

CENTRAL LEE COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-Wide Financial Statements:		
Statement of Net Assets	A	13
Statement of Activities	B	14-15
Governmental Fund Financial Statements:		
Balance Sheet	C	16
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	17
Statement of Revenues, Expenditures and Changes in Fund Balances	E	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	19
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	20
Statement of Revenues, Expenses and Changes in Fund Net Assets	H	21
Statement of Cash Flows	I	22
Notes to Financial Statements		23-32
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund		33-34
Budget to GAAP Reconciliation		35
Notes to Required Supplementary Information - Budgetary Reporting		36
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	37-38
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	39-40
Schedule of Changes in Student Activity Accounts	3	41-42
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	4	43
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		44-45
Schedule of Findings		46-48

Central Lee Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2004 Election)		
Greg Ruth	President	2006
Dennis Krehbiel	Vice President	2005
Donald Hunold	Board Member	2004
Sara Statter	Board Member	2004
Doug Hopp	Board Member	2005

Board of Education (After September 2004 Election)		
Greg Ruth	President	2006
Dennis Krehbiel	Vice President	2005
Robert Bryant	Board Member	2007
Sara Statter	Board Member	2007
Doug Hopp	Board Member	2005

School Officials

Charles Reighard	Superintendent	2005
Sandra Meierotto	District Secretary and Business Manager	2005
Sharon Bradley	District Treasurer	2005
Gruhn Law Firm	Attorney	2005

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(a professional corporation)
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Central Lee 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 the Central Lee Community School District, Donnellson, Iowa as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

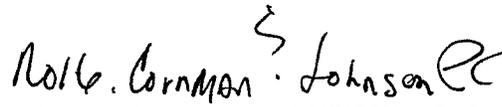
In accordance with Government Auditing Standards, we have also issued our report dated September 6, 2005 on our consideration of the Central Lee Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 33 through 36 are not required parts of the basic financial statements, but are supplementary

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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 required 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 Lee Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

September 6, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$7,474,361 in fiscal 2004 to \$8,028,075 in fiscal 2005, while General Fund expenditures increased from \$7,577,013 in fiscal 2004 to \$8,057,994 in fiscal 2005. This result, along with a \$52,793 transfer to debt service for the bus lease, decreased the District's General Fund balance from \$116,212 in fiscal 2004 to a balance of \$33,500 in fiscal 2004, a 71% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in state and federal grant revenue in fiscal 2005. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

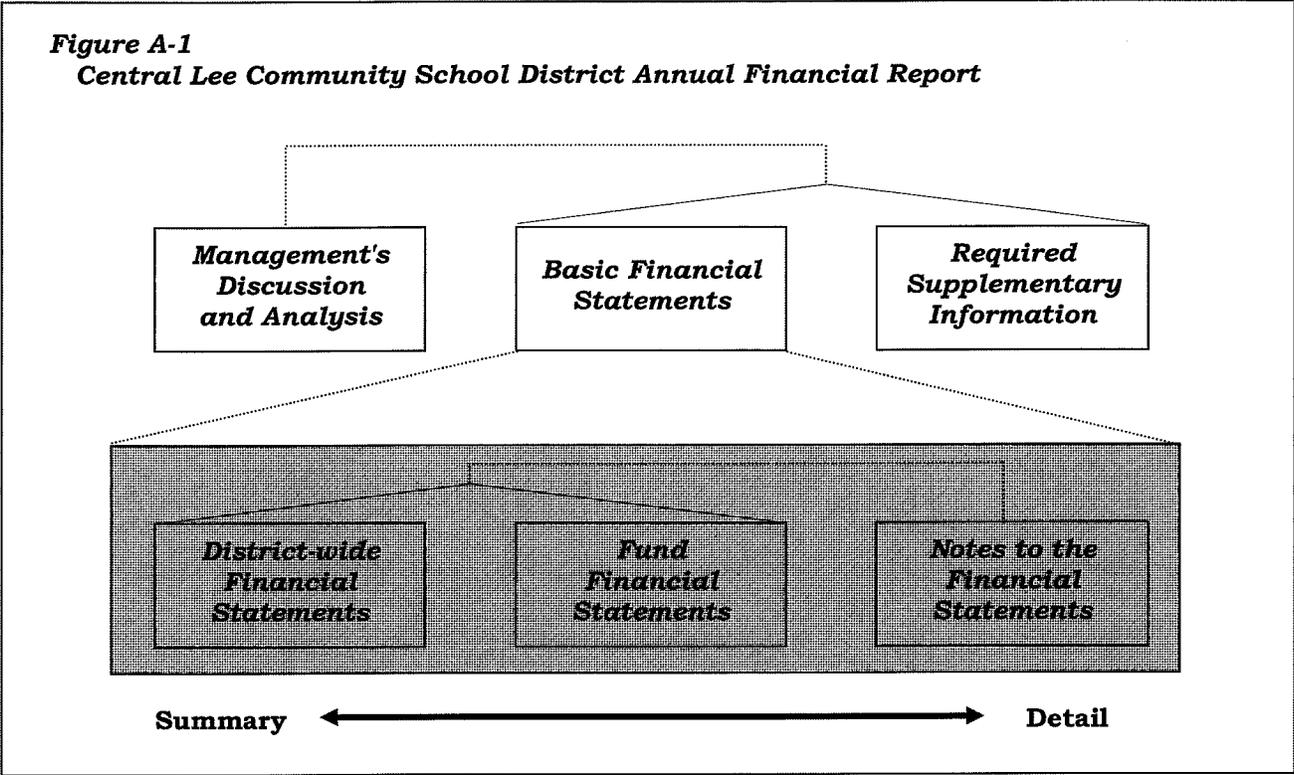


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	District-wide Statements	Fund 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 and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
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 during the year or soon thereafter	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 financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

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

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

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

2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
	Current and other assets	\$ 6,447,651	6,781,963	33,295	50,363	6,480,946	6,832,326
Capital assets	6,684,424	6,727,529	40,916	38,744	6,725,340	6,766,273	-0.6%
Total assets	13,132,075	13,509,492	74,211	89,107	13,206,286	13,598,599	-2.9%
Long-term obligations	2,182,128	2,494,207	0	0	2,182,128	2,494,207	-12.5%
Other liabilities	4,956,108	5,405,302	4,324	774	4,960,432	5,406,076	-8.2%
Total liabilities	7,138,236	7,899,509	4,324	774	7,142,560	7,900,283	-9.6%
Net assets:							
Invested in capital assets, net of related debt	5,531,791	5,215,324	40,916	38,744	5,572,707	5,254,068	6.1%
Restricted	256,010	346,679	0	0	256,010	346,679	-26.2%
Unrestricted	206,038	47,980	28,971	49,589	235,009	97,569	140.9%
Total net assets	\$ 5,993,839	5,609,983	69,887	88,333	6,063,726	5,698,316	6.4%

The District's combined net assets increased by \$365,410, or 6.4% over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$90,669, or 26.2% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$137,440, or 140.9%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2005.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
	Revenues:						
Program revenues:							
Charges for services	\$ 724,243	951,314	162,157	166,353	886,400	1,117,667	-20.7%
Operating grants and contributions and restricted interest	1,353,073	870,399	179,735	175,702	1,532,808	1,046,101	46.5%
General revenues:							
Property tax	2,895,984	2,768,219	0	0	2,895,984	2,768,219	4.6%
Local option sales and service tax	596,861	728,791	0	0	596,861	728,791	-18.1%
Unrestricted state grants	3,826,784	3,425,601	0	0	3,826,784	3,425,601	11.7%
Unrestricted investment interest	53,351	29,908	502	1,375	53,853	31,283	72.1%
Other	0	1,640	0	0	0	1,640	-100.0%
Total revenues	9,450,296	8,775,872	342,394	343,430	9,792,690	9,119,302	7.4%
Program expenses:							
Governmental activities:							
Instructional	6,041,486	5,577,778	0	0	6,041,486	5,577,778	8.3%
Support services	2,340,788	2,084,832	0	0	2,340,788	2,084,832	12.3%
Non-instructional programs	0	0	360,840	349,607	360,840	349,607	3.2%
Other expenses	684,241	807,288	0	0	684,241	807,288	-15.2%
Total expenses	9,066,515	8,469,898	360,840	349,607	9,427,355	8,819,505	6.9%
Excess (deficiency) of revenues over (under) expenses	383,781	305,974	(18,446)	(6,177)	365,335	299,797	21.9%
Other financing uses, net	75	0	0	0	75	0	100.0%
Changes in net assets	383,856	305,974	(18,446)	(6,177)	365,410	299,797	21.9%
Net assets beginning of year	5,609,983	5,304,009	88,333	94,510	5,698,316	5,398,519	5.6%
Net assets end of year	\$ 5,993,839	5,609,983	69,887	88,333	6,063,726	5,698,316	6.4%

Property tax and unrestricted state grants account for approximately 68.7% of the total revenue. The District's expenses primarily relate to instruction and support services which account for approximately 88.9% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$9,450,296 and expenses were \$9,066,515.

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

	Total Cost of Services	Net Cost of Services
Instruction	\$ 6,041,486	4,250,060
Support services	2,340,788	2,335,935
Other expenses	684,241	403,204
Totals	\$ 9,066,515	6,989,199

-
- The cost financed by users of the District's programs was \$724,243.
 - Federal and state governments subsidized certain programs with grants and contributions totaling \$1,353,073.
 - The net cost of governmental activities was financed with \$2,895,984 in property tax, \$596,861 in local option sales and service tax, \$3,826,784 in unrestricted state grants, and \$53,351 in investment interest.

Business-Type Activities

Revenues of the District's business-type activities were \$342,394 and expenses were \$360,840. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Central Lee 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 combined fund balance of \$1,193,590, below last year's ending fund balances of a \$1,376,661.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors. Growth during the year in tax and grants resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures requiring the District to use carryover fund balance to meet its financial obligations during the year.
- The General Fund balance decreased from \$116,212 to \$33,500, due in part to the negotiated salary and benefits settlement, and existing expenditure commitments of the District.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$88,333 at June 30, 2004 to \$69,887 at June 30, 2005, representing a decrease of approximately 20.9%. Revenues were more than offset by the increase in capital asset expenses.

BUDGETARY HIGHLIGHTS

The District's receipts were \$210,410 more than budgeted receipts, a variance of 2.3%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year. But for fiscal year 2005, the District over spent its non-instructional programs budget by \$51,646.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$6,725,340, 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 amount represents a net decrease of 0.6% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$423,972.

The original cost of the District's capital assets was \$12,398,746. Governmental funds account for \$12,195,984 with the remainder of \$202,762 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$0 at June 30, 2005, compared to \$100,000 reported at June 30, 2004.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total Change
	Activities		Activities		School District		
	2005	2004	2005	2004	2005	2004	
Land	\$ 203,592	203,592	0	0	203,592	203,592	0.0%
Construction in progress	0	100,000	0	0	0	100,000	-100.0%
Buildings	5,587,937	5,321,637	0	0	5,587,937	5,321,637	5.0%
Improvements other than buildings	597,726	682,994	0	0	597,726	682,994	-12.5%
Machinery and equipment	295,169	419,306	40,916	38,744	336,085	458,050	-26.6%
Total	\$ 6,684,424	6,727,529	40,916	38,744	6,725,340	6,766,273	-0.6%

Long-Term Debt

At June 30, 2005, the District had long-term debt outstanding of \$2,182,128 in general obligation bonds, land, early retirement, and a bus lease. There was approximately a 12.5% decrease in debt load from the previous year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

At June 30, 2005, the District had total outstanding general obligation bonds payable of \$1,870,000, as well as, early retirement payable of \$102,958, land purchase payable of \$109,593, and the remaining balance of \$99,577 for the bus lease.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2005	2004	
General obligation bonds	\$ 1,870,000	2,185,000	-14.4%
Land	109,593	117,719	-6.9%
Early retirement	102,958	45,352	127.0%
Bus lease	99,577	146,136	-31.9%
Total	\$ 2,182,128	2,494,207	-12.5%

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District expects a declining student enrollment over the next several years due to continue job losses in the area.
- The District continues to make staff reductions in order to match declining enrollment.
- The upcoming Iowa legislative session could again prove to be most challenging in respect to the state budget. The impact of state reductions to education is an unknown that we must be ready to address and compensate.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sandra Meierotto, District Secretary, Central Lee Community School District, 2642 Highway 218, Donnellson, Iowa, 52625.

BASIC FINANCIAL STATEMENTS

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents:			
ISCAP (Note 4)	\$ 1,752,897	0	1,752,897
Other	1,831,359	17,168	1,848,527
Receivables			
Property tax:			
Delinquent	44,518	0	44,518
Succeeding year	2,265,758	0	2,265,758
Income surtax	303,522	0	303,522
Accounts	12,596	0	12,596
Accrued ISCAP interest (Note 4)	9,415	0	9,415
Due from other governments	227,586	0	227,586
Inventories	0	16,127	16,127
Capital assets, net of accumulated depreciation (Note 5)	6,684,424	40,916	6,725,340
TOTAL ASSETS	13,132,075	74,211	13,206,286
LIABILITIES			
Accounts payable	40,920	0	40,920
Interest payable	5,569		
Salaries and benefits payable	869,349	113	869,462
ISCAP warrants payable (Note 4)	1,746,000	0	1,746,000
ISCAP accrued interest payable (Note 4)	10,123	0	10,123
ISCAP unamortized premium	18,389	0	18,389
Deferred revenue:			
Succeeding year property tax	2,265,758	0	2,265,758
Other	0	4,211	4,211
Long-term liabilities:(Note 6)			
Portion due within one year:			
Revenue bonds payable	335,000	0	335,000
Bus Lease	48,814	0	48,814
Land	8,776	0	8,776
Early Retirement	57,820	0	57,820
Portion due after one year:			
Revenue bonds payable	1,535,000	0	1,535,000
Bus Lease	50,763	0	50,763
Land	100,817	0	100,817
Early Retirement	45,138	0	45,138
TOTAL LIABILITIES	7,138,236	4,324	7,136,991
NET ASSETS			
Investment in capital assets, net of related debt	5,531,791	40,916	5,572,707
Restricted for:			
Phase III	1,577	0	1,577
Early Intervention	29,830	0	29,830
Management levy	48,838	0	48,838
Physical plant and equipment levy	39,591	0	39,591
Other special revenue purposes	136,174	0	136,174
Unrestricted	206,038	28,971	235,009
TOTAL NET ASSETS	\$ 5,993,839	69,887	6,063,726

SEE NOTES TO FINANCIAL STATEMENTS.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Governmental activities:			
Instruction:			
Regular instruction	\$ 3,883,696	524,569	1,009,927
Special instruction	1,212,757	199,674	57,256
Other instruction	945,033	0	0
	<u>6,041,486</u>	<u>724,243</u>	<u>1,067,183</u>
Support services:			
Student services	276,961	0	0
Instructional staff services	153,023	0	0
Administration services	772,486	0	0
Operation and maintenance of plant services	635,978	0	0
Transportation services	502,340	0	4,853
	<u>2,340,788</u>	<u>0</u>	<u>4,853</u>
Other expenditures:			
Facilities acquisitions	0	0	0
Long-term debt interest	123,091	0	0
AEA flowthrough	281,037	0	281,037
Depreciation(unallocated)*	280,113	0	0
	<u>684,241</u>	<u>0</u>	<u>281,037</u>
Total governmental activities	9,066,515	724,243	1,353,073
Business-Type activities:			
Non-instructional programs:			
Nutrition services	360,840	162,157	179,735
Total business-type activities	<u>360,840</u>	<u>162,157</u>	<u>179,735</u>
Total	<u>\$ 9,427,355</u>	<u>886,400</u>	<u>1,532,808</u>

General Revenues:

Property tax levied for:
General purposes
Capital outlay
Local option sales and services
Unrestricted state grants
Unrestricted investment earnings
Gain on sale of equipment
Total general revenues

Changes in net assets

Net assets beginning of year

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(2,349,200)	0	(2,349,200)
(955,827)	0	(955,827)
(945,033)	0	(945,033)
<u>(4,250,060)</u>	<u>0</u>	<u>(4,250,060)</u>
(276,961)	0	(276,961)
(153,023)	0	(153,023)
(772,486)	0	(772,486)
(635,978)	0	(635,978)
(497,487)	0	(497,487)
<u>(2,335,935)</u>	<u>0</u>	<u>(2,335,935)</u>
0	0	0
(123,091)	0	(123,091)
0	0	0
(280,113)	0	(280,113)
<u>(403,204)</u>	<u>0</u>	<u>(403,204)</u>
(6,989,199)	0	(6,989,199)
0	(18,948)	(18,948)
<u>0</u>	<u>(18,948)</u>	<u>(18,948)</u>
<u>(6,989,199)</u>	<u>(18,948)</u>	<u>(7,008,147)</u>
\$ 2,842,940	0	2,842,940
53,044	0	53,044
596,861	0	596,861
3,826,784	0	3,826,784
53,351	502	53,853
75	0	75
<u>7,373,055</u>	<u>502</u>	<u>7,373,557</u>
383,856	(18,446)	365,410
<u>5,609,983</u>	<u>88,333</u>	<u>5,698,316</u>
<u>\$ 5,993,839</u>	<u>69,887</u>	<u>6,063,726</u>

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	Other Nonmajor Governmental Funds	Total
ASSETS			
Cash and pooled investments:			
ISCAP(Note 4)	\$ 1,752,897	0	1,752,897
Other	776,320	1,055,039	1,831,359
Receivables:			
Property tax:			
Delinquent	40,333	4,185	44,518
Succeeding year	2,046,799	218,959	2,265,758
Income surtax	303,522	0	303,522
Accounts	4,550	8,046	12,596
Accrued ISCAP interest(Note 4)	9,415	0	9,415
Due from other governments	129,681	97,905	227,586
TOTAL ASSETS	\$ 5,063,517	1,384,134	6,447,651
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 38,020	2,900	40,920
Salaries and benefits payable	867,164	2,185	869,349
ISCAP warrants payable(Note 4)	1,746,000	0	1,746,000
ISCAP accrued interest payable(Note 4)	10,123	0	10,123
ISCAP unamortized premium	18,389	0	18,389
Deferred revenue:			
Succeeding year property tax	2,046,799	218,959	2,265,758
Income surtax	303,522	0	303,522
Total liabilities	5,030,017	224,044	5,254,061
Fund balances:			
Reserved for:			
Phase III	1,577	0	1,577
Early Intervention	29,830	0	29,830
Unreserved:			
Undesignated	2,093	1,160,090	1,162,183
Total fund balances	33,500	1,160,090	1,193,590
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,063,517	1,384,134	6,447,651

SEE NOTES TO FINANCIAL STATEMENTS.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005

Total fund balances of governmental funds (page 16)	\$ 1,193,590
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	6,684,424
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(5,569)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	303,522
Long-term liabilities, including bonds payable, bus lease, early retirement, and land purchase are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(2,182,128)</u>
Net assets of governmental activites (page 13)	<u><u>\$ 5,993,839</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	General	Other Nonmajor Governmental Funds	Total
REVENUES:			
Local sources:			
Local tax	\$ 2,368,501	820,822	3,189,323
Tuition	724,243	0	724,243
Other	92,968	297,952	390,920
State sources	4,466,282	0	4,466,282
Federal sources	376,006	0	376,006
Total revenues	<u>8,028,000</u>	<u>1,118,774</u>	<u>9,146,774</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	3,754,695	38,222	3,792,917
Special instruction	1,210,190	0	1,210,190
Other instruction	634,501	307,979	942,480
	<u>5,599,386</u>	<u>346,201</u>	<u>5,945,587</u>
Support services:			
Student services	276,961	0	276,961
Instructional staff services	151,639	0	151,639
Administration services	776,587	0	776,587
Operation and maintenance of plant services	533,757	105,552	639,309
Transportation services	438,627	0	438,627
	<u>2,177,571</u>	<u>105,552</u>	<u>2,283,123</u>
Other expenditures:			
Facilities acquisitions	0	332,966	332,966
Long-term debt:			
Principal	0	369,685	369,685
Interest and fiscal charges	0	117,522	117,522
AEA flowthrough	281,037	0	281,037
	<u>281,037</u>	<u>820,173</u>	<u>1,101,210</u>
Total expenditures	<u>8,057,994</u>	<u>1,271,926</u>	<u>9,329,920</u>
Deficiency of revenues under expenditures	(29,994)	(153,152)	(183,146)
Other financing sources (uses):			
Sale of equipment	75	0	75
Transfers in	0	424,368	424,368
Transfers out	(52,793)	(371,575)	(424,368)
Total other financing sources (uses)	<u>(52,718)</u>	<u>52,793</u>	<u>75</u>
Net change in fund balances	(82,712)	(100,359)	(183,071)
Fund balance beginning of year	116,212	1,260,449	1,376,661
Fund balance end of year	<u>\$ 33,500</u>	<u>1,160,090</u>	<u>1,193,590</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2005

Net change in fund balances - total governmental funds (page 18) \$ (183,071)

*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 reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 379,538	
Depreciation expense	(422,643)	(43,105)

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 repayments were as follows:

Repaid	369,685
--------	---------

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.

(5,569)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.

303,522

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	(57,606)
------------------	----------

Changes in net assets of governmental activities (page 15) \$ 383,856

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2005

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 17,168
Inventories	16,127
Capital assets, net of accumulated depreciation	<u>40,916</u>
Total assets	<u>74,211</u>
LIABILITIES	
Salaries and benefits payable	113
Deferred revenue	<u>4,211</u>
Total liabilities	<u>4,324</u>
NET ASSETS	
Invested in capital assets, net of related debt	40,916
Unrestricted	<u>28,971</u>
Total net assets	<u>\$ 69,887</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2005

	School Nutrition
Operating revenues:	
Local sources:	
Charges for services	\$ 162,157
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries and benefits	163,822
Services	5,144
Supplies	185,839
Depreciation	6,035
Total operating expenses	360,840
Operating loss	(198,683)
Non-operating revenues:	
State sources	5,785
Federal sources	173,950
Interest on investments	502
Total non-operating revenues	180,237
Change in net assets	(18,446)
Net assets beginning of year	88,333
Net assets end of year	\$ 69,887

SEE NOTES TO FINANCIAL STATEMENT.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2005

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 157,955
Cash received from miscellaneous operating activities	8,303
Cash payments to employees for services	(163,709)
Cash payments to suppliers for goods or services	(167,654)
Net cash used in operating activities	(165,105)
Cash flows from non-capital financing activities:	
State grants received	5,785
Federal grants received	146,874
Net cash provided by non-capital financing activities	152,659
Cash flows from capital and related financing activities:	
Purchase of capital assets	(8,207)
Net cash used in capital and related financing activities	(8,207)
Cash flows from investing activities:	
Interest on investments	502
Net cash provided by investing activities	502
Net decrease in cash and cash equivalents	(20,151)
Cash and cash equivalents at beginning of year	37,319
Cash and cash equivalents at end of year	\$ 17,168
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (198,683)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	27,076
Depreciation	6,035
Increase in inventories	(3,083)
Decrease in accounts payable	(664)
Increase in salaries and benefits payable	113
Increase in deferred revenue	4,101
Net cash used in operating activities	\$ (165,105)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 17,168
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
During the year ended June 30, 2005, the District received Federal commodities valued at \$27,076.	

SEE NOTES TO FINANCIAL STATEMENTS.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

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

The Central Lee 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 city of Donnellson, Iowa, and the predominate agricultural territory in Lee 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 Lee 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 Lee Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that 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 that are 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 and proprietary 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 other nonmajor governmental funds.

The District reports the following major governmental fund:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts 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 expenses, including instructional, support and other costs.

The District reports the following proprietary fund:

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

C. Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary financial statements are reported using the "economic resources measurement focus". The Government-wide and proprietary fund financial statements are reported using 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 cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and 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 terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

Property Tax Receivable - Property tax in the governmental funds are 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 that 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, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

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

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

Capital Assets - Capital assets, which include property, machinery, 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 repairs 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	\$ 1,500
Buildings	1,500
Improvements other than buildings	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500

Property, machinery and equipment 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 years
Machinery and equipment	5-20 years

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

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

Deferred revenue on 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.

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements in the non-instructional programs functional area exceeded the amount budgeted.

(2) Cash and Pooled Investments

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

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

The District's investments at June 30, 2005 are as follows:

<u>Type</u>	<u>Amortized Cost</u>
Certificates of deposit	\$ 13,700

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

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	General Fund	52,793
Debt Service	Capital Projects	371,575
Total		<u>\$ 424,368</u>

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

(4) 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, 2005 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2004-05A	6/30/04	6/30/05	203	0	0	0
2004-05B	1/28/05	1/27/06	\$ 677,954	9,185	676,000	9,918
2005-06A	6/28/05	6/28/06	1,074,740	230	1,070,000	205
			<u>\$ 1,752,897</u>	<u>9,415</u>	<u>1,746,000</u>	<u>10,123</u>

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

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2004-05A	\$ 0	575,000	575,000	0

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

Series	Interest Rates on Warrants	Interest Rates on Investments
2004-05A	3.000%	2.463%
2004-05B	3.500%	3.232%
2005-06A	3.500%	3.903%

(5) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 203,592	0	0	203,592
Construction in progress	100,000	0	100,000	0
Total capital assets not being depreciated	<u>303,592</u>	<u>0</u>	<u>100,000</u>	<u>203,592</u>
Capital assets being depreciated:				
Buildings	7,895,782	430,552	0	8,326,334
Improvements other than buildings	1,169,262	30,593	0	1,199,855
Machinery and equipment	2,447,810	36,993	18,600	2,466,203
Total capital assets being depreciated	<u>11,512,854</u>	<u>498,138</u>	<u>18,600</u>	<u>11,992,392</u>
Less accumulated depreciation for:				
Buildings	2,574,145	164,252	0	2,738,397
Improvements other than buildings	486,268	115,861	0	602,129
Machinery and equipment	2,028,504	143,859	1,329	2,171,034
Total accumulated depreciation	<u>5,088,917</u>	<u>423,972</u>	<u>1,329</u>	<u>5,511,560</u>
Total capital assets being depreciated, net	<u>6,423,937</u>	<u>74,166</u>	<u>17,271</u>	<u>6,480,832</u>
Governmental activities capital assets, net	<u>\$ 6,727,529</u>	<u>74,166</u>	<u>117,271</u>	<u>6,684,424</u>

	Balance Year	Increases	Decreases	Balance of Year
Business-type activities:				
Machinery and equipment	\$ 194,555	8,207	0	202,762
Less accumulated depreciation	155,811	6,035	0	161,846
Business-type activities capital assets, net	<u>\$ 38,744</u>	<u>2,172</u>	<u>0</u>	<u>40,916</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular	\$	61,352
Special		2,567
Other		2,553
Support services:		
Instructional Staff		1,384
Administration		5,788
Operation and maintenance of plant		6,473
Transportation		63,742
		<u>143,859</u>
Unallocated depreciation		<u>280,113</u>
Total governmental activities depreciation expense	\$	<u>423,972</u>
Business-type activities:		
Food services	\$	6,035
Total business-type activities depreciation expense	\$	<u>6,035</u>

(6) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Revenue Bond	2,185,000	0	315,000	1,870,000	335,000
Bus Lease	146,136	0	46,559	99,577	48,814
Land	117,719	0	8,126	109,593	8,776
Early Retirement	45,352	90,276	32,670	102,958	57,820
Total	\$ 2,494,207	90,276	402,355	2,182,128	450,410

Revenue Bonds Payable

Details of the District's June 30, 2005 revenue bond indebtedness are as follows:

Year Ending June 30,	Bond issue dated January 1, 2001			
	Interest Rates	Principal	Interest	Total
2006	4.60-4.65%	335,000	84,565	419,565
2007	4.65-4.70	355,000	68,797	423,797
2008	4.70-4.75	370,000	52,038	422,038
2009	4.75-4.80	395,000	34,151	429,151
2010	4.80	415,000	15,000	430,000
Total		\$ 1,870,000	254,551	2,124,551

Bus Lease

Details of the District's June 30, 2005 Bus Lease indebtedness, which is paid from the General Fund, is as follows:

Year Ending June 30,	Bus Lease dated August 1, 2001		
	Principal	Interest	Total
2006	48,814	3,979	52,793
2007	50,763	2,030	52,793
Total	\$ 99,577	6,009	105,586

Land Purchase

Details of the District's June 30, 2005 Land Purchase indebtedness, which is paid from the Capital Projects Fund, is as follows:

Year Ending June 30,	Land purchase dated October 1, 2001		
	Principal	Interest	Total
2006	8,776	8,767	17,543
2007	9,478	8,065	17,543
2008	10,237	7,307	17,544
2009	11,055	6,488	17,543
2010	11,940	5,604	17,544
2011	12,895	4,649	17,544
2012	13,927	3,617	17,544
2013	15,041	2,503	17,544
2014	16,244	1,300	17,544
Total	\$ 109,593	48,300	157,893

Early Retirement

The District offers a voluntary early retirement plan to its certified and classified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees complete an application which is required to be approved by the Board of Education. Early retirement benefits paid during the year ended June 30, 2005, totaled \$32,670.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual 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, 2005, 2004, and 2003 were \$299,056, \$278,076, \$278,350, respectively, equal to the required contributions for each year.

(8) Risk Management

Central Lee 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.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$281,037 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted expenditures at the functional area level. During the year ended June 30, 2005, disbursements in the non-instructional programs functional area exceeded the amounts budgeted.

REQUIRED SUPPLEMENTAL INFORMATION

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 4,222,295	166,760
State sources	4,466,282	5,785
Federal sources	376,006	173,950
Intermediate sources	0	0
Total revenues	<u>9,064,583</u>	<u>346,495</u>
Disbursements:		
Instruction	5,864,673	0
Support services	2,305,016	0
Non-instructional programs	0	366,646
Other expenditures	1,108,710	0
Total expenditures	<u>9,278,399</u>	<u>366,646</u>
Deficiency of receipts under disbursements	(213,816)	(20,151)
Other financing sources, net	<u>75</u>	<u>0</u>
Deficiency of receipts and other financing sources under disbursements	(213,741)	(20,151)
Balance beginning of year	<u>2,045,100</u>	<u>37,319</u>
Balance end of year	<u>\$ 1,831,359</u>	<u>17,168</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
4,389,055	4,351,566	4,351,566	37,489
4,472,067	4,457,102	4,457,102	14,965
549,956	390,000	390,000	159,956
0	2,000	2,000	(2,000)
<u>9,411,078</u>	<u>9,200,668</u>	<u>9,200,668</u>	<u>210,410</u>
5,864,673	7,127,221	7,127,221	1,262,548
2,305,016	2,345,924	2,345,924	40,908
366,646	315,000	315,000	(51,646)
1,108,710	1,213,694	1,213,694	104,984
<u>9,645,045</u>	<u>11,001,839</u>	<u>11,001,839</u>	<u>1,356,794</u>
(233,967)	(1,801,171)	(1,801,171)	(1,567,204)
75	0	0	(75)
(233,892)	(1,801,171)	(1,801,171)	(1,567,279)
2,082,419	2,081,787	2,081,787	632
<u>1,848,527</u>	<u>280,616</u>	<u>280,616</u>	<u>1,567,911</u>

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2005

	Governmental Fund Types		
	Cash Basis	Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 9,064,508	82,266	9,146,774
Expenses	9,278,399	51,521	9,329,920
Net	(213,891)	30,745	(183,146)
Other financing sources, net	75	0	75
Beginning fund balances	2,045,100	(668,439)	1,376,661
Ending fund balances	\$ 1,831,284	(637,694)	1,193,590

	Proprietary Fund		
	Cash Basis	Enterprise	
		Adjust- ments	Modified Accrual Basis
Revenues	\$ 346,495	(4,101)	342,394
Expenditures	366,646	(5,806)	360,840
Net	(20,151)	1,705	(18,446)
Beginning net assets	37,319	51,014	88,333
Ending net assets	\$ 17,168	52,719	69,887

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2005

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by 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, 2005, disbursements in the non-instructional programs functional area exceeded the amount budgeted.

OTHER SUPPLEMENTAL INFORMATION

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2005

	Special Revenue Funds				
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue
ASSETS					
Cash and pooled investments	\$ 150,843	116,531	38,544	21,997	327,915
Receivables:					
Property tax:					
Current year delinquent	3,138	0	1,047	0	4,185
Succeeding year	165,000	0	53,959	0	218,959
Accounts	0	546	0	0	546
Due from other governments	0	0	0	0	0
TOTAL ASSETS	\$ 318,981	117,077	93,550	21,997	551,605
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable	\$ 0	2,900	0	0	2,900
Salaries and benefits payable	2,185	0	0	0	2,185
Deferred revenue:					
Succeeding year property tax	165,000	0	53,959	0	218,959
Total Liabilities	167,185	2,900	53,959	0	224,044
Fund equity:					
Fund balances:					
Reserved:					
Debt service	0	0	0	0	0
Unreserved:					
Undesignated	151,796	114,177	39,591	21,997	327,561
Total fund balances	151,796	114,177	39,591	21,997	327,561
TOTAL LIABILITIES AND FUND EQUITY	\$ 318,981	117,077	93,550	21,997	551,605

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Debt Service	Capital Projects	Total Nonmajor Governmental Funds
513,874	213,250	1,055,039
0	0	4,185
0	0	218,959
0	7,500	8,046
0	97,905	97,905
513,874	318,655	1,384,134
0	0	2,900
0	0	2,185
0	0	218,959
0	0	224,044
513,874	0	513,874
0	318,655	646,216
513,874	318,655	1,160,090
513,874	318,655	1,384,134

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2005

	Special Revenue Funds				Total Special Revenue
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	
REVENUES:					
Local sources:					
Local tax	\$ 170,917	0	53,044	0	223,961
Other	982	285,938	3,208	500	290,628
TOTAL REVENUES	<u>171,899</u>	<u>285,938</u>	<u>56,252</u>	<u>500</u>	<u>514,589</u>
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	37,968	0	0	254	38,222
Other instruction	0	307,979	0	0	307,979
Support services:					
Operation and maintenance of plant services	105,552	0	0	0	105,552
Other expenditures:					
Facilities acquisitions	0	0	59,074	0	59,074
Long-term debt:					
Principal	0	0	0	0	0
Interest and fiscal charges	0	0	0	0	0
TOTAL EXPENDITURES	<u>143,520</u>	<u>307,979</u>	<u>59,074</u>	<u>254</u>	<u>510,827</u>
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	28,379	(22,041)	(2,822)	246	3,762
OTHER FINANCING SOURCES (USES):					
Transfers in	0	0	0	0	0
Transfers out	0	0	0	0	0
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
EXCESS(DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES	28,379	(22,041)	(2,822)	246	3,762
FUND BALANCE BEGINNING OF YEAR	<u>123,417</u>	<u>136,218</u>	<u>42,413</u>	<u>21,751</u>	<u>323,799</u>
FUND BALANCE END OF YEAR	<u>\$ 151,796</u>	<u>114,177</u>	<u>39,591</u>	<u>21,997</u>	<u>327,561</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 2

Debt Service	Capital Projects	Total Nonmajor Governmental Funds
0	596,861	820,822
5,219	2,105	297,952
5,219	598,966	1,118,774
0	0	38,222
0	0	307,979
0	0	105,552
0	273,892	332,966
369,685	0	369,685
117,522	0	117,522
487,207	273,892	1,271,926
(481,988)	325,074	(153,152)
424,368	0	424,368
0	(371,575)	(371,575)
424,368	(371,575)	52,793
(57,620)	(46,501)	(100,359)
571,494	365,156	1,260,449
513,874	318,655	1,160,090

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2005

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
All School Play	\$ 1,999	1,048	228	2,819
Drama Club	282	454	53	683
Quiz Bowl	0	150	114	36
Yearbook	1,905	4,240	4,741	1,404
Uniform Band Fee	783	80	0	864
Milk Machine	0	3,815	2,693	1,121
Art Club	1,173	3,815	4,355	633
Pep Club	149	4,382	4,366	165
AFS Club	0	1,998	0	1,998
Student Council	9,503	20,645	18,126	12,022
Spanish Club	3,763	3,497	4,674	2,586
Science Club	20	2	0	22
Computer Club	127	13	0	140
FBLA Club	499	4,688	4,171	1,016
FFA	23,062	43,626	43,121	23,567
FCCLA Group	249	55	194	110
National Honor Society	0	0	55	(55)
Class of 2005	15	426	1,358	(917)
Class of 2007	83	71	0	154
Class of 2006	247	4,496	4,040	703
Class of 2008	0	95	0	95
Post Prom Activities	350	100	64	386
SAEP-Entrepreneurship	10,507	9,258	11,417	8,348
Athletics	19	1,327	0	1,346
Athletic Activities	0	10,438	8,802	1,636
Concessions	2,813	31,660	31,651	2,822
Golf	0	443	706	(263)
Cross Country	0	21	0	21
Soccer	1,796	1,439	2,724	511
Boys Basketball	6,044	11,647	16,268	1,423
Football	3,069	8,839	11,176	732
Baseball	836	3,530	1,206	3,160
Boys Track	0	633	1,250	(617)
Wrestling	75	1,750	1,675	150
Girls Basketball	5,897	5,144	9,544	1,497
Volleyball	731	2,874	3,328	277
Softball	0	2,809	0	2,809
Girls Track	32	1,028	975	85
Cheerleaders	0	1,140	1,105	35
Dance Team	0	60	0	60
Library Club	177	17	0	194
Teachers Pop Fund	1,026	4,114	3,064	2,076
HS Student Activities	524	2,188	2,913	(201)
Renaissance Program	3,918	7,342	10,227	1,033
S.A.D.D	218	21	0	239
K-8 Conference Fair	4,305	9,639	11,572	2,372

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2005

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Triple M	639	0	98	541
Music Groups	2,198	0	55	2,143
Student Council	1,576	7,865	8,734	707
MS Student Activities	7,740	41,240	42,532	6,448
Athletic Resale	247	0	0	247
Future Problem Solvers	0	150	0	150
Ind. Arts Fees	7	0	0	7
K-8 Faculty Pop	1,541	6,336	7,797	80
JR HI Musical	287	0	0	287
JR HI Solo & Ensemble	599	0	0	599
Special Olympics	646	0	151	495
Special Needs Field Trips	2,302	1,245	1,211	2,336
D.A.R.E.	63	50	113	0
Sun-Glo	313	0	448	(135)
C.L.I.M.B.	86	0	0	86
224th Battalion Club	0	540	515	25
A/R Assessment	0	100	0	100
Playground	540	0	382	158
T.A.G. Club	634	15	0	649
Elementary Resale Account	656	1,341	1,222	775
Elementary Student Activities	2,378	9,411	7,598	4,191
Interest Account	12,960	2,317	15,167	110
Pepsi CD	14,610	271	0	14,881
 Total	 \$ 136,218	 285,938	 307,979	 114,177

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 3,189,323	3,497,010	3,273,503	3,379,535
Tuition	724,243	595,298	538,364	454,983
Other	390,920	383,090	469,258	589,755
Intermediate sources	0	2,834	1,000	750
State sources	4,466,282	4,003,832	4,155,474	4,038,960
Federal sources	376,006	292,168	227,299	220,504
	<hr/>			
Total	\$ 9,146,774	8,774,232	8,664,898	8,684,487
<hr/>				
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 3,792,917	3,777,269	3,528,270	3,656,793
Special instruction	1,210,190	1,094,013	1,007,556	916,103
Other instruction	942,480	802,322	977,622	808,276
Support services:				
Student services	276,961	221,495	204,502	201,884
Instructional staff services	151,639	109,362	102,119	100,527
Administration services	776,587	762,246	710,578	759,443
Operation and maintenance of plant services	639,309	592,371	626,433	604,237
Transportation services	438,627	349,528	282,662	660,311
Other expenditures:				
Facilities acquisitions	332,966	173,956	581,114	2,498,950
Long-term debt:				
Principal	369,686	346,127	348,736	455,000
Interest and other charges	117,521	139,702	159,755	168,540
AEA flow-through	281,037	282,203	304,971	305,736
	<hr/>			
Total	\$ 9,329,920	8,650,594	8,834,318	11,135,800
<hr/>				

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

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

To the Board of Education of the
Central Lee 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 Lee Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 6, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Central Lee Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described Part I 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 misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-05 is a material weakness.

Compliance and Other Matters

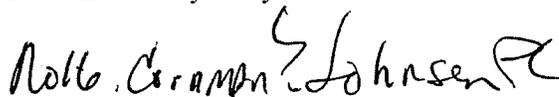
As part of obtaining reasonable assurance about whether Central Lee Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do

not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part II in 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, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Central Lee 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.


NOLTE, CORNMAN & JOHNSON, P.C.

September 6, 2005

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part I: Findings Related to the General Purpose Financial Statements:

REPORTABLE CONDITIONS:

I-A-05 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. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

Conclusion - Response accepted.

I-B-05 Activity Admissions - The Activity gate admissions and change box were not reconciled with pre-numbered tickets.

Recommendation - The District should establish reconciliation procedures for activity admissions. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the change box and admissions to the number of tickets issued.

Response - Our facility does not lend itself to such a procedure. However, we will review our present procedures and consider the recommended reconciliation procedures.

Conclusion - Response accepted.

I-C-05 Activity Fund Accounts - We noted during the audit that the Student Activity Fund has an Industrial Arts Fees account and a Pepsi CD account that may be more appropriate in the General Fund.

Recommendation - The Industrial Arts Fees account and the Pepsi CD should be moved to the General Fund.

Response - We will comply.

Conclusion - Response accepted.

I-D-05 General Fund Disbursements - We noted during the audit that certain General Fund disbursements did not have proper approval or authorization.

Recommendation - The District should review procedures to ensure disbursements are properly approved and authorized.

Response - We will evaluate current procedures.

Conclusion - Response accepted.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part II: Other Findings Related to Statutory Reporting

II-A-04 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

II-B-05 Certified Budget - District disbursements for the year ended June 30, 2005 exceeded the amount budgeted in the non-instructional programs function.

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 monitor next year’s budget more closely and amend when necessary.

Conclusion – Response accepted.

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

II-D-05 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.

II-E-05 Business Transactions – Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Ernie Schiller, Teacher Spouse of owner of Schillers Flowers	Flowers/plants	\$ 6,100

In accordance with the Attorney General’s opinion dated November 9, 1976, the above transactions do not appear to represent a conflict of interest.

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

II-G-05 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

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

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

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

II-K-05 Financial Condition - We noted during our audit that the District had negative individual account balances in the Student Activity Fund.

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

Response – We will monitor the individual account balances more closely.

Conclusion – Response accepted.