></u>	<u><u>194,436</u></u>

LIVERNE COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2007

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
	\$	\$	\$	\$	\$
Juice account	935	1,183	1,484	-	634
Athletics	2,093	3,449	3,989	-	1,553
Vocal music	279	187	147	-	319
Instrumental music	307	289	475	-	121
OM	1,351	29,691	31,042	-	-
Class of 2006	71	-	-	(71)	-
8th grade	-	224	225	171	170
9th grade	1,010	-	-	-	1,010
7th grade	100	84	-	(43)	141
6th grade	57	68	-	(57)	68
Student council	939	2,402	2,726	-	615
Interest	1,404	195	24	-	1,575
LEA student incentive	19	8,739	8,739	-	19
Totals	<u>8,565</u>	<u>46,511</u>	<u>48,851</u>	<u>-</u>	<u>6,225</u>

LIVERNE COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund

Year ended June 30, 2007

	Faculty Pop	RIF	Total
	\$	\$	\$
Balance beginning of year	923	98	1,021
Additions	-	-	-
Payments	73	-	73
Balance end of year	<u>850</u>	<u>98</u>	<u>948</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			
	2007	2006	2005	2004
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	786,301	693,208	659,244	761,027
Tuition	92,724	94,148	100,175	71,946
Other	69,660	65,372	37,646	44,015
State sources	293,275	379,018	334,521	226,221
Federal sources	55,897	51,859	74,642	104,779
Total revenues	<u>1,297,857</u>	<u>1,283,605</u>	<u>1,206,228</u>	<u>1,207,988</u>
Expenditures:				
Instruction:				
Regular	412,412	522,704	483,556	510,032
Special	193,214	145,468	161,298	114,884
Other	136,263	79,284	126,573	73,882
Support services:				
Student	73	190	82	19,748
Instructional staff	5,115	5,108	4,474	7,358
Administration	188,917	191,452	170,973	158,499
Operation and maintenance of plant	131,698	103,980	110,660	129,903
Transportation	80,905	65,403	60,513	53,798
Other expenditures:				
Facilities acquisition	18,314	53,444	13,069	18,301
AEA flowthrough	36,077	35,904	34,544	31,121
Total expenditures	<u>1,202,988</u>	<u>1,202,937</u>	<u>1,165,742</u>	<u>1,117,526</u>

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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, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 29, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of LuVerne Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of LuVerne Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects LuVerne Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of LuVerne Community School District's financial statements that is more than inconsequential will not be prevented or detected by LuVerne Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by LuVerne Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items 07-I-A and 07-I-B are material weaknesses.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 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.

LuVerne Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the District's responses, we did not audit LuVerne Community School District's responses and, accordingly, we express no opinion on them.

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

March 29, 2008

LUVERNE COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2007

Part I: Findings Related to the Financial Statements:

Significant deficiencies:

07-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, preparing and posting general journal entries, 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.

07-I-B Financial Statement Preparation: Financial statement preparation is the responsibility of the District. At the present time District personnel do not have the skills necessary to be able to write the District's financial statements and the related note disclosures. This is not an unusual situation for small governmental entities.

Recommendation: District personnel should attend any governmental accounting and reporting training sessions that may be offered by the Iowa Department of Education, State Auditor's Office or Iowa Association of School Business Officials. The school business office should also have governmental accounting and reporting reference materials.

District Response: As a school we certainly understand the need for continuing education classes for all of our staff. However, we have a limited budget and must continually prioritize needs. At this point in time it is not cost effective to train our staff to the level necessary that would enable them to write the financial statements, nor is it feasible to hire additional employees that already possess the skills.

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

LUVERNE COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2007

Part II: Other Findings Related to Statutory Reporting:

07-II-A Certified Budget: Expenditures for the year ended June 30, 2007, did not exceed the amounts budgeted.

07-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.

07-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.

07-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	405

Recommendation: Business with district officials is not a conflict of interest if bids are taken or total amount is less than \$2,500.

District Response: We are aware of this rule.

Conclusion: Response accepted.

07-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.

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

07-II-G Certified Enrollment: The number of students reported to the Iowa Department of Education on Line 1 of the Certified Enrollment Certification Form for September 2006, 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.

LUVERNE COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2007

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

- 07-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.
- 07-II-I Certified Annual Report (CAR): The Certified Annual Report was certified timely to the Iowa Department of Education.