

CENTRAL LYON COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

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CENTRAL LYON COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Board of Education (Before September 2003 Election)		
Bruce Vogel	President	2003
Thomas Wall	Vice President	2003
Judy Gacke	Board Member	2004
Marilyn Mamenga	Board Member	2005
Gail Van Berkum	Board Member	2005
Board of Education (After September 2003 Election)		
Bruce Vogel	President	2006
Judy Gacke	Vice President	2004
Chet DeJong	Board Member	2006
Marilyn Mamenga	Board Member	2005
Gail Van Berkum	Board Member	2005
School Officials		
Bill Hutchinson	Superintendent	Jul-04
Robin Kilgore	District Secretary/Treasurer and Business Manager	Indefinite
Randy Waagmeester	Attorney	Indefinite

WELLS HEARD HALSE & CO.
Certified Public Accountants
710 SOUTH UNION STREET, P.O. BOX 108
ROCK RAPIDS, IOWA 51246

Independent Auditors' Report

To the Board of Education of the
Central Lyon 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 Central Lyon Community School District, Rock Rapids, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements 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, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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 Central Lyon Community School District at June 30, 2004, 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.

As described in Note 12 to the financial statements, during the year ended June 30, 2004, Central Lyon Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated October 14, 2004 on our consideration of Central Lyon Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 16 and 44 through 47 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 Central Lyon 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, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, 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.

Wells Heard Halse & Co.

October 14, 2004

CENTRAL LYON COMMUNITY SCHOOL DISTRICT

Management Discussion and Analysis

This section of the Central Lyon Community School District's Comprehensive Annual Financial Report represents its discussion and analysis of the District's financial performance during the fiscal year ending June 30, 2004. Please read it in conjunction with the transmittal letter at the front of this report and the district's financial statements, which immediately follow this section.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

Financial Highlights

General Fund revenues increased from \$4,866,365 in fiscal year 2003 to \$4,976,739 in fiscal year 2004, while General Fund expenditures increased from \$4,732,961 in fiscal year 2003 to \$4,938,754 in fiscal 2004. The District's General Fund balance increased from \$358,316 in fiscal 2003 to \$367,600 plus a receivable of \$61,274 for a total fund balance of \$428,874 in fiscal 2004. Spending Authority has been carefully monitored in the last six years and this must be continued for the future financial health of the district.

The increase in General Fund revenues was attributable to an increase in property tax and state and federal revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and grant expenditures.

A decline in interest rates resulted in interest earnings in the General Fund alone to decrease from \$ 25,440 in fiscal year 2003 to \$24,406 in fiscal year 2004.

In an effort to mitigate the effects of declining enrollment, a reduction of 2.75 full time equivalent teaching staff was implemented for 2004-2005. Enrollment declines and increased numbers of open enrolled out pupils continue to plague the district and create financial burdens.

The State of Iowa imposed a 2.5% reduction in State Foundation Aid in October 2003, which reduced state revenues by \$61,476 in the General Fund. Governor Vilsack granted partial restoration in the amount of \$6,678.38 on June 30, 2004 resulting in a net reduction of 2.25 percent.

A successful election was held August 12, 2003 to adopt the local option sales and services tax (SILO) which became effective January 1, 2004. Future revenues collected from SILO will reduce the annual debt service levy for taxpayers residing in the district.

In July 2003, the district refunded two former general obligation bond issues and was able to garner a favorable rate of interest and save the taxpayers \$302,956.79 over the life of the debt obligation.

In an effort to address safety hazards, insurance issues, and other concerns at the vacant 1923 former high school structure, the District sold \$900,000 in capital loan notes to help finance

the Central Lyon Activities Center Project. An Iowa Demonstration Construction Grant, Vision Iowa Grant, and numerous other donations assisted with the financing of the project. The project involved the demolition and reconstruction of the activities center that was completed in June 2004.

Salary negotiations with the teacher's union provided some adjustment in the manner that the district-paid benefit stipend is administered. A two-tiered benefit stipend amount was bargained and those individuals who participate in the health insurance plan will receive a greater amount than those who do not participate. The purpose of this type of an agreement is to encourage greater participation in the district health insurance plan and help prevent large future premium increases. The agreement was made for a one-year term.

Overview of the Financial Statements

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

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

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

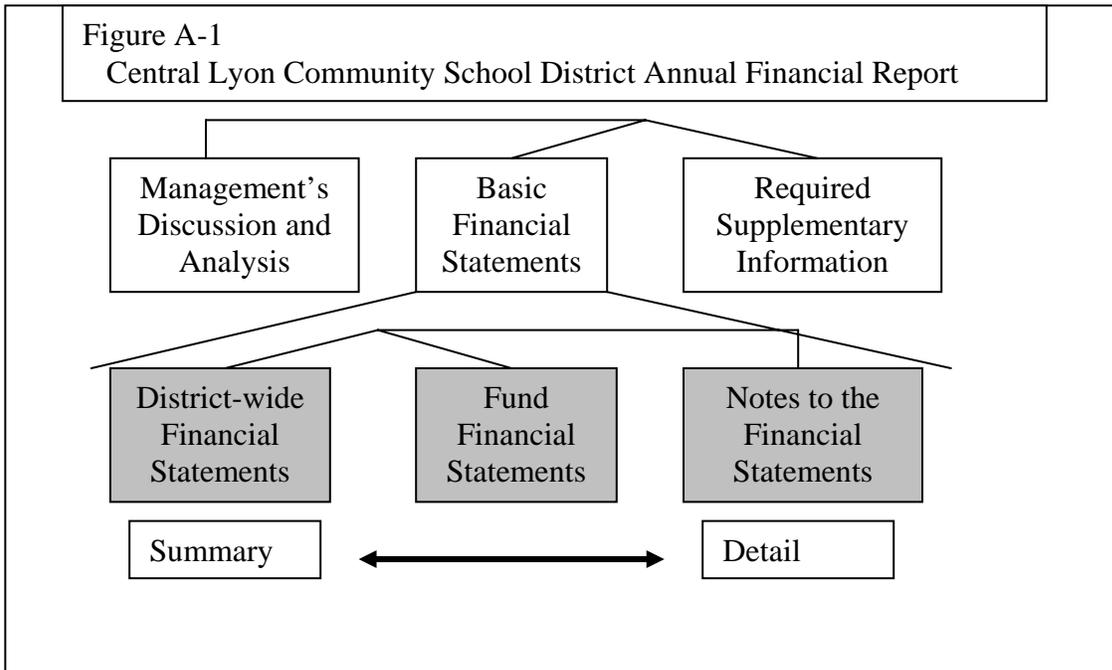


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents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

Figure A-2: Major Features of the District Wide and Fund Financial Statements				
	District-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services is included here	
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 cash flows 	
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the district as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on 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 repay its long-term debts, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

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

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 balance

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, is the same as its business-type activities, but provides more detail and additional information, such as cash flows. The District currently has two Enterprise Funds, the School Nutrition Fund and FFA Property Fund.

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

Government-wide Financial Analysis

Figure A-3 below provides a summary of the District's net assets at June 30, 2004 compared to June 30, 2003.

	Governmental Activities		Business type Activities		Total Activities		Total Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-2004
Current and other assets	\$ 4,855	\$ 5,221	\$ 9	\$ 17	\$ 4,864	\$ 5,238	(7.14%)
Capital assets	10,254	8,719	135	139	10,389	8,858	17.28%
Total assets	15,109	13,940	144	156	15,253	14,096	10.14%
Long-term Liabilities	4,439	3,725	-	-	4,439	3,725	19.17%
Other Liabilities	3,911	3,549	4		3,915	3,549	10.31%
Total Liabilities	8,350	7,274	4	-	8,354	7,274	29.48%
Net Assets							
Invested in capital assets, net of related debt	5,871	4,994	144	139	6,015	5,133	17.18%
Restricted	566	414			566	414	36.71%
Unrestricted	321	358	(5)	16	316	374	(15.51%)
Total net assets	\$ 6,758	\$ 5,766	\$ 139	\$ 155	\$ 6,897	\$ 5,921	38.39%

The District's combined net assets increased by over 38 percent or approximately \$976,000 over the prior year. The largest portion of the District's net assets is invested in capital assets 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 \$152,000 or 36.7% over the prior year. The increase was primarily a result of receipts from the local option sales and services taxes and decrease expenditures in the Physical Plant and Equipment Levy 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 the legal requirements – decreased approximately \$58,000 or 15.5 percent. This reduction in unrestricted net assets was a result of using carryover fund balance to meet the early retirement benefits and school nutrition financial obligations during the year.

Figure A-4 shows the changes in net assets for the year ended June 30, 2004.

Figure A-4 Changes in Net Assets (Expressed in Thousands)			
	Governmental	Business-type Activities	Total School District
Revenue			
Program revenue:			
Charges for service	\$ 559	\$ 149	\$ 708
Operating grants, contributions and restricted interest	647	87	734
Capital grants, contributions and restricted interest	1,015		1,015
General revenues:			
Property tax	2,704		2,704
Local option sales and service tax	71		71
Unrestricted state grants	2,172	4	2,176
Other	29	-	29
Total revenues	<u>7,197</u>	<u>240</u>	<u>7,437</u>
Program expenses:			
Governmental activities:			
Instruction	4,100		4,100
Support service	1,484		1,484
Non-instructional programs	6	255	261
Other expenses	596		596
Total expenses	<u>6,186</u>	<u>255</u>	<u>6,441</u>
Change in net assets	<u>\$ 1,011</u>	<u>\$ (15)</u>	<u>\$ 996</u>

Property tax and unrestricted state grants account for 66.5 percent of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 86.7 percent of the total expenses.

Governmental Activities

Revenues for governmental activities were \$7,197,117 and expenses were \$6,185,478. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5		
Total and Net Cost of Governmental Activities (Expressed in Thousands)		
	Total Cost of Services	Net Cost of Services
Instruction	\$ 4,100	\$ 2,297
Support services	1,484	1,449
Non-instructional programs	6	6
Other expenses	596	(626)
Totals	<u>\$ 6,186</u>	<u>\$ 3,126</u>

- The cost financed by users of the District's programs was \$521,605.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,317,754.
- The net cost of governmental activities was financed with \$2,703,638 in property and other taxes and \$2,172,109 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$239,940 and expenses were \$255,496. The District's business type activities include the School Nutrition Fund and FFA property. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted, Central Lyon 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 \$3,882,102, well above last year's ending fund balances of \$772,532. However, the primary reason for the increase in combined fund balances in fiscal 2004 is due to approximately \$3 million of refunded general obligation bond proceeds received in fiscal 2004 that will not pay off bonds until 2006.

Governmental Fund Highlights

- The General Fund balance increased from \$358,316 to \$367,600, due in part to the carefully monitored spending during the last year.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$24,890 in fiscal 2003 to \$54,823 in fiscal 2004. While revenues remained approximately the same, the District substantially reduced spending from the PPEL Fund in order to improve the financial condition of the fund.

- The Capital Projects Fund balance increased due to the sale of \$900,000 in general obligation and revenue bonds during fiscal 2004. The District ended fiscal 2003 with a deficit of \$48,081 as a result of preliminary project costs. Fiscal 2004 ended with a balance of \$10,094.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$154,235 at June 30, 2003 to \$139,182 at June 30, 2004, representing decrease of approximately 10%. For fiscal 2004, the food costs increased resulting in the decrease in net assets.

BUDGETARY HIGHLIGHTS

The District's receipts were \$335,497 more than budgeted receipts, with a variance of 5%. The most significant variance resulted from the District receiving a federal grant for the activities center.

Total expenditures were more 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 normally should exceed the actual expenditures for the year.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$10.4 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 increase of 17.3% 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 \$297,271.

The original cost of the District's capital assets was \$14.4 million. Governmental funds account for \$14.2 million, with the remainder of \$0.2 million accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the Buildings category of \$1,896,000 for the activity center. The District's construction project was complete in June 2004. This significant increase resulted from grants of \$623,711 in Iowa Demonstration Grant, \$250,000 donation from the City of Rock Rapids and general obligation capital loan note of \$900,000.

Figure A-6
Capital Assets, net of Depreciation
(expressed in thousands)

	Governmental		Business type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-2004
Land	\$ 51	\$ 51			\$ 51	\$ 51	0.00%
Construction in progress	-	110			-	110	(100.00%)
Buildings	9,129	7,445			9,129	7,445	22.62%
Improvements other than buildings	259	283			259	283	(8.48%)
Furniture and Equipment	815	830	135	139	950	969	(1.96%)
Totals	\$ 10,254	\$ 8,719	\$ 135	\$ 139	\$ 10,389	\$ 8,858	17.28%

Long-Term Debt

At June 30, 2004, the District had \$4,495,577 in general obligation, revenue and other long-term debt outstanding. This represents an increase of approximately 21% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

In July 2003, the District issued \$3,050,000 in refunding bonds to capitalize on lower interest rates refunded two general obligation bond issues and was able to save over \$302,000. Also, a \$900,000 general obligation capital loan note for the activities center with a variable interest rate ranging from 1.1 to 3.85% to be paid over the next ten years. The future repayment will be the voter-approved Physical Plant and Equipment Levy. The District had total outstanding bonded indebtedness at June 30, 2004 of \$3,530,000.

Figure A-7
Outstanding Long-Term Obligations
(Expressed in Thousands)

	Total		Total
	School District		Change
	June 30,		June 30,
	2004	2003	2003-2004
General Obligation Bonds	\$ 4,355	\$ 3,615	20.47%
Notes Payable	28	54	(48.15%)
Early Retirement	105	56	87.50%
Compensated Absences	8	-	100.00%
	\$ 4,496	\$ 3,725	20.70%

Economic Factors Bearing on the District's Future

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

- The financial history of the State of Iowa's support for public K-12 schools has translated into restricted levels of state aid funding for education at the local level. Future needs of the district will continue to grow and it is hoped that allowable growth would match the needs of public K-12 education.

- District enrollment declined in fiscal year 2003-2004 by 10 students to a budget enrollment of 693. Under Iowa's school finance formula, funding is highly dependent upon enrollment. During the 2003-2004 school year, Central Lyon students who open enroll out to other districts increased by 9 students, from 65 to 74. Because Central Lyon is the resident district, the student is counted for state funding, but then funding is paid to the receiving district. Future enrollment stability is a critical element in maintaining a sound financial foundation.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jackie Wells, Board Secretary/Business Manager at the Central Lyon Community School District, 1105 S. Story St. Rock Rapids, IA 51246 or 712-472-2664.

BASIC FINANCIAL STATEMENTS

Central Lyon Community School District

Central Lyon Community School District
Statement of Net Assets
June 30, 2004

Exhibit A

	Governmental Activities	Business Type Activities	Totals
Assets			
Cash and cash Equivalents:			
ISCAP	\$ 1,228,181	\$ -	\$ 1,228,181
Other	1,482,579	3,249	1,485,828
Receivables:			
Property tax:			
Delinquent	35,070	-	35,070
Succeeding year	1,940,027	-	1,940,027
Local option sales taxes	17,067	-	17,067
Accounts	55,354	-	55,354
Accrued interest:			
ISCAP	1,654	-	1,654
Due from other governments	94,814	-	94,814
Inventories	-	5,483	5,483
Capital assets, net of accumulated depreciation	10,254,013	134,627	10,388,640
Total assets	15,108,759	143,359	15,252,118
Liabilities			
Accounts payable	230,127	526	230,653
Salaries and benefits payable	473,468	(3)	473,465
Accrued interest payable	24,449	-	24,449
Deferred revenue - succeeding year			
Property tax	1,940,027	-	1,940,027
Other	-	3,249	3,249
ISCAP warrants payable	1,234,000	-	1,234,000
ISCAP accrued interest payable	1,053	-	1,053
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	315,000	-	315,000
Note payable	28,000	-	28,000
Compensated absences	7,969	-	7,969
Portion due after one year:			
General obligation bonds payable	4,040,000	-	4,040,000
Early retirement	56,499	-	56,499
Total liabilities	\$ 8,350,592	\$ 3,772	\$ 8,354,364
Net assets			
Invested in capital assets, net of related debt	5,871,013	144,221	6,015,234
Restricted for:			
Physical plant and equipment levy	54,823	-	54,823
Other special revenue purposes	127,269	-	127,269
Capital projects	10,094	-	10,094
Debt service	374,266	-	374,266
Unrestricted	320,702	(4,634)	316,068
Total net assets	\$ 6,758,167	\$ 139,587	\$ 6,897,754

See notes to financial statements.

Central Lyon Community School District
Statement of Activities
June 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	\$ 2,550,514	\$ 44,492	\$ 207,180	\$ 2,276
Special instruction	794,841	23,223	164,731	-
Other instruction	754,649	451,806	30,349	-
	<u>4,100,004</u>	<u>519,521</u>	<u>402,260</u>	<u>2,276</u>
Support services:				
Student services	132,178	-	-	-
Instructional staff services	201,338	-	-	-
Administration Services	530,368	-	3,810	-
Operation and maintenance of plant services	456,703	2,084	-	-
Transportation services	163,325	-	28,788	-
	<u>1,483,912</u>	<u>2,084</u>	<u>32,598</u>	<u>-</u>
Non-instructional programs	<u>5,524</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	16,025	-	-	899,801
Long-term debt interest	367,502	-	109,918	-
AEA flow through	212,511	-	212,511	-
Depreciation (unallocated)*	-	-	-	-
	<u>596,038</u>	<u>-</u>	<u>322,429</u>	<u>899,801</u>
Total governmental activities	<u>6,185,478</u>	<u>521,605</u>	<u>757,287</u>	<u>902,077</u>
Business type activities:				
Non-instructional programs:				
Food service operations	255,496	149,300	90,576	-
Total	<u>\$ 6,440,974</u>	<u>\$ 670,905</u>	<u>\$ 847,863</u>	<u>\$ 902,077</u>

General Revenues:

Property tax levied for:
General purposes
Debt service
Capital outlay
Local option sales and services tax
Unrestricted state grants
Unrestricted investment earnings
Other
Total general revenues
Change in net assets
Net assets beginning of year, as restated
Net assets end of year

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

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
\$ (2,296,566)	\$ -	\$ (2,296,566)
(606,887)	-	(606,887)
(272,494)	-	(272,494)
(3,175,947)	-	(3,175,947)
(132,178)	-	(132,178)
(201,338)	-	(201,338)
(526,558)	-	(526,558)
(454,619)	-	(454,619)
(134,537)	-	(134,537)
(1,449,230)	-	(1,449,230)
(5,524)	-	(5,524)
883,776	-	883,776
(257,584)	-	(257,584)
-	-	-
-	-	-
626,192	-	626,192
(4,004,509)	-	(4,004,509)
-	(15,620)	(15,620)
(4,004,509)	(15,620)	(4,020,129)
2,115,995		2,115,995
415,963		415,963
171,680		171,680
70,796		70,796
2,172,111		2,172,111
28,943	64	29,007
40,660		40,660
5,016,148	64	5,016,212
1,011,639	(15,556)	996,083
5,746,528	155,143	5,901,671
\$ 6,758,167	\$ 139,587	\$ 6,897,754

Central Lyon Community School District
Balance Sheet – Governmental Funds
June 30, 2004

Exhibit C

Assets	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
Cash and pooled investments:					
ISCAP	\$ 1,228,181	\$ -	\$ -	\$ -	\$ 1,228,181
Other	800,713	3,307,806	51,308	237,752	4,397,579
Receivables:					
Property tax:					
Delinquent	25,199	5,909	-	3,962	35,070
Succeeding year	1,671,060	-	-	268,967	1,940,027
Local option sales taxes	-	-	17,067	-	17,067
Accounts	55,354	-	-	-	55,354
Accrued interest:					
ISCAP	1,654	-	-	-	1,654
Due from other funds	61,274	-	-	-	61,274
Due from other governments	-	-	94,814	-	94,814
Total assets	<u>3,843,435</u>	<u>3,313,715</u>	<u>163,189</u>	<u>510,681</u>	<u>7,831,020</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	136,394	-	91,821	1,912	230,127
Salaries and benefits payable	433,328	-	-	48,109	481,437
Due to other funds	-	-	61,274	-	61,274
ISCAP warrants payable	1,234,000	-	-	-	1,234,000
ISCAP accrued interest payable	1,053	-	-	-	1,053
Deferred revenue:					
Succeeding year property tax	1,671,060	-	-	268,967	1,940,027
Total liabilities	<u>3,475,835</u>	<u>-</u>	<u>153,095</u>	<u>318,988</u>	<u>3,947,918</u>
Fund balances:					
Reserved for debt service	-	3,313,715	-	-	3,313,715
Unreserved	367,600	-	10,094	191,693	569,387
Total fund balances	<u>367,600</u>	<u>3,313,715</u>	<u>10,094</u>	<u>191,693</u>	<u>3,883,102</u>
Total liabilities and fund balances	<u>\$ 3,843,435</u>	<u>\$ 3,313,715</u>	<u>\$ 163,189</u>	<u>\$ 510,681</u>	<u>\$ 7,831,020</u>

See notes to financial statements.

Central Lyon Community School District
Reconciliation of the Balance Sheet – Governmental
Funds to the Statement of Net Assets
June 30, 2004

Exhibit D

Total fund balances of governmental funds (page 22)	\$ 3,883,102
Amounts reported for governmental activities in the Statements of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	10,254,013
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	(2,915,000)
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(24,449)
Long-term liabilities, including bonds and notes payable and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(4,439,499)</u>
Net assets of governmental activities (page 19)	<u><u>\$ 6,758,167</u></u>

See notes to financial statements.

Central Lyon Community School District
Statement of Revenues, Expenditures and
Changes in Fund Balances – Governmental Funds
June 30, 2004

Exhibit E

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
Revenues:					
Local sources:					
Local tax	\$ 2,010,018	\$ 415,963	\$ 70,796	\$ 277,657	\$ 2,774,434
Tuition	35,692	-	-	-	35,692
Other	109,745	109,918	18,731	443,947	682,341
Intermediate sources	212,511	-	-	-	212,511
State sources	2,392,328	281	250,000	189	2,642,798
Federal sources	216,445	-	623,711	9,185	849,341
Total Revenues	<u>4,976,739</u>	<u>526,162</u>	<u>963,238</u>	<u>730,978</u>	<u>7,197,117</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	2,295,985	-	-	-	2,295,985
Special instruction	794,841	-	-	-	794,841
Other instruction	320,436	-	-	434,213	754,649
	<u>3,411,262</u>	<u>-</u>	<u>-</u>	<u>434,213</u>	<u>3,845,475</u>
Support services:					
Student services	132,178	-	-	-	132,178
Instructional staff services	187,167	-	-	-	187,167
Administration Services	526,446	1,250	2,421	251	530,368
Operation and maintenance of plant services	320,644	-	-	126,817	447,461
Transportation services	143,022	-	-	-	143,022
	<u>1,309,457</u>	<u>1,250</u>	<u>2,421</u>	<u>127,068</u>	<u>1,440,196</u>
Non-instructional programs	5,524	-	-	-	5,524
Other expenditures:					
Facilities acquisition	-	-	1,795,791	52,497	1,848,288
Long-term debt interest	-	363,553	-	-	363,553
AEA flow through	212,511	-	-	-	212,511
	<u>212,511</u>	<u>363,553</u>	<u>1,795,791</u>	<u>52,497</u>	<u>2,424,352</u>
Total expenditures	<u>4,938,754</u>	<u>364,803</u>	<u>1,798,212</u>	<u>613,778</u>	<u>7,715,547</u>
Excess (deficiency) of revenues over (under) expenditures	<u>37,985</u>	<u>161,359</u>	<u>(834,974)</u>	<u>117,200</u>	<u>(518,430)</u>
Other financing sources (uses):					
Operating transfers in	-	120,269	893,149	-	1,013,418
Operating transfers out	(28,701)	-	-	(984,717)	(1,013,418)
General obligation bonds	-	(321,000)	-	900,000	579,000
Revenue bonds issued	-	3,050,000	-	-	3,050,000
Total other financing sources (uses)	<u>(28,701)</u>	<u>2,849,269</u>	<u>893,149</u>	<u>(84,717)</u>	<u>3,629,000</u>
Net Change in fund balances	9,284	3,010,628	58,175	32,483	3,110,570
Fund balances beginning of year, as restated (note 12)	<u>358,316</u>	<u>303,087</u>	<u>(48,081)</u>	<u>159,210</u>	<u>772,532</u>
Fund balances end of year	<u>\$ 367,600</u>	<u>\$3,313,715</u>	<u>\$ 10,094</u>	<u>\$ 191,693</u>	<u>\$ 3,883,102</u>

See notes to financial statements.

Central Lyon Community School District
 Reconciliation of the Statement of Revenues, Expenditures and Changes in
 Fund Balances – Governmental Funds to the Statement of Activities
 June 30, 2004

Exhibit F

Net change in fund balance - total governmental funds (page 24)	\$	3,110,570
Amounts reported for governmental activities in the Statement of Activities are different because:		
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 current year, as follows:		
Expenditures for capital assets	1,832,263	
Depreciation expense	<u>(297,270)</u>	1,534,993
Certain delinquent property tax not collected for several months after year end is not considered available revenue and is deferred in the governmental funds.		
		-
Proceeds from issuing long-term liabilities provided current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:		
Issued	(3,950,000)	
Repaid	<u>321,000</u>	(3,629,000)
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		
		(3,950)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds, as follows:		
Early retirement	(974)	
Compensated absences	<u> </u>	<u>(974)</u>
Change in net assets of governmental activities (page 21)	\$	<u><u>1,011,639</u></u>

See notes to financial statements.

Central Lyon Community School District
Balance Sheet – Proprietary Funds
June 30, 2004

Exhibit G

	School Nutrition	FFA Property	Enterprise Totals
Assets			
Cash and cash equivalents	\$ 2,318	\$ 931	\$ 3,249
Accounts receivable	-	-	-
Inventories	5,483	-	5,483
Capital assets, net of accumulated depreciation	134,627	-	134,627
Total assets	142,428	931	143,359
Liabilities			
Accounts payable	-	526	526
Deferred Revenues	3,249	-	3,249
Salaries and benefits payable	(3)	-	(3)
Total Liabilities	3,246	526	3,772
Net Assets			
Invested in capital assets, net of related debt	144,221	-	144,221
Unrestricted	(5,039)	405	(4,634)
Total net assets	\$ 139,182	\$ 405	\$ 139,587

See notes to financial statements.

Central Lyon Community School District
Statement of Revenues, Expenditures and Changes in
Fund Balances – Proprietary Funds
June 30, 2004

Exhibit H

	School Nutrition	FFA Property	Enterprise Totals
Operating revenues:			
Local sources:			
Charges for service	\$ 140,815	\$ 8,485	\$ 149,300
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries	76,337	-	76,337
Benefits	22,443	-	22,443
Purchased services	5,286	155	5,441
Supplies	138,331	8,833	147,164
Depreciation	4,111	-	4,111
Total operating expenses	246,508	8,988	255,496
Operating loss	(105,693)	(503)	(106,196)
Non-operating revenues:			
State sources	3,713	-	3,713
Federal sources	86,863	-	86,863
Interest Income	64	-	64
Total non-operating revenues	90,640	-	90,640
Change in net assets	(15,053)	(503)	(15,556)
Net assets beginning of year	154,235	908	155,143
Net assets end of year	\$ 139,182	\$ 405	\$ 139,587

See notes to financial statements.

Central Lyon Community School District
Statement of Cash Flows – Proprietary Funds
June 30, 2004

Exhibit I

	School Nutrition	FFA Property	Enterprise Totals
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 144,092	\$ -	\$ 144,092
Cash received from miscellaneous services	(28)	8,485	8,457
Cash paid to employees for services	(99,652)	-	(99,652)
Cash paid to supplies for goods or services	(124,449)	(8,505)	(132,954)
Net cash used by operating activities	(80,037)	(20)	(80,057)
Cash flows from non-capital financing activities:			
State grants received	3,714	-	3,714
Federal grants received	66,886	-	66,886
Net cash provided by non-capital financing activities	70,600	-	70,600
Cash flows from capital and related financing activities:			
Sale of capital assets	-	-	-
Acquisition of capital assets	-	-	-
Net cash used by capital and related financing activities	-	-	-
Cash flows from investing activities:			
Interest on Investments	64	-	64
Net decrease in cash and cash equivalents	(9,373)	(20)	(9,393)
Cash and cash equivalents beginning of year	11,691	951	12,642
Cash and cash equivalents end of year	\$ 2,318	\$ 931	\$ 3,249
Reconciliation of operating loss to net cash used by operating activities			
Operating Loss	\$ (105,693)	\$ (503)	\$ (106,196)
Adjustments to reconcile operating loss to net cash used by operating activities			
Commodities used	18,848	-	18,848
Depreciation	4,111	-	4,111
(Increase) Decrease in inventories	320	-	320
Increase (Decrease) in accounts payable	-	483	483
Increase in deferred revenue	3,249	-	3,249
(Decrease) in salaries and benefits payable	(872)	-	(872)
Net cash used by operating activities	\$ (80,037)	\$ (20)	\$ (80,057)

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$19,977 of federal commodities.

See notes to financial statements.

Central Lyon Community School District
Notes to Financial Statements
June 30, 2004

(1) **Summary of Significant Accounting Policies**

The Central Lyon Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Rock Rapids and Doon, Iowa, and the predominant agricultural territory in central Lyon County. 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, Central Lyon Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The Central Lyon Community School District has no component units, which meet the Governmental Accounting Standards Board criteria.

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

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

The District reports the following major governmental funds:

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

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

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.

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 the 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 the District receives cash.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments 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 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 become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

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.

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

Capital Assets are depreciated using the straight-line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (in Years)
Buildings	50 years
Improvements other than buildings	20 - 50 years
Furniture and equipment:	5 - 15 years

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 represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds 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 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 for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements in the instruction and support services functional areas exceeded the amounts budgeted and the District exceeded its General Fund unspent authorized budget.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2004 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 investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$1,100,868 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

(3) **Due From and Due to Other Funds**

The detail of interfund receivables and payables at June 30, 2004 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Capital Projects	<u>\$ 61,274</u>

The Capital Projects Fund is repaying the General Fund for advances made for the Central Lyon Activities Center project. The balance will be repaid by November 1, 2004.

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from:	Amount
Debt Service	General Fund	\$ 28,701
	Physical Plant and Equipment Levy	91,568
Capital Projects	Physical Plant and Equipment Levy	893,149
		<u>\$ 1,013,418</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(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 at June 30, 2004 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2003-04B	1/30/2004	1/28/2005	\$ 304,057	\$ 1,654	\$ 302,000	\$ 2,508
2004-05A	6/30/2004	6/30/2005	924,124	-	932,000	-
Total			<u>\$ 1,228,181</u>	<u>\$ 1,654</u>	<u>\$ 1,234,000</u>	<u>\$ 2,508</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. No advances from ISCAP were made during the current year.

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2003-04B	2.000%	2.603%
2004-05A	2.000%	1.392%

6) Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows

	Balance Beginning of Year, as restated (Note 12)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 51,000	\$ -	\$ -	\$ 51,000
Construction in progress	110,411	1,785,589	1,896,000	-
Total capital assets not being depreciated	161,411	1,785,589	1,896,000	51,000
Capital assets being depreciated:				
Buildings	10,150,635	1,906,131	-	12,056,766
Improvements other than buildings	549,651	-	-	549,651
Furniture and equipment	1,495,083	36,543	-	1,531,626
Total capital assets being depreciated	12,195,369	1,942,674	-	14,138,043
Less accumulated depreciation for:				
Buildings	2,706,025	221,743	-	2,927,768
Improvements other than buildings	266,192	24,265	-	290,457
Furniture and equipment	665,542	51,262	-	716,804
Total accumulated depreciation	3,637,759	297,270	-	3,935,029
Total capital assets being depreciated, net	8,557,610	1,645,404	-	10,203,014
Governmental activities capital assets, net	\$ 8,719,021	\$ 3,430,993	\$ 1,896,000	\$ 10,254,014
Business type activities:				
Furniture and equipment	\$ 215,994	\$ -	\$ -	\$ 215,994
less accumulated depreciation	77,256	4,111	-	81,367
Business type activities capital assets, net	\$ 138,739	\$ (4,111)	\$ -	\$ 134,627

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction:

Regular	\$ 254,529
Special	-
Other	-

Support services:

Instructional staff	14,171
Administration	-
Operation and maintenance of plant	8,268
Transportation	20,303
	<u>297,271</u>

Unallocated

Total depreciation expense - governmental activities	\$ <u>297,271</u>
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Business type activities:

Food service operations	\$ <u>4,111</u>
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(7) Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2004, is as follows:

	Balance			Balance	Due
	Beginning			End	Within
	of Year	Additions	Reductions	of Year	One Year
General Obligation Bonds	\$ 3,615,000	\$ 3,950,000	\$ 3,210,000	\$ 4,355,000	\$ 315,000
Notes Payable	54,000		26,000	28,000	28,000
Early Retirement	55,525	82,811	33,728	104,608	48,109
Compensated Absences		7,969		7,969	7,969
Total	<u>\$ 3,724,525</u>	<u>\$ 4,040,780</u>	<u>\$ 3,269,728</u>	<u>\$ 4,495,577</u>	<u>\$ 399,078</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application, which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to the employee's salary calculated by using the current year regular salary schedule, less the base salary for a beginning teacher for the current year. Early retirement benefits paid during the year ended June 30, 2004 totaled \$45,324. The benefits can be applied to cover the cost of health insurance premiums.

Details of the District's June 30, 2004, general obligation bonded indebtedness are as follows:

Year	Bond Issue of Sept. 1, 1995			Bond Issue of Feb. 1, 1998		
	Ending	Interest		Interest		
June 30,	Rate	Principal	Interest	Rate	Principal	Interest
2005	5.530%	\$195,000	\$157,700	4.40%	\$40,000	\$25,713
2006	5.536%	205,000	146,975	4.40%	40,000	23,953
Total		<u>\$400,000</u>	<u>\$304,675</u>		<u>\$80,000</u>	<u>\$49,665</u>
Year	Bond Issue of July 1, 2003			Capital Loan Notes Sept. 15, 2003		
Ending	Interest			Interest		
June 30,	Rate	Principal	Interest	Rate	Principal	Interest
2005		\$0	\$84,743	1.400%	\$80,000	\$23,803
2006		0	84,743	1.850%	85,000	22,683
2007	2.400%	325,000	84,743	2.250%	85,000	21,110
2008	2.500%	335,000	76,943	2.600%	90,000	19,198
2009	2.750%	340,000	68,568	2.950%	90,000	16,858
2010	2.850%	350,000	59,218	3.250%	95,000	14,203
2011	2.875%	360,000	49,243	3.550%	95,000	11,115
2012	2.875%	375,000	38,893	3.700%	100,000	7,743
2013	2.875%	375,000	28,111	3.850%	105,000	4,043
2014	2.900%	370,000	17,330			
2015	3.000%	220,000	6,600			
Total		<u>\$3,050,000</u>	<u>\$599,131</u>		<u>\$825,000</u>	<u>\$140,753</u>

<u>Capital Loan Notes Dec. 1, 1996</u>				<u>Bond Totals</u>		
	Interest			Principal	Interest	Total
	Rate	Principal	Interest			
2005	5.050%	\$28,000	\$1,414	\$343,000	\$293,372	\$636,372
2006		-	-	330,000	278,353	608,353
2007		-	-	410,000	105,853	515,853
2008		-	-	425,000	96,140	521,140
2009		-	-	430,000	85,425	515,425
2010		-	-	445,000	73,420	518,420
2011		-	-	455,000	60,358	515,358
2012		-	-	475,000	46,635	521,635
2013		-	-	480,000	32,154	512,154
2014		-	-	370,000	17,330	387,330
2015		-	-	220,000	6,600	226,600
		<u>\$28,000</u>	<u>\$1,414</u>	<u>\$4,383,000</u>	<u>\$1,095,638</u>	<u>\$5,478,638</u>

During the year ended June 30, 2004, the District made principal and interest payments totaling \$328,728 under the agreements.

(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 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, IA, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$188,324, \$181,123 and \$181,494 respectively, equal to the required contributions for each year.

(9) Risk Management

Central Lyon 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 \$212,511 for the year ended June 30, 2004, and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Construction Commitment

The District has entered into a contract totaling \$1,733,597 for the construction of the Central Lyons Activities Center. As of June 30, 2004, costs of \$1,733,597 had been incurred against the contract. The project was completed in June 2004 with only \$91,821 remaining to be paid on the project.

(12) Accounting Change and Restatements

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the District’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements, which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements separate the District’s programs between governmental and business type activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund				Total
	General	Debt Service	Capital Projects	Nonmajor Special Revenue	
Net assets June 30, 2003, as previously reported	\$ 358,316	\$ 303,087	\$ (48,081)	\$ 159,210	\$ 772,532
GASB Interpretation 6 adjustments					-
Net Assets July 1, 2003, as restated for governmental funds	<u>358,316</u>	<u>303,087</u>	<u>(48,081)</u>	<u>159,210</u>	<u>772,532</u>
GASB 34 adjustments:					
Capital assets, net of accumulated depreciation of \$3,637,759					8,719,021
Long-term Liabilities:					
Bonds and notes				3,669,000	
Early retirement				55,525	
Compensated absences				-	(3,724,525)
Accrued interest payable					(20,500)
Deferred Revenue					-
Net assets July 1, 2003 as restated					<u>\$ 5,746,528</u>

	School	FFA	Total
	Nutrition	Property	
Net assets June 30, 2003, as previously reported	\$ 15,496	\$ 908	\$ 16,404
GASB Interpretation 6 adjustments			-
Net Assets July 1, 2003, as restated for enterprise funds	<u>15,496</u>	<u>908</u>	<u>16,404</u>
GASB 34 adjustments:			
Capital assets, net of accumulated depreciation of \$ 77,256	138,739	-	138,739
Deferred Revenue			
Net assets July 1, 2003 as restated	<u>\$ 154,235</u>	<u>\$ 908</u>	<u>\$ 155,143</u>

(13) Subsequent Events

The School Board voted in July 2004 meeting to increase school lunch fees by \$.05 per meal to cover the increase in food costs. The board will be continuing to monitor the income and expenses during the upcoming year to insure that the deficit spending does not continue.

The costs involving removal of asbestos from the old high school resulted in \$77,737 in additional costs. On September 30, 2004 the District got permission from School Budget Review Committee to modified allowable growth for the 2004-2005 school year to cover those costs out of general fund monies.

Central Lyon Community School District

Required Supplementary Information

Central Lyon Community School District

Central Lyon Community School District
 Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund
 Required Supplementary Information
 Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual
Receipts:			
Local Sources	\$ 3,480,482	\$ 149,365	\$ 3,480,482
Intermediate sources	-	-	-
State sources	2,726,044	3,713	2,729,757
Federal sources	849,341	86,863	936,204
Total receipts	<u>7,055,867</u>	<u>239,941</u>	<u>7,146,443</u>
Disbursements:			
Instruction	3,841,760	-	3,841,760
Support services	1,440,196	-	1,440,196
Non-instructional programs	5,524	249,334	254,858
Other expenditures	2,321,257	-	2,321,257
Total disbursements	<u>7,608,737</u>	<u>249,334</u>	<u>7,858,071</u>
Deficiency of receipts under disbursements	(552,870)	(9,393)	(711,628)
Other financing sources, net	<u>3,629,000</u>	-	<u>3,629,000</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	3,076,130	(9,393)	2,917,372
Balances beginning of year	<u>1,321,449</u>	<u>12,642</u>	<u>1,334,091</u>
Balances end of year	<u>\$ 4,397,579</u>	<u>\$ 3,249</u>	<u>\$ 4,251,463</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Actual Variance
\$ 3,325,545	\$ 3,325,545	\$ 154,937
2,000	2,000	(2,000)
3,205,401	3,205,401	(475,644)
278,000	278,000	658,204
<u>6,810,946</u>	<u>6,810,946</u>	<u>335,497</u>
3,586,500	3,586,500	255,260
1,602,000	1,602,000	(161,804)
265,842	265,842	(10,984)
2,289,830	2,289,830	31,427
<u>7,744,172</u>	<u>7,744,172</u>	<u>113,899</u>
(933,226)	(933,226)	221,598
<u>900,000</u>	<u>900,000</u>	<u>2,729,000</u>
(33,226)	(33,226)	2,950,598
<u>1,255,172</u>	<u>1,255,172</u>	<u>78,919</u>
<u>\$ 1,221,946</u>	<u>\$ 1,221,946</u>	<u>\$ 3,029,517</u>

Central Lyon Community School District
 Budgetary Comparison Schedule – Budget to GAAP Reconciliation
 Required Supplementary Information
 Year ended June 30, 2004

	Government Funds		
	Cash	Accrual	Accrual
	Basis	Adjust- ments	Basis
Revenues	\$ 7,055,867	\$ 141,250	\$ 7,197,117
Expenditures	7,608,737	106,810	7,715,547
Net	(552,870)	34,440	(518,430)
Other financing sources, net	3,629,000	-	3,629,000
Beginning fund balances	1,321,449	(548,917)	772,532
Ending fund balances	\$ 4,397,579	\$ (514,477)	\$ 3,883,102
	Proprietary Fund		
	Enterprise		
	Cash	Accrual	Accrual
	Basis	Adjust- ments	Basis
Revenues	239,941	-	239,941
Expenditures	249,334	6,162	255,496
Net	(9,393)	(6,162)	(15,555)
Adjustments for reserves	-	138,738	138,738
Beginning fund balances	12,642	3,762	16,404
Ending fund balances	\$ 3,249	\$ 136,338	\$ 139,587

See accompanying independent auditor's report.

Central Lyon Community School District
Notes to Required Supplementary Information – Budgetary Reporting
Year ended June 30, 2004

In accordance with the Code of Iowa, Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year-end.

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

During the year ended June 30, 2004, disbursements in the instruction and other expenditures functions exceeded the amounts budgeted but the District did not exceed its General Fund unspent authorized budget.

Central Lyon Community School District

Other Supplementary Information

Central Lyon Community School District
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2004

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
Assets				
Cash and cash Equivalents:				
ISCAP	\$ -	\$ -	\$ -	\$ -
Other	56,187	127,556	54,009	237,752
Receivables:				
Property tax:				
Delinquent	1,523		2,439	3,962
Succeeding year	115,001		153,966	268,967
Total assets	172,711	127,556	210,414	510,681
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	-	287	1,625	1,912
Salaries and benefits payable	48,109	-	-	48,109
Deferred revenue - succeeding year property tax	115,001	-	153,966	268,967
Total liabilities	163,110	287	155,591	318,988
Fund equity:				
Unreserved fund balances	9,601	127,269	54,823	191,693
Total liabilities and fund equity	\$ 172,711	\$ 127,556	\$ 210,414	\$ 510,681

See accompanying independent auditor's report.

Central Lyon Community School District
Combining Schedule of Revenues, Expenditures and Changes in
Fund Balances - Nonmajor Special Revenue Funds
June 30, 2004

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
Revenues:				
Local sources:				
Local tax	\$ 105,977	\$ -	\$ 171,680	\$ 277,657
Other	212	442,098	1,637	443,947
State sources	73	-	116	189
Federal sources	-	-	9,185	9,185
Total revenues	<u>106,262</u>	<u>442,098</u>	<u>182,618</u>	<u>730,978</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	-	-	-	-
Special instruction	-	-	-	-
Other instruction	-	434,213	-	434,213
Support services:				
Administration Services	-	-	251	251
Operation and maintenance of plant services	111,597	-	15,220	126,817
Other expenditures:				
Facilities acquisition	-	-	52,497	52,497
Total expenditures	<u>111,597</u>	<u>434,213</u>	<u>67,968</u>	<u>613,778</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,335)</u>	<u>7,885</u>	<u>114,650</u>	<u>117,200</u>
Other financing sources (uses):				
Proceeds from Loans	-	-	900,000	900,000
Operating transfers in	-	-	-	-
Operating transfers out	-	-	(984,717)	(984,717)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(84,717)</u>	<u>(84,717)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(5,335)</u>	<u>7,885</u>	<u>29,933</u>	<u>32,483</u>
Fund balances beginning of year, as restated	<u>14,936</u>	<u>119,384</u>	<u>24,890</u>	<u>159,210</u>
Fund balances end of year	<u>\$ 9,601</u>	<u>\$ 127,269</u>	<u>\$ 54,823</u>	<u>\$ 191,693</u>

See accompanying independent auditor's report.

Central Lyon Community School District
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts
 June 30, 2004

Account	Balance Beginning of Year	Revenues and Interfund Transfers	Expend- itures	Balance End of Year
Interest Income	\$ 10,330	\$ 1,309	\$ 4,650	\$ 6,989
All School Play	3,526	2,792	3,863	2,455
Speech	-	774	738	36
Vocal	415	516	383	548
Band	-	1,673	1,525	148
Historical Plaza	2,395	38,633	31,834	9,194
Spanish Mexico Trip	-	10,217	10,027	190
Co-Ed Track	620	6,609	6,011	1,218
Co-Ed Golf	430	500	368	562
Boys' Basketball	3,390	4,699	3,348	4,741
Football	4,132	13,451	8,398	9,185
Baseball	3,180	1,265	4,445	-
Baseball Trip	1,214	5,460	6,537	137
Wrestling	777	8,290	4,930	4,137
Girls' Basketball	4,484	4,604	3,584	5,504
Volleyball	896	3,634	3,625	905
Softball	962	45	928	79
Field Trips	908	2,106	2,550	464
Pictures-Elem & MS	494	4,559	3,336	1,717
Ticket/Cash Reserve	613	4,100	4,200	513
Book Orders	96	3,905	3,912	89
PCT Account	3,905	5,888	5,545	4,248
Middle School	493	-	60	433
Donations	4	300	-	304
Accounting	-	1,274	985	289
Activity Tickets	-	47,171	47,171	-
Adult Activity Tickets	-	935	935	-
Lion's Roar	6,600	3,111	6,718	2,993
Pictures-HS	106	673	234	545
Middle School Cheerleaders	307	-	-	307
Student Council Scholarship	250	-	-	250
High School Bowling	110	-	110	-
Pep Club	4,474	3,513	6,048	1,939
Activity Fund Reimb.	24	-	-	24
D.A.R.E. Program	428	-	-	428
Musical	197	3,437	2,794	840
Home Ec	-	502	499	3
Class of 2004	630	-	370	260
Class of 2005	1,175	4,277	5,007	445
Class of 2006	-	500	100	400
FFA	3,785	81,568	83,266	2,087
Student Council	2,705	4,783	3,462	4,026
Middle School Student Council	2,084	3,127	2,645	2,566

Central Lyon Community School District
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts
 June 30, 2004

Account	Balance Beginning of Year	Revenues and Interfund Transfers	Expend- itures	Balance End of Year
Scholarship	500	-	-	500
Concessions	1,743	4,364	3,184	2,923
International Club	461	-	-	461
Testing Services	-	425	425	-
Magazines	-	12,774	8,166	4,608
Band Trip	3,706	23,142	25,184	1,664
All Sport Supplies	18,725	10,426	25,035	4,116
Volleyball Project	236	24	254	6
After Graduation Party	-	2,341	2,193	148
Cross Country Ski	163	-	-	163
Book Fair	869	6,582	5,397	2,054
FHA	75	-	-	75
Academic Decathlon	-	850	827	23
EL-MS Fundrasier	3,947	13,513	13,521	3,939
Mock Trial - HS	-	210	187	23
Mock Trial - TAG MS	991	-	11	980
Football Project	3,406	11,333	11,707	3,032
Athletic Union Clinic	5,720	11,000	12,900	3,820
Booster Concessions	2,582	32,255	32,754	2,083
Music Booster	5,691	9,112	5,911	8,892
Athletic Booster	4,430	18,844	10,956	12,318
EL/MS Teachers Lounge	-	1,648	95	1,553
EL/MS Care Committee	-	1,125	365	760
Lion Grant - CL Foundation	-	1,930	-	1,930
Totals	<u>\$ 119,384</u>	<u>\$ 442,098</u>	<u>\$ 434,213</u>	<u>\$ 127,269</u>

See accompanying independent auditor's report.

Central Lyon Community School District
 Schedule of Revenues by Source and Expenditures by Function
 All Governmental Funds
 For the Last Four Years

	Modified Accrual Basis			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 2,703,639	\$ 2,625,839	\$ 2,162,447	\$ 2,576,200
Tuition	35,692	22,789	42,780	16,728
Other	740,485	705,125	1,084,566	639,969
Intermediate sources	212,511	227,369	228,225	240,528
State sources	2,406,479	2,348,840	2,335,279	2,517,716
Federal sources	301,032	258,940	249,355	257,024
Total	<u>\$ 6,399,838</u>	<u>\$ 6,188,902</u>	<u>\$ 6,102,652</u>	<u>\$ 6,248,165</u>
Expenditures:				
Instruction:				
Regular instruction	2,295,985	2,234,945	2,268,966	2,162,747
Special instruction	794,841	672,603	597,999	593,876
Other instruction	754,650	707,080	674,994	567,189
Support services:				
Student services	132,178	127,876	123,819	119,226
Instructional staff services	187,167	193,314	282,308	325,168
Administration Services	526,446	500,134	474,148	507,231
Operation and maintenance of plant services	436,429	427,151	412,148	388,695
Transportation services	143,022	143,770	148,187	108,367
Central support services	4,443	1,125	1,245	1,451
Non-instructional programs	255,496	233,935	222,943	236,461
Other expenditures:				
Facilities acquisition	2,151,796	539,535	551,808	362,752
Long-term debt interest	291,927	218,218	237,526	255,505
AEA flow through	212,511	227,369	228,225	240,528
Total	<u>\$ 8,186,891</u>	<u>\$ 6,227,055</u>	<u>\$ 6,224,316</u>	<u>\$ 5,869,196</u>

See accompanying independent auditor's report.

Central Lyon Community School District
Schedule of Expenditures of Federal Awards
Year ended June 30, 2004

Grantor/Program	CFDA Number	Grant Number	Expenditures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
Food Donation (non-cash)	10.550	FY04	\$ 18,848
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY04	\$ 9,455
National School Lunch Program	10.555	FY04	57,431
			<u>66,886</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	FY04	114,964
Vocational Education - Basic Grants to States	84.048	FY04	7,875
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY04	3,349
Innovative Education Program Strategies (Title V Program)	84.298	FY04	3,307
Title IIA - Federal Teacher Quality Program	84.367	FY04	29,767
Demonstration Life Safety Fire Grant	84.215	FY04	9,185
Demonstration Life Safety Construction Grant	84.215	FY04	623,711
Grants for State Assessments		FY04	3,810
Decaterization after school		FY04	29
Discretionary Funds		FY04	28,754
Area Education Agency:			
Special Education - Grants to States	84.027	FY04	4,493
Total			<u>\$ 914,978</u>

Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Central Lyon Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements.

See accompanying independent auditor's report.

Dan Heard, CPA
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Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting

To the Board of Education of
Central Lyon Community School District:

We have audited the financial statements of the Central Lyon Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated October 14, 2004. We conducted our audit in accordance with generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Central Lyon Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance 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 object of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit is 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. Prior year statutory comments have all been resolved except for items IV-B-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Central Lyon Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention

relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect 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 and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-04-A is a material weakness. Prior year reportable conditions have all been resolved except for item II-04-A.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Central Lyon Community School District and other parties to whom Central Lyon 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 the Central Lyon 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.

Wells Heard Halse & Co.

October 14, 2004

WELLS HEARD HALSE & CO.
Certified Public Accountants
710 SOUTH UNION STREET, P.O. BOX 108
ROCK RAPIDS, IOWA 51246

**Independent Auditor's Report on Compliance with Requirements Applicable to
Each Major Program and Internal Control over Compliance**

To the Board of Education of the
Central Lyon Community School District:

Compliance

We have audited the compliance of the Central Lyon Community School District, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Central Lyon Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Central Lyon Community School District's management. Our responsibility is to express an opinion on the Central Lyon Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a federal program occurred. An audit includes examining, on a test basis, evidence about the Central Lyon Community School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Central Lyon Community School District's compliance with those requirements.

In our opinion, Central Lyon Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the Central Lyon Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Central Lyon Community School District's internal

control over compliance with requirements that could have a direct and material effect on a federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Central Lyon Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described as item III-A-04 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance 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 III-A-04 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Central Lyon Community School District and other parties to whom Central Lyon Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Wells Heard Halse & Co.

October 14, 2004

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over major programs was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - CFDA Number 84.215 – Demonstration Life Safety Construction Grant
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Central Lyon Community School District did not qualify as a low-risk auditee.

Central Lyon Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

REPORTABLE CONDITIONS:

II-04-A Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties, which are incompatible. We noted that the same person did all cash receipts and disbursements and bookkeeping and deposit functions.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

Central Lyon Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

REPORTABLE CONDITION:

CFDA Number 84.215: Demonstration Life Safety Construction

Federal Award Year: 2004

U.S. Department of Education

Passed through the Iowa Department of Education

III-A-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties, which are incompatible. We noted that the same person did all cash receipts and disbursements and bookkeeping and deposit functions.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned – We will continue to review our procedures and implement additional controls where possible.

Conclusion – Response accepted.

Central Lyon Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-04-A Official Depository – Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.
- II-04-B Certified Budget - Disbursements for the year ended June 30, 2004, exceeded the amount budgeted in the instruction and other expenditures area.
- Recommendation – The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.
- Response – We will amend our budget before disbursements exceed the budget.
- Conclusion – Response accepted.
- IV-04-C Questionable Disbursements - No disbursements were noted that might not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- IV-04-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-04-E Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. Coverage amounts should be reviewed annually to insure adequacy for current operations.
- IV-04-F Board Minutes - No transactions requiring Board approval, which had not been approved by the Board, were noted.
- IV-04-G Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Districts’ investment policy were noted.
- IV-04-H Certified Annual Report - The Certified Annual Report was not filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- Recommendation – The Certified Annual Report should have been filed by September 15, 2004.
- Response – With the GASB 34 implementation we wanted the Certified Annual Report correct, which took more time to prepare to file by September 15, 2004. With the implementation complete we will be able in the future to file in a timelier manner.
- Conclusion – Response accepted

Central Lyon Community School District
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2004

IV-04-I Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.

IV-04-J Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Ken Kuehl, Employee,	Electrical work	\$10,977
Doris Breske, Mother of District Employee	Athletic Ticket Taking	\$1,300
Jim Kennedy, Spouse of District Employee, Frontier Insurance & Real Estate	Insurance	\$ 63,336
David Fields, Employee, Rapid Grow Lawn	Maintenance of Grounds	\$ 5,750
Harlan Clasen, Spouse of District Employee, Clasen Excavating	Snow Removal & Dirt work	\$ 4,813

In accordance with an Attorney General’s opinion dated November 9, 1996, the transactions with Doris Breske do not appear to represent a conflict of interest since transactions with the individual was less than \$1,300 during the fiscal year. Also, the transactions with Jim Kennedy, Harlan Clasen, Ken Kuehl, and Dave Fields were subjected to competitive bidding processes.