

CENTRAL LYON COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

Table of Contents

	<u>Exhibit</u>	<u>Page</u>
Officials		3
Independent Auditor's Report		5 - 6
Managements' Discussion and Analysis		7 - 14
Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Net Assets	A	17
Statement of Activities	B	18 - 19
Government Fund Financial Statements:		
Balance Sheet	C	20
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	21
Statement of Revenues, Expenditures and Changes in Fund Balances	E	22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	23
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	24
Statement of Revenues, Expenditures and Changes in Fund Net Assets	H	25
Statement of Cash Flows	I	26
Notes to Financial Statements		27 - 37
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund		40 - 41
Budget to GAAP Reconciliation		42
Notes to Required Supplementary Information - Budgetary Reporting		43
Other Supplementary Information:		
<u>Schedule</u>		
Nonmajor Special Revenue Funds:		
Combining Balance Sheet	1	46
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	47
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	48 - 49
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	4	50
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		52 - 53
Schedule of Findings		54 - 56

CENTRAL LYON COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Board of Education (Before September 2004 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
Board of Education (After September 2004 Election)		
Bruce Vogel	President	2006
Judy Gacke	Vice President	2007
Chet DeJong	Board Member	2006
Marilyn Mamenga	Board Member	2005
Gail Van Berkum	Board Member	2005
School Officials		
Bill Hutchinson	Superintendent	June 30, 2005
Jackie Wells	District Secretary/Treasurer and Business Manager	Indefinite
Randy Waagmeester	Attorney	Indefinite

Dan Heard, CPA
David O. Halse, CPA
Kyle Ebel, CPA
Aleene Williams, CPA

Telephone 712-472-4011
Fax 712-472-4014

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, 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 Central Lyon Community School District at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated August 24, 2005 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 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 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, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, are 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.

August 24, 2005

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, 2005. 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.

Financial Highlights

General Fund revenues increased from \$4,976,739 in fiscal year 2004 to \$5,234,390 in fiscal year 2005, while General Fund expenditures increased from \$4,938,754 in fiscal year 2004 to \$5,126,715 in fiscal 2005. The District's General Fund balance increased from \$367,600 in fiscal 2004 to \$387,580 in fiscal 2005. Spending Authority has been carefully monitored in the last seven 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 local, state and federal revenue in fiscal 2005. The increase in expenditures was due primarily to an increase in the equipment purchases, fuel and utility expenditures.

An increase in interest rates resulted in interest earnings in the General Fund alone to increase from \$ 24,406 in fiscal year 2004 to \$35,777 in fiscal year 2005.

Enrollment declines and increased numbers of open enrolled out pupils continue to plague the district and create financial burdens.

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.

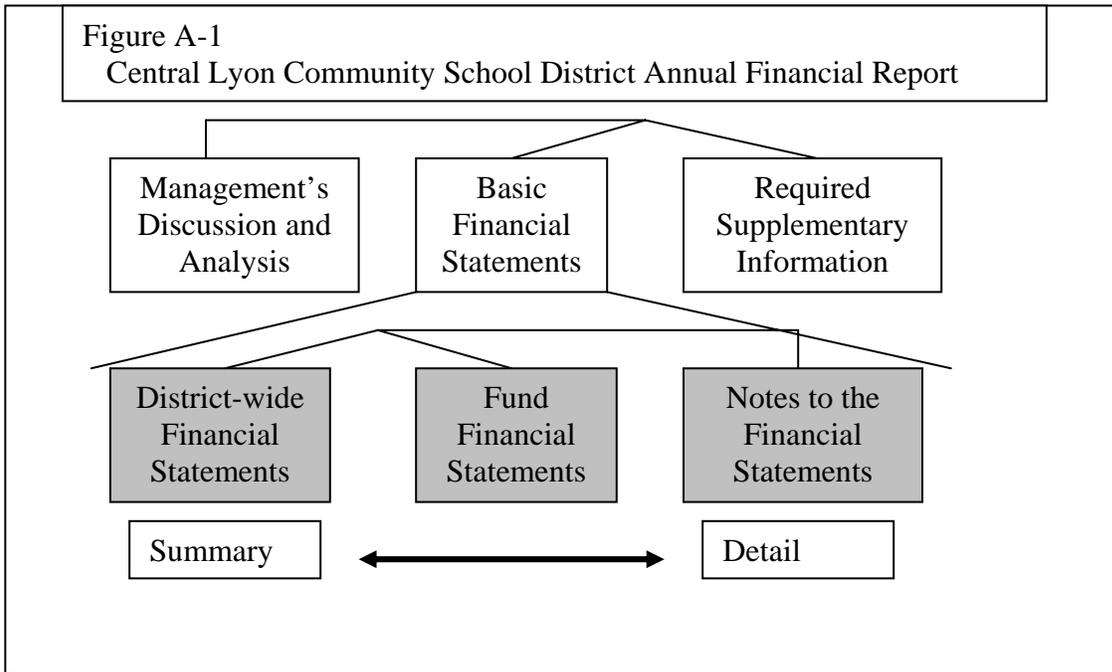


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents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

District-wide Financial Statements

The District-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 District-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 of 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 two 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, 2005 compared to June 30, 2004.

Figure A-3 Condensed Statement of Net Assets (Expressed in Thousands)							
	Governmental Activities		Business type Activities		Total Activities		Total Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
Current and other assets	\$ 7,971	\$ 4,855	\$ 7	\$ 9	\$ 7,978	\$ 4,864	64.02%
Capital assets	10,062	10,254	80	135	10,142	10,389	(2.38%)
Total assets	18,033	15,109	87	144	18,120	15,253	61.64%
Long-term Liabilities	7,028	4,439	-	-	7,028	4,439	58.32%
Other Liabilities	3,808	3,911	13	4	3,821	3,915	(2.40%)
Total Liabilities	10,836	8,350	13	4	10,849	8,354	55.92%
Net Assets							
Invested in capital assets, net of related debt	3,107	5,871	80	144	3,187	6,015	(47.02%)
Restricted	3,788	566	-	-	3,788	566	569.26%
Unrestricted	302	321	(4)	(5)	298	316	(5.70%)
Total net assets	\$ 7,197	\$ 6,758	\$ 76	\$ 139	\$ 7,273	\$ 6,897	516.55%

The District's combined net assets increased by approximately \$376,000 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 \$3,222,000 or 569% over the prior year. The increase was primarily a result of receipts from the local option sales, services taxes and the funds for the refinancing of general obligation bonds that will be called in June 2006.

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 \$18,000 or 5.7 percent. This reduction in unrestricted net assets was a result of the settlement with Iowa School Employee Benefits Association regarding the final assessment shortfall.

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

Figure A-4 Changes in Net Assets (Expressed in Thousands)			
	Governmental	Business-type Activities	Total School District
Revenue			
Program revenue:			
Charges for service	\$ 645	\$ 184	\$ 829
Operating grants, contributions and restricted interest	648	87	735
Capital grants, contributions and restricted interest	92	-	92
General revenues:			
Property tax	2,611	-	2,611
Local option sales and service tax	271	-	271
Unrestricted state grants	2,393	4	2,397
Other	42	-	42
Total revenues	6,702	275	6,977
Program expenses:			
Governmental activities:			
Instruction	4,137	-	4,137
Support service	1,618	-	1,618
Non-instructional programs	1	287	288
Other expenses	506	-	506
Total expenses	6,262	287	6,549
Change in net assets	\$ 440	\$ (12)	\$ 428

Property tax and unrestricted state grants account for 71.8 percent of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 87.8 percent of the total expenses.

Governmental Activities

Revenues for governmental activities were \$6,702,033 and expenses were \$6,262,707. 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	\$ 4,137	\$ 3,198
Support services	1,618	1,530
Non-instructional programs	1	1
Other expenses	507	236
Totals	\$ 6,263	\$ 4,965

- The cost financed by users of the District's programs was \$557,998.

- Federal and state governments subsidized certain programs with grants and contributions totaling \$740,062.
- The net cost of governmental activities was financed with \$2,882,019 in property and other taxes and \$2,392,855 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$275,684 and expenses were \$287,396. 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 \$4,186,809, above last year's ending fund balances of \$3,882,102. However, the primary reason for the increase in combined fund balances in fiscal 2005 is due to approximately \$270,000 in local option sales tax received in fiscal 2005 that will be used to make bond payments in the future.

Governmental Fund Highlights

- The General Fund balance increased from \$367,600 to \$387,580, due in part to the carefully monitored spending during the last year.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$54,823 in fiscal 2004 to \$60,830 in fiscal 2005. 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 from \$10,094 in 2004 to \$314,936 in 2005. This was mainly due to a full year of local option sales taxes collected during the fiscal year 2005 and being held to make bond payments in Fiscal 2006.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$139,182 at June 30, 2004 to \$74,483 at June 30, 2005, representing decrease of approximately 47%. For fiscal 2005, the decrease is due to reclassifying the custodial fixed assets that had been included in this fund instead of general fixed assets. The decrease would have been 13% for the operation of the School Nutrition fund or \$11,346 for the year.

BUDGETARY HIGHLIGHTS

The District's receipts were \$550,079 more than budgeted receipts, with a variance of 8.7%. The most significant variance resulted from the District receiving a full year of local option sales taxes and state foundation aid.

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 non-instructional 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, 2005, the District had invested \$10.1 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 1.85% 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 \$301,904.

The original cost of the District's capital assets was \$14.5 million. Governmental funds account for \$14.3 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 Furniture and Equipment category. The District purchased additional computers and other equipment as well as a new van and mower.

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

	Governmental Activities		Business type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
Land	\$ 51	\$ 51	\$ -	\$ -	\$ 51	\$ 51	0.00%
Buildings	8,891	9,129	-	-	8,891	9,129	(2.61%)
Improvements other than buildings	237	259	-	-	237	259	(8.49%)
Furniture and Equipment	883	815	80	79	963	894	7.72%
Totals	\$ 10,062	\$ 10,254	\$ 80	\$ 79	\$ 10,142	\$ 10,333	(1.85%)

Long-Term Debt

At June 30, 2005, the District had \$7,362,468 in general obligation, revenue and other long-term debt outstanding. This represents an increase of approximately 4.4% 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.

The refunding bonds will be used to pay off two general obligation bond issues in June 2006 totaling \$3,160,000. The district had total outstanding bonded indebtedness at June 30, 2005 of \$6,210,000 which includes the bonds that will be paid in 2006 and the refunding bonds.

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

	Total School District		Total Change
	June 30,		June 30,
	2005	2004	2003-2004
General Obligation Bonds	\$ 6,210	\$ 6,445	(3.65%)
Capital Notes	745	825	(9.70%)
Notes Payable	-	28	(100.00%)
Early Retirement	73	56	30.36%
Compensated Absences	5	8	(37.50%)
	\$ 7,033	\$ 7,362	(4.47%)

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 increased in fiscal year 2004-2005 by 6 students to a budget enrollment of 699. Under Iowa's school finance formula, funding is highly dependent upon enrollment. During the 2004-2005 school-year, Central Lyon students who open enroll out to other districts increased by 3 students, from 74 to 77. 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, 2005

Exhibit A

	Governmental Activities	Business Type Activities	Totals
Assets			
Cash and cash Equivalents:			
ISCAP	\$ 919,184	\$ -	\$ 919,184
Other	4,694,699	2,065	4,696,764
Receivables:			
Property tax:			
Delinquent	30,941	-	30,941
Succeeding year	2,216,155	-	2,216,155
Local option sales taxes	27,156	-	27,156
Accounts	69,744	-	69,744
Accrued interest:			
ISCAP	200	-	200
Other	3,705	-	3,705
Due from other governments	9,500	-	9,500
Inventories	-	5,234	5,234
Capital assets, net of accumulated depreciation	10,062,303	79,987	10,142,290
Total assets	18,033,587	87,286	18,120,873
Liabilities			
Accounts payable	161,050	132	161,182
Salaries and benefits payable	490,375	(464)	489,911
Due to other governments	-	9,500	9,500
Accrued interest payable	23,196	-	23,196
Deferred revenue - succeeding year			
Property tax	2,216,155	-	2,216,155
Other	-	3,559	3,559
ISCAP warrants payable	928,000	-	928,000
ISCAP accrued interest payable	(15,660)	-	(15,660)
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	3,245,000	-	3,245,000
Compensated absences	4,555	-	4,555
Portion due after one year:			
General obligation bonds payable	3,710,000	-	3,710,000
Early retirement	73,422	-	73,422
Total liabilities	\$ 10,836,093	\$ 12,727	\$ 10,848,820
Net assets			
Invested in capital assets, net of related debt	3,107,303	79,987	3,187,290
Restricted for:			
Physical plant and equipment levy	60,830	-	60,830
Other special revenue purposes	141,863	-	141,863
Capital projects	314,936	-	314,936
Debt service	3,270,323	-	3,270,323
Unrestricted	302,239	(5,428)	296,811
Total net assets	\$ 7,197,494	\$ 74,559	\$ 7,272,053

See notes to financial statements.

Central Lyon Community School District
Statement of Activities
June 30, 2005

	Expenses	Program Revenues		
		Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest
Functions/Programs				
Governmental activities:				
Instruction:				
Regular instruction	\$ 2,459,516	\$ 54,228	\$ 230,065	\$ -
Special instruction	796,275	15,387	138,549	-
Other instruction	881,046	479,312	21,797	-
	<u>4,136,837</u>	<u>548,927</u>	<u>390,411</u>	<u>-</u>
Support services:				
Student services	114,945	-	11,166	-
Instructional staff services	210,999	-	-	-
Administration Services	571,298	-	3,702	-
Operation and maintenance of plant set	556,068	9,071	35,000	-
Transportation services	164,821	-	29,588	-
	<u>1,618,131</u>	<u>9,071</u>	<u>79,456</u>	<u>-</u>
Non-instructional programs	<u>1,195</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Long-term debt interest	293,318	-	56,969	-
AEA flow through	213,226	-	213,226	-
	<u>506,544</u>	<u>-</u>	<u>270,195</u>	<u>-</u>
Total governmental activities	<u>6,262,707</u>	<u>557,998</u>	<u>740,062</u>	<u>-</u>
Business type activities:				
Non-instructional programs:				
Food service operations	287,396	184,503	91,181	-
Total	<u>\$ 6,550,103</u>	<u>\$ 742,501</u>	<u>\$ 831,243</u>	<u>\$ -</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				
Net assets end of year				

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
\$ (2,175,223)	\$ -	\$ (2,175,223)
(642,339)	-	(642,339)
(379,937)	-	(379,937)
<u>(3,197,499)</u>	<u>-</u>	<u>(3,197,499)</u>
(103,779)	-	(103,779)
(210,999)	-	(210,999)
(567,596)	-	(567,596)
(511,997)	-	(511,997)
(135,233)	-	(135,233)
<u>(1,529,604)</u>	<u>-</u>	<u>(1,529,604)</u>
<u>(1,195)</u>		<u>(1,195)</u>
(236,349)	-	(236,349)
-	-	-
<u>(236,349)</u>	<u>-</u>	<u>(236,349)</u>
<u>(4,964,647)</u>	<u>-</u>	<u>(4,964,647)</u>
-	(11,712)	(11,712)
<u>(4,964,647)</u>	<u>(11,712)</u>	<u>(4,976,359)</u>
2,062,736		2,062,736
394,304		394,304
153,978		153,978
271,001		271,001
2,392,855		2,392,855
42,484	37	42,521
86,615		86,615
<u>5,403,973</u>	<u>37</u>	<u>5,404,010</u>
439,326	(11,675)	427,651
6,758,168	86,234	6,844,402
<u>\$ 7,197,494</u>	<u>\$ 74,559</u>	<u>\$ 7,272,053</u>

Central Lyon Community School District
Balance Sheet – Governmental Funds
June 30, 2005

Exhibit C

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
Assets					
Cash and pooled investments:					
ISCAP	\$ 919,184	\$ -	\$ -	\$ -	\$ 919,184
Other	878,372	3,276,671	287,780	251,876	4,694,699
Receivables:					
Property tax:					
Delinquent	22,217	5,174	-	3,550	30,941
Local option sales taxes	-	-	27,156	-	27,156
Accounts	69,744	-	-	-	69,744
Accrued interest:					
ISCAP	200	-	-	-	200
Other	-	3,705	-	-	3,705
Due from other funds	9,500	-	-	-	9,500
Total assets	<u>1,899,217</u>	<u>3,285,550</u>	<u>314,936</u>	<u>255,426</u>	<u>5,755,129</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	165,605	-	-	-	165,605
Salaries and benefits payable	433,692	-	-	56,683	490,375
ISCAP warrants payable	928,000	-	-	-	928,000
ISCAP accrued interest payable	(15,660)	-	-	-	(15,660)
Deferred revenue:					
Total liabilities	<u>1,511,637</u>	<u>-</u>	<u>-</u>	<u>56,683</u>	<u>1,568,320</u>
Fund balances:					
Reserved for debt service	-	3,285,550	-	-	3,285,550
Unreserved	387,580	-	314,936	198,743	901,259
Total fund balances	<u>387,580</u>	<u>3,285,550</u>	<u>314,936</u>	<u>198,743</u>	<u>4,186,809</u>
Total liabilities and fund balances	<u>\$ 1,899,217</u>	<u>\$ 3,285,550</u>	<u>\$ 314,936</u>	<u>\$ 255,426</u>	<u>\$ 5,755,129</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, 2005

Exhibit D

Total fund balances of governmental funds (page 20) \$ 4,186,809

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. 10,062,303

Other long-term assets are not available to pay current
period expenditures and, therefore, are deferred in the
governmental funds.

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. (23,196)

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. (7,028,422)

Net assets of governmental activities (page 19) \$ 7,197,494

See notes to financial statements.

Central Lyon Community School District
Statement of Revenues, Expenditures and
Changes in Fund Balances – Governmental Funds
June 30, 2005

Exhibit E

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
Revenues:					
Local sources:					
Local tax	\$ 1,947,725	\$ 394,304	\$ 271,001	\$ 268,989	\$ 2,882,019
Tuition	45,744	-	-	-	45,744
Other	200,439	56,969	-	475,915	733,323
Intermediate sources	213,226	-	-	-	213,226
State sources	2,608,740	276	-	189	2,609,205
Federal sources	218,516	-	-	-	218,516
Total Revenues	<u>5,234,390</u>	<u>451,549</u>	<u>271,001</u>	<u>745,093</u>	<u>6,702,033</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	2,285,783	-	-	-	2,285,783
Special instruction	796,275	-	-	-	796,275
Other instruction	423,483	-	-	457,563	881,046
	<u>3,505,541</u>	<u>-</u>	<u>-</u>	<u>457,563</u>	<u>3,963,104</u>
Support services:					
Student services	114,945	-	-	-	114,945
Instructional staff services	199,852	-	-	-	199,852
Administration Services	571,298	-	-	-	571,298
Operation and maintenance of plant services	358,509	-	-	176,477	534,986
Transportation services	162,149	-	-	-	162,149
	<u>1,406,753</u>	<u>-</u>	<u>-</u>	<u>176,477</u>	<u>1,583,230</u>
Non-instructional programs	<u>1,195</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,195</u>
Other expenditures:					
Long-term debt interest	-	294,571	-	-	294,571
AEA flow through	213,226	-	-	-	213,226
	<u>213,226</u>	<u>294,571</u>	<u>-</u>	<u>-</u>	<u>507,797</u>
Total expenditures	<u>5,126,715</u>	<u>294,571</u>	<u>-</u>	<u>634,040</u>	<u>6,055,326</u>
Excess (deficiency) of revenues over (under) expenditures	<u>107,675</u>	<u>156,978</u>	<u>271,001</u>	<u>111,053</u>	<u>646,707</u>
Other financing sources (uses):					
Operating transfers in	19,456	157,857	77,737	-	255,050
Operating transfers out	(107,151)	-	(43,896)	(104,003)	(255,050)
General obligation bonds	-	(343,000)	-	-	(343,000)
Total other financing sources (uses)	<u>(87,695)</u>	<u>(185,143)</u>	<u>33,841</u>	<u>(104,003)</u>	<u>(343,000)</u>
Net Change in fund balances	19,980	(28,165)	304,842	7,050	303,707
Fund balances beginning of year	367,600	3,313,715	10,094	191,693	3,883,102
Fund balances end of year	<u>\$ 387,580</u>	<u>\$ 3,285,550</u>	<u>\$ 314,936</u>	<u>\$ 198,743</u>	<u>\$ 4,186,809</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, 2005

Exhibit F

Net change in fund balance - total governmental funds (page 22) \$ 303,707

**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	117,006	
Depreciation expense	<u>(308,717)</u>	(191,711)

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	-	
Repaid	<u>343,000</u>	343,000

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.

1,253

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	(16,923)	
Compensated absences	<u>(16,923)</u>	(16,923)

Change in net assets of governmental activities (page 19) \$ 439,326

See notes to financial statements.

Central Lyon Community School District
 Balance Sheet – Proprietary Funds
 June 30, 2005

Exhibit G

	School Nutrition	FFA Property	Enterprise Totals
Assets			
Cash and cash equivalents	\$ 1,857	\$ 208	\$ 2,065
Accounts receivable	-	-	-
Inventories	5,234	-	5,234
Capital assets, net of accumulated depreciation	79,987	-	79,987
Total assets	87,078	208	87,286
Liabilities			
Accounts payable	-	132	132
Deferred Revenues	3,559	-	3,559
Salaries and benefits payable	(464)	-	(464)
Due to other funds	9,500	-	9,500
Total Liabilities	12,595	132	12,727
Net Assets			
Invested in capital assets, net of related debt	79,987	-	79,987
Unrestricted	(5,504)	76	(5,428)
Total net assets	\$ 74,483	\$ 76	\$ 74,559

See notes to financial statements.

Central Lyon Community School District
Statement of Revenues, Expenditures and Changes in
Fund Balances – Proprietary Funds
June 30, 2005

Exhibit H

	School Nutrition	FFA Property	Enterprise Totals
Operating revenues:			
Local sources:			
Charges for service	\$ 143,584	\$ 40,919	\$ 184,503
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries	89,060	-	89,060
Benefits	11,857	-	11,857
Purchased services	5,216	163	5,379
Supplies	137,675	41,085	178,760
Depreciation	2,340	-	2,340
Total operating expenses	246,148	41,248	287,396
Operating loss	(102,564)	(329)	(102,893)
Non-operating revenues:			
State sources	3,621	-	3,621
Federal sources	87,560	-	87,560
Interest Income	37	-	37
Total non-operating revenues	91,218	-	91,218
Change in net assets	(11,346)	(329)	(11,675)
Net assets beginning of year	85,829	405	86,234
Net assets end of year	\$ 74,483	\$ 76	\$ 74,559

See notes to financial statements.

Central Lyon Community School District
Statement of Cash Flows – Proprietary Funds
June 30, 2005

Exhibit I

	School Nutrition	FFA Property	Enterprise Totals
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 143,507	\$ -	\$ 143,507
Cash received from miscellaneous services	387	40,919	41,306
Cash paid to employees for services	(101,378)	-	(101,378)
Cash paid to supplies for goods or services	(125,532)	(41,642)	(167,174)
Net cash used by operating activities	(83,016)	(723)	(83,739)
Cash flows from non-capital financing activities:			
State grants received	3,621	-	3,621
Federal grants received	70,450	-	70,450
Net cash provided by non-capital financing activities	74,071	-	74,071
Cash flows from capital and related financing activities:			
Loan from General Fund	9,500	-	9,500
Acquisition of capital assets	(1,054)	-	(1,054)
Net cash used by capital and related financing activities	8,446	-	8,446
Cash flows from investing activities:			
Interest on Investments	37	-	37
Net decrease in cash and cash equivalents	(462)	(723)	(1,185)
Cash and cash equivalents beginning of year	2,319	931	3,250
Cash and cash equivalents end of year	\$ 1,857	\$ 208	\$ 2,065
Reconciliation of operating loss to net cash used by operating activities			
Operating Loss	\$ (102,564)	\$ (329)	\$ (102,893)
Adjustments to reconcile operating loss to net cash used by operating activities			
Commodities used	16,627	-	16,627
Depreciation	2,340	-	2,340
(Increase) Decrease in inventories	732	-	732
Increase (Decrease) in accounts payable	-	(394)	(394)
Increase in deferred revenue	310	-	310
(Decrease) in salaries and benefits payable	(461)	-	(461)
(Decrease) in due to other governments	-	-	-
Net cash used by operating activities	\$ (83,016)	\$ (723)	\$ (83,739)

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received \$17,110 of federal commodities.

See notes to financial statements.

Central Lyon Community School District
Notes to Financial Statements
June 30, 2005

(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, 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, 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, 2005. 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, 2005, 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, 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 high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2005, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$14,419</u>

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

Interest rate risk – the District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

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

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2005 is as follows:

Receivable Fund	Payable Fund	Amount
General	Student Nutrition	<u>\$ 9,500</u>

The Student Nutrition is repaying the General Fund for advances made for the operating expenses related to the costs of the hot lunch program. The advance will be paid back with future income of the Fund.

(4) Interfund Transfers

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

Transfer to	Transfer from:	Amount
Debt Service	General Fund	\$ 29,414
	Local Option Sales	24,440
	Physical Plant and Equipment Levy	104,003
General Fund	Capital Projects	19,456
Capital Projects	General Fund	<u>77,737</u>
		<u>\$ 255,050</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, 2005 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2004-05B	1/28/2005	1/27/2006	\$ -	\$ -	\$ -	\$ -
2005-06A	6/30/2005	6/30/2006	932,111	199	928,000	178
Total			<u>\$ 932,111</u>	<u>\$ 199</u>	<u>\$ 928,000</u>	<u>\$ 178</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
2004-05B	3.500%	2.463%
2005-06A	3.500%	3.903%

6) Capital Assets

Capital assets activity for the year ended June 30, 2005 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
Total capital assets not being depreciated	51,000	-	-	51,000
Capital assets being depreciated:				
Buildings	12,056,766	2,584	-	12,059,350
Improvements other than buildings	549,651	-	-	549,651
Furniture and equipment	1,531,626	114,422	-	1,646,048
Total capital assets being depreciated	14,138,043	117,006	-	14,255,050
Less accumulated depreciation for:				
Buildings	2,927,768	240,872	-	3,168,640
Improvements other than buildings	290,457	21,932	-	312,389
Furniture and equipment	716,804	39,100	(6,814)	762,718
Total accumulated depreciation	3,935,029	301,904	(6,814)	4,243,747
Total capital assets being depreciated, net	10,203,014	(184,898)	6,814	10,011,303
Governmental activities capital assets, net	\$ 10,254,014	\$ (184,898)	\$ 6,814	\$ 10,062,303
Business type activities:				
Furniture and equipment	\$ 154,032	\$ 2,847	\$ -	\$ 156,879
less accumulated depreciation	74,553	2,340	-	76,892
Business type activities capital assets, net	\$ 79,479	\$ 507	\$ -	\$ 79,987

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction:

Regular	\$ 269,669
Special	-
Other	-

Support services:

Instructional staff	11,147
Administration	-
Operation and maintenance of plant	4,862
Transportation	16,227
	<u>301,905</u>

Unallocated

Total depreciation expense - governmental activities	<u>\$ 301,905</u>
--	-------------------

Business type activities:

Food service operations	<u>\$ 2,340</u>
-------------------------	-----------------

(7) Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2005, is as follows:

	Balance			Balance	Due
	Beginning			End	Within
	of Year	Additions	Reductions	of Year	One Year
General Obligation Bonds	\$6,445,000	\$ -	\$ 235,000	\$ 6,210,000	\$ 3,160,000
Capital Notes	825,000		80,000	745,000	85,000
Notes Payable	28,000		28,000	-	-
Early Retirement	56,499	51,119	34,196	73,422	56,683
Compensated Absences	7,969		3,414	4,555	4,555
Total	<u>\$7,362,468</u>	<u>\$ 51,119</u>	<u>\$ 380,610</u>	<u>\$ 7,032,977</u>	<u>\$ 3,306,238</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, 2005 totaled \$56,929. The benefits can be applied to cover the cost of health insurance premiums.

Details of the District's June 30, 2005, general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of Sept. 1, 1995			Bond Issue of Feb. 1, 1998		
	Interest			Interest		
	Rate	Principal	Interest	Rate	Principal	Interest
2006	5.536%	\$ 2,655,000	\$ 146,975	4.40%	\$ 505,000	\$ 23,953
Total		<u>\$ 2,655,000</u>	<u>\$ 146,975</u>		<u>\$ 505,000</u>	<u>\$ 23,953</u>
Year Ending June 30,	Bond Issue of July 1, 2003			Capital Loan Notes Sept. 15, 2003		
	Interest			Interest		
	Rate	Principal	Interest	Rate	Principal	Interest
2006		-	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>\$514,389</u>		<u>\$745,000</u>	<u>\$116,950</u>
Year Ending June 30,	Bond Totals					
	Principal	Interest	Total			
2006	3,245,000	278,353	3,523,353			
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			
Total	<u>\$6,955,000</u>	<u>\$802,266</u>	<u>\$7,757,266</u>			

During the year ended June 30, 2005, the District made principal and interest payments totaling \$637,571 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, 2005, 2004, and 2003 were \$190,715, \$188,324 and \$181,123 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.

The District was a member in the Iowa School Employee Benefits Association (ISEBA), an Iowa Code Chapter 28E organization until June 30, 2004. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members that terminated from ISEBA on June 30, 2004 received an assessment in December 2004 which is due July 1, 2005. The total assessment for terminated members is approximately \$3.9 million. The District's share of this assessment was \$54,396.29. The District joined a class action lawsuit against ISEBA, the lawsuit was settled and assessment was reduced to \$27,198.15 which is recorded as a liability as of June 30, 2005.

(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 \$213,226 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.

(11) Subsequent Events

The District had an audit of the Iowa Public Employees Retirement System (IPERS) reports from 2000 to current period regarding temporary employees including retired employees that substitute for the school district. The audit found that the District had not calculated the retirement deduction correctly. IPERS has not determined the amount of underpayment as of October 19, 2005 but it is believed to be less than \$5,000. No liability has been accrued for the underpayment as of June 30, 2005.

Central Lyon Community School District

Required Supplementary Information

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, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual
Receipts:			
Local Sources	\$ 3,707,646	\$ 184,540	\$ 3,707,646
Intermediate sources	-	-	-
State sources	2,902,855	3,621	2,906,476
Federal sources	218,516	70,450	288,966
Total receipts	<u>6,829,017</u>	<u>258,611</u>	<u>6,903,088</u>
Disbursements:			
Instruction	3,943,580	-	3,943,580
Support services	1,583,230	-	1,583,230
Non-instructional programs	1,195	259,795	260,990
Other expenditures	660,892	-	660,892
Total disbursements	<u>6,188,897</u>	<u>259,795</u>	<u>6,448,692</u>
Deficiency of receipts under disbursements	640,120	(1,184)	454,396
Other financing sources, net	<u>(343,000)</u>	-	<u>(343,000)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing use	297,120	(1,184)	111,396
Balances beginning of year	<u>4,397,579</u>	<u>3,249</u>	<u>4,400,828</u>
Balances end of year	<u>\$ 4,694,699</u>	<u>\$ 2,065</u>	<u>\$ 4,512,224</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Actual
		Variance
\$ 3,382,466	\$ 3,382,466	\$ 325,180
2,000	2,000	(2,000)
2,718,543	2,718,543	187,933
250,000	250,000	38,966
<u>6,353,009</u>	<u>6,353,009</u>	<u>550,079</u>
3,596,500	3,596,500	347,080
1,590,000	1,590,000	(6,770)
252,000	252,000	8,990
782,976	782,976	(122,084)
<u>6,221,476</u>	<u>6,221,476</u>	<u>227,216</u>
131,533	131,533	322,863
-	-	(343,000)
131,533	131,533	(20,137)
<u>1,255,172</u>	<u>1,255,172</u>	<u>3,145,656</u>
<u>\$ 1,386,705</u>	<u>\$ 1,386,705</u>	<u>\$ 3,125,519</u>

Central Lyon Community School District
 Budgetary Comparison Schedule – Budget to GAAP Reconciliation
 Required Supplementary Information
 Year ended June 30, 2005

	Government Funds		
	Cash	Accrual	Accrual
	Basis	Adjust- ments	Basis
Revenues	\$ 6,829,017	\$ (126,984)	\$ 6,702,033
Expenditures	6,188,897	(133,571)	6,055,326
Net	640,120	6,587	646,707
Other financing sources, net	(343,000)	-	(343,000)
Beginning fund balances	4,397,579	(514,477)	3,883,102
Ending fund balances	<u>\$ 4,694,699</u>	<u>\$ (507,890)</u>	<u>\$ 4,186,809</u>
	Proprietary Fund		
	Enterprise		
	Cash	Accrual	Accrual
	Basis	Adjust- ments	Basis
Revenues	258,611	(17,110)	241,501
Expenditures	259,795	27,601	287,396
Net	(1,184)	(44,711)	(45,895)
Adjustments for reserves	-	(19,133)	(19,133)
Beginning fund balances	3,249	136,338	139,587
Ending fund balances	<u>\$ 2,065</u>	<u>\$ 72,494</u>	<u>\$ 74,559</u>

See accompanying independent auditor's report.

Central Lyon 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, 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, 2005, 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, 2005

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
Assets				
Cash and cash equivalents:				
ISCAP	\$ -	\$ -	\$ -	\$ -
Other	51,204	141,863	58,809	251,876
Receivables:				
Property tax:				
Delinquent	1,529		2,021	3,550
Succeeding year	-		-	-
Total assets	52,733	141,863	60,830	255,426
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	-	-	-	-
Salaries and benefits payable	56,683	-	-	56,683
Deferred revenue - succeeding year property tax	-	-	-	-
Total liabilities	56,683	-	-	56,683
Fund equity:				
Unreserved fund balances	(3,950)	141,863	60,830	198,743
Total liabilities and fund equity	\$ 52,733	\$ 141,863	\$ 60,830	\$ 255,426

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, 2005

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
Revenues:				
Local sources:				
Local tax	\$ 115,011	\$ -	\$ 153,978	\$ 268,989
Other	833	472,157	2,925	475,915
State sources	81	-	108	189
Federal sources	-	-	-	-
Total revenues	<u>115,925</u>	<u>472,157</u>	<u>157,011</u>	<u>745,093</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	-	-	-	-
Special instruction	-	-	-	-
Other instruction	-	457,563	-	457,563
Support services:				
Administration Services	-	-	-	-
Operation and maintenance of plant services	129,476	-	47,001	176,477
Other expenditures:				
Facilities acquisition	-	-	-	-
Total expenditures	<u>129,476</u>	<u>457,563</u>	<u>47,001</u>	<u>634,040</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(13,551)</u>	<u>14,594</u>	<u>110,010</u>	<u>111,053</u>
Other financing sources (uses):				
Proceeds from Loans	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	-	(104,003)	(104,003)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(104,003)</u>	<u>(104,003)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(13,551)</u>	<u>14,594</u>	<u>6,007</u>	<u>7,050</u>
Fund balances beginning of year, as restated	<u>9,601</u>	<u>127,269</u>	<u>54,823</u>	<u>191,693</u>
Fund balances end of year	<u>\$ (3,950)</u>	<u>\$ 141,863</u>	<u>\$ 60,830</u>	<u>\$ 198,743</u>

See accompanying independent auditor's report.

Central Lyon Community School District
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts
 June 30, 2005

Account	Balance Beginning of Year	Revenues and Interfund Transfers	Expend- itures	Balance End of Year
Interest Income	\$ 6,989	\$ 2,950	\$ 1,577	\$ 8,362
All School Play	2,455	860	1,374	1,941
Speech	36	1,575	1,611	-
Vocal	548	2,238	2,446	340
Band	148	1,088	1,236	-
Historical Plaza	9,194	15,063	20,137	4,120
Spanish Mexico Trip	190	3,655	2,967	878
Co-Ed Track	1,218	2,741	3,418	541
Co-Ed Golf	562	268	744	86
Boys' Basketball	4,741	14,395	15,741	3,395
Boys' Basketball - Summer	-	1,700	370	1,330
Football	9,185	18,894	22,939	5,140
Baseball	-	6,455	5,114	1,341
Baseball Trip	137	290	182	245
Wrestling	4,137	12,735	15,143	1,729
Girls' Basketball	5,504	6,814	5,718	6,600
Girls' Basketball - Summer	-	210	-	210
Volleyball	905	6,580	6,981	504
Softball	79	818	312	585
Field Trips	464	1,687	2,035	116
Pictures-Elem & MS	1,717	3,397	3,373	1,741
Ticket/Cash Reserve	513	7,157	6,857	813
Book Orders	89	4,062	3,896	255
PCT Account	4,248	-	4,248	-
Middle School	433	-	111	322
Donations	304	300	88	516
Accounting	289	1,158	1,026	421
Activity Tickets	-	47,460	47,460	-
Adult Activity Tickets	-	1,155	1,155	-
Lion's Roar	2,993	19,570	15,073	7,490
Pictures-HS	545	628	394	779
National Honor Society	-	1,345	1,345	-
Middle School Cheerleaders	307	-	-	307
Student Council Scholarship	250	-	-	250
High School Bowling	-	-	-	-
Pep Club	1,939	7,049	8,316	672
Activity Fund Reimb.	24	-	-	24
D.A.R.E. Program	428	-	102	326
Musical	840	4,375	2,147	3,068
Home Ec	3	416	419	-
Class of 2003	-	1,376	-	1,376
Class of 2004	260	270	260	270
Class of 2005	445	-	445	-
Class of 2006	400	3,249	3,392	257
FFA	2,087	77,945	77,283	2,749
Student Council	4,026	4,330	2,629	5,727
Middle School Student Council	2,566	7,825	7,056	3,335

Central Lyon Community School District
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts
 June 30, 2005

Account	Balance Beginning of Year	Revenues and Interfund Transfers	Expend- itures	Balance End of Year
Scholarship	500	-	-	500
Concessions	2,923	5,676	5,492	3,107
International Club	461	143	76	528
Testing Services	-	560	560	-
Magazines	4,608	12,171	16,779	-
PE Bowling	-	-	-	-
Band Trip	1,664	14,576	7,681	8,559
Drivers Education	-	-	-	-
All Sport Supplies	4,116	9,439	10,459	3,096
Volleyball Project	6	483	474	15
After Graduation Party	148	3,435	2,980	603
Cross Country Ski	163	-	-	163
Book Fair	2,054	5,291	4,844	2,501
FHA	75	-	-	75
Academic Decathlon	23	100	120	3
EL-MS Fundrasier	3,939	30,035	17,380	16,594
Mock Trial - HS	23	281	304	-
Mock Trial - TAG MS	980	-	468	512
Football Project	3,032	3,462	4,323	2,171
Athletic Union Clinic	3,820	5,038	5,272	3,586
Booster Concessions	2,083	37,939	37,521	2,501
Music Booster	8,892	8,035	8,998	7,929
Athletic Booster	12,318	38,418	33,448	17,288
EL/MS Teachers Lounge	1,553	319	185	1,687
EL/MS Care Committee	760	513	434	839
Lion Grant - CL Foundation	1,930	2,160	2,645	1,445
Totals	<u>\$ 127,269</u>	<u>\$ 472,157</u>	<u>\$ 457,563</u>	<u>\$ 141,863</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			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$2,611,018	\$2,703,639	\$2,625,839	\$2,162,447
Tuition	45,744	35,692	22,789	42,780
Other	867,187	740,485	705,125	1,084,566
Intermediate sources	213,226	212,511	227,369	228,225
State sources	2,612,826	2,406,479	2,348,840	2,335,279
Federal sources	294,910	301,032	258,940	249,355
Total	<u>\$6,644,911</u>	<u>\$6,399,838</u>	<u>\$6,188,902</u>	<u>\$6,102,652</u>
Expenditures:				
Instruction:				
Regular instruction	2,285,783	2,295,985	2,234,945	2,268,966
Special instruction	796,275	794,841	672,603	597,999
Other instruction	881,045	754,650	707,080	674,994
Support services:				
Student services	114,945	132,178	127,876	123,819
Instructional staff services	199,852	187,167	193,314	282,308
Administration Services	571,298	526,446	500,134	474,148
Operation and maintenance of plant services	497,758	436,429	427,151	412,148
Transportation services	162,149	143,022	143,770	148,187
Central support services	1,195	4,443	1,125	1,245
Non-instructional programs	287,396	255,496	233,935	222,943
Other expenditures:				
Facilities acquisition	344,200	2,151,796	539,535	551,808
Long-term debt interest	293,372	291,927	218,218	237,526
AEA flow through	213,226	212,511	227,369	228,225
Total	<u>\$6,648,494</u>	<u>\$8,186,891</u>	<u>\$6,227,055</u>	<u>\$6,224,316</u>

See accompanying independent auditor's report.

Central Lyon Community School District

WELLS HEARD HALSE & CO.

Certified Public Accountants
710 SOUTH UNION STREET, P.O. BOX 108
ROCK RAPIDS, IOWA 51246

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
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 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 August 24, 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 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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a 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 I-05-A is a material weakness. Prior year reportable conditions have all been resolved except for item I-05-A.

Compliance and Other Matters

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, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part I of the accompanying Schedule of Findings.

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 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.

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.

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.

August 24, 2005

Central Lyon Community School District
Schedule of Findings
Year ended June 30, 2005

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

REPORTABLE CONDITIONS:

I-05-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
Year ended June 30, 2005

Part II: Other Findings Related to Required Statutory Reporting:

- II-05-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, 2005.
- II-05-B Certified Budget - Disbursements for the year ended June 30, 2005, exceeded the amount budgeted in the instructional and non-instructional 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.
- II-05-C Questionable Expenditures - No expenditures were noted that might not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- II-05-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.
- II-05-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.
- II-05-F Board Minutes - No transactions requiring Board approval, which had not been approved by the Board, were noted.
- II-05-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.
- II-05-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, 2005.
- Response – We wanted the Certified Annual Report to be correct and waited until our audit was complete which was after the deadline of September 15, 2005.
- Conclusion – Response accepted

Central Lyon Community School District
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2005

II-05-I Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.

II-05-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	\$ 4,966
Doris Breske, Mother of District Employee	Athletic Ticket Taking	\$ 1,400
Jim Kennedy, Spouse of District Employee, Frontier Insurance & Real Estate	Insurance	\$ 69,660
David Fields, Employee, Rapid Grow Lawn	Maintenance of Grounds	\$ 6,175
Harlan Clasen, Spouse of District Employee, Clasen Excavating	Snow Removal & Dirt work	\$ 1,718

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 \$1,400 during the fiscal year. Also, the transactions with Jim Kennedy, Harlan Clasen, Ken Kuehl, and Dave Fields were subjected to competitive bidding processes.

II-05-K Deficit Balances – The Management fund had a deficit balance at June 30, 2005.

Recommendation – The District should continue to investigate alternatives to eliminate this deficit in order to return this fund to a sound financial condition.

Response – The District is continuing to investigate alternatives to eliminate the deficit in the Management fund.

Conclusion – Response accepted