

**CENTRAL LYON COMMUNITY SCHOOL DISTRICT**

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

**JUNE 30, 2006**

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**CENTRAL LYON COMMUNITY SCHOOL DISTRICT**

**OFFICIALS**

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
<b>Board of Education (Before September 2005 Election)</b>		
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
<b>Board of Education (After September 2005 Election)</b>		
Bruce Vogel	President	2006
Judy Gacke	Vice President	2007
Chet DeJong	Board Member	2006
Patrick McCarty	Board Member	2008
Steve Sieperda	Board Member	2008
<b>School Officials</b>		
Dave Ackerman	Superintendent	Indefinite
Jackie Wells	District Secretary/Treasurer and Business Manager	Indefinite
Randy Waagmeester	Attorney	Indefinite

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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, 2006, 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, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated August 25, 2006 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 14 and 38 through 40 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, 2005 (none of which are presented herein) and expressed unqualified opinions 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.

Heard Halse & Co.

August 25, 2006

## 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, 2006. 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 \$5,234,390 in fiscal year 2005 to \$5,405,373 in fiscal year 2006, while General Fund expenditures increased from \$5,126,715 in fiscal year 2005 to \$5,195,980 in fiscal 2006. The District's General Fund balance increased from \$414,778 in fiscal 2005 to \$624,171 in fiscal 2006, a 50% increase. Spending Authority has been carefully monitored in the last eight 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 2006. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures. One reason the General Fund increased is expenditures have been carefully monitored during the year.
- An increase in interest rates resulted in interest earnings in the General Fund alone to increase from \$ 35,777 in fiscal year 2005 to \$75,780 in fiscal year 2006.
- Enrollment declines and increased numbers of open enrolled out pupils continue to plague the district and create financial burdens.

### **Overview of the Financial Statements**

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 status.
- 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 Lyon 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 Lyon Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds.
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basis 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 Special Revenue Funds.

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

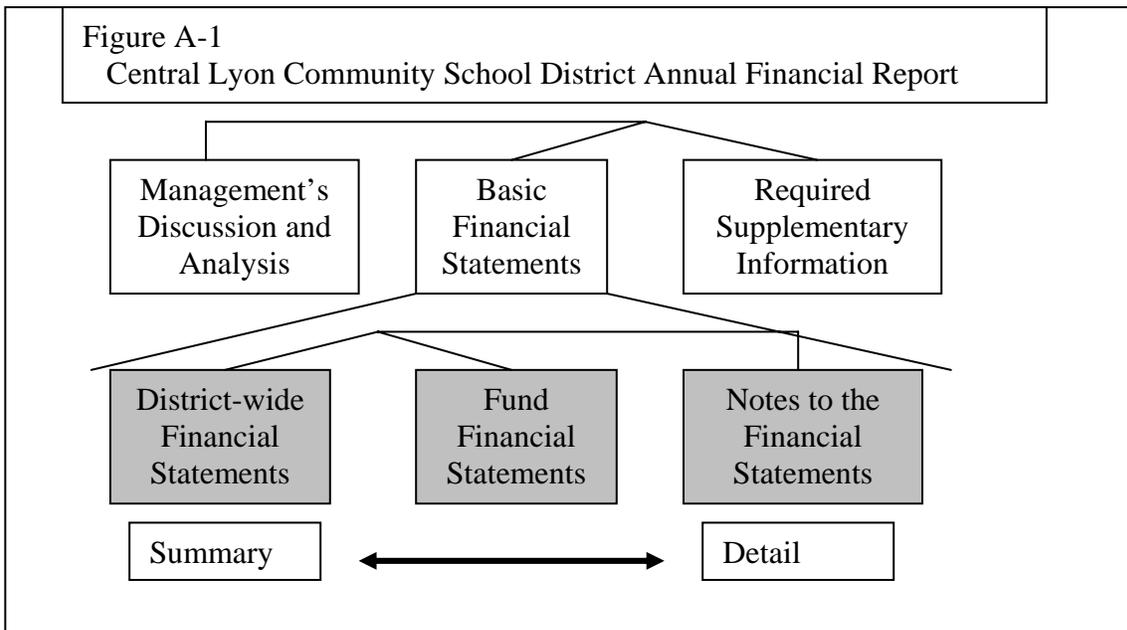


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2: Major Features of the District Wide and Fund Financial Statements</b>			
	Government-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"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of cash flows</li> </ul>
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

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

The two government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively. To assess the District's overall health, 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 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 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 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, 2006 compared to June 30, 2005.

	Governmental Activities		Business type Activities		Total Activities		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
Current and other assets	\$ 6,160	\$ 7,971	\$ 32	\$ 7	\$ 6,192	\$ 7,978	(22.39%)
Capital assets	9,922	10,062	79	80	10,001	10,142	(1.39%)
Total assets	16,082	18,033	111	87	16,193	18,120	(23.78%)
Long-term Liabilities	3,733	7,028	-	-	3,733	7,028	(46.88%)
Other Liabilities	4,565	3,808	5	13	4,570	3,821	19.60%
Total Liabilities	8,298	10,836	5	13	8,303	10,849	(27.28%)
<b>Net Assets</b>							
Invested in capital assets, net of related debt	6,212	3,107	80	80	6,292	3,187	97.43%
Restricted	992	3,788	-	-	992	3,788	(73.81%)
Unrestricted	580	302	27	(4)	607	298	103.69%
Total net assets	\$ 7,784	\$ 7,197	\$ 107	\$ 76	\$ 7,891	\$ 7,273	127.31%

The District's combined net assets increased by approximately \$618,000 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 decreased approximately \$2,796,000 or 74% over the prior year. The decrease was primarily a result of refinanced general obligation bonds were 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 – increased approximately \$309,000 or 103%. This increase in unrestricted net assets was a result of the District's efforts in controlling the expenditures and increased revenue in several areas.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006.

Figure A-4 Changes in Net Assets (Expressed in Thousands)							
	Governmental Activities		Business-type Activities		Total School District		Total Change 2005-2006
	2006	2005	2006	2005	2006	2005	
<b>Revenue</b>							
Program revenue:							
Charges for service	\$ 597	\$ 645	\$ 175	\$ 184	\$ 772	\$ 829	(6.876%)
Operating grants, contributions and restricted interest	691	648	102	87	793	735	7.891%
Capital grants, contributions and restricted interest	100	92	-	-	100	92	8.696%
General revenues:							
Property tax	2,500	2,611	-	-	2,500	2,611	(4.251%)
Local option sales and service tax	320	271	-	-	320	271	18.081%
Unrestricted state grants	2,475	2,393	4	4	2,479	2,397	3.421%
Other	97	42	-	-	97	42	130.952%
<b>Total revenues</b>	<b>6,780</b>	<b>6,702</b>	<b>281</b>	<b>275</b>	<b>7,061</b>	<b>6,977</b>	<b>1.204%</b>
<b>Program expenses:</b>							
Governmental activities:							
Instruction	4,189	4,137	-	-	4,189	4,137	1.257%
Support service	1,721	1,618	-	-	1,721	1,618	6.366%
Non-instructional programs	-	1	250	287	250	288	(13.194%)
Other expenses	401	506	-	-	401	506	(20.751%)
<b>Total expenses</b>	<b>6,311</b>	<b>6,262</b>	<b>250</b>	<b>287</b>	<b>6,561</b>	<b>6,549</b>	<b>0.183%</b>
<b>Change in net assets</b>	<b>\$ 469</b>	<b>\$ 440</b>	<b>\$ 31</b>	<b>\$ (12)</b>	<b>\$ 500</b>	<b>\$ 428</b>	<b>16.822%</b>

In fiscal 2006, property tax and unrestricted state grants account for 75% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 98.6% of the revenue from business type activities.

The District's total revenues were approximately \$7.06 million of which \$6.78 million was for governmental activities and less than .3 million was for business type activities.

As shown in Figure A-4, the District's as a whole experienced a 1.2% increase in revenues and a .18% increase in expenses. Local option sales and service tax and state grants increased approximately \$131,000 to fund increases in expenditures. The increases in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

### Governmental Activities

Revenues for governmental activities were \$6,821,133 and expenses were \$6,186,091. 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		
	2006	2005	Change 2005-2006	2006	2005	Change 2005-2006
Instruction	\$ 4,189	\$ 4,137	1.26%	\$ 3,223	\$ 3,198	0.78%
Support services	1,721	1,618	6.37%	1,557	1,530	1.76%
Non-instructional programs	-	1	(100.00%)	-	1	(100.00%)
Other expenses	402	507	(20.71%)	116	236	(50.85%)
Totals	\$ 6,312	\$ 6,263	0.78%	\$ 4,896	\$ 4,965	(1.39%)

- The cost financed by users of the District’s programs was \$582,415.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$784,097.
- The net cost of governmental activities was financed with \$2,820,372 in property and other taxes and \$2,475,160 in unrestricted state grants.

**Business Type Activities**

Revenues for business type activities were \$281,877 representing a 2.2% increase over the prior year while expenses totaled \$250,150, a 12.95% decrease over the prior year. The District’s business type activities include the School Nutrition Fund and FFA property. Revenue of these activities was comprised of charges for service, federal and state reimbursements and investment income.

**INDIVIDUAL FUND ANALYSIS**

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 \$1,604,049, above last year’s ending fund balances of \$4,186,809. However, the primary reason for the decrease in combined fund balances in fiscal 2006 is due to the general obligation bonds callable in 2006 were redeemed in June 2006.

**Governmental Fund Highlights**

- The District’s improving General Fund financial position is the result of many factors. Growth during the year in tax and grants resulted in an increase in revenues and the careful monitoring of spending during the last year. The General Fund increased from \$414,778 to \$624,171.
- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$60,830 in fiscal 2005 to \$23,277 in fiscal 2006. While revenues increased from the prior, the District increased spending to purchase needed equipment and land improvements for the District.
- The Capital Projects Fund balance increased from \$314,936 in 2005 to \$450,013 in 2006. This was mainly due to local option sales taxes collected during the fiscal year 2006 and being held to make bond payments in Fiscal 2007.

## Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$74,483 at June 30, 2005 to \$101,416 at June 30, 2006, representing increase of approximately 36%. For fiscal 2006, the District increased meal prices and decreased expenditures resulting in the increase in net assets.

## BUDGETARY HIGHLIGHTS

The District's receipts were \$574,317 more than budgeted receipts, with a variance of 8.7%. The most significant variance resulted from the District receiving more revenue than budgeted for in local, state and federal sources.

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 support services 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, 2006, the District had invested \$10 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 1.39% 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 Land Improvements, Furniture and Equipment categories. The District purchased additional computers and other equipment as well as a new vehicle and land improvements.

	Governmental Activities		Business type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
Land	\$ 51	\$ 51	\$ -	\$ -	\$ 51	\$ 51	0.00%
Buildings	8,650	8,891	-	-	8,650	8,891	(2.71%)
Improvements other than buildings	295	237	-	-	295	237	24.47%
Furniture and Equipment	926	883	79	80	1,005	963	4.36%
Totals	\$ 9,922	\$ 10,062	\$ 79	\$ 80	\$ 10,001	\$ 10,142	(1.39%)

## Long-Term Debt

At June 30, 2006, the District had \$3,739,667 in general obligation, revenue and other long-term debt outstanding. This represents a decrease of approximately 46.8% 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 paid off two general obligation bond issues in June 2006 totaling \$3,160,000. The district had total outstanding bonded indebtedness at June 30, 2006 of \$3,710,000.

	Total School District		Total Change
	June 30,		June 30,
	2006	2005	2005-2006
General Obligation Bonds	\$ 3,050	\$ 6,210	(50.89%)
Capital Notes	660	745	(11.41%)
Early Retirement	23	73	(68.49%)
Compensated Absences	7	5	40.00%
	\$ 3,740	\$ 7,033	(46.82%)

## 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 2005-2006 by 6 students to a budget enrollment of 699. Under Iowa's school finance formula, funding is highly dependent upon enrollment. During the 2005-2006 school-year, Central Lyon students who open enroll out to other districts increased by 4 students, from 77 to 81. 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.
- Fiscal 2007 will be the last year of a three-year contract with the Central Lyon Education Teacher Association (CLTA). The District will negotiate a new agreement during fiscal 2007. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect of the District's General Fund budget and related fund balance.

## **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, 2006

Exhibit A

	Governmental Activities	Business Type Activities	Totals
<b>Assets</b>			
Cash and cash Equivalents:			
ISCAP	\$ 1,461,146	\$ -	\$ 1,461,146
Other	2,207,460	27,338	2,234,798
Receivables:			
Property tax:			
Delinquent	39,102	-	39,102
Succeeding year	2,372,473	-	2,372,473
Local option sales taxes	21,930	-	21,930
Accounts	48,672	-	48,672
Accrued interest:			
ISCAP	9,385	-	9,385
Inventories	-	4,971	4,971
Capital assets, net of accumulated depreciation	9,922,090	79,283	10,001,373
<b>Total assets</b>	<b>16,082,258</b>	<b>111,592</b>	<b>16,193,850</b>
<b>Liabilities</b>			
Accounts payable	203,105	503	203,608
Salaries and benefits payable	493,618	1,471	495,089
Accrued interest payable	8,821	-	8,821
Deferred revenue - succeeding year			
Property tax	2,372,473	-	2,372,473
Other	-	3,332	3,332
ISCAP warrants payable	1,461,000	-	1,461,000
ISCAP accrued interest payable	19,283	-	19,283
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	410,000	-	410,000
Revenue bonds payable			-
Compensated absences	6,640	-	6,640
Portion due after one year:			
General obligation bonds payable	3,300,000	-	3,300,000
Early retirement	23,027	-	23,027
Total liabilities	<b>\$ 8,297,967</b>	<b>\$ 5,306</b>	<b>\$ 8,303,273</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	6,212,090	79,986	6,292,076
Restricted for:			
Physical plant and equipment levy	23,277	-	23,277
Other special revenue purposes	178,604	-	178,604
Capital projects	450,013	-	450,013
Debt service	340,224	-	340,224
Unrestricted	580,083	26,300	606,383
<b>Total net assets</b>	<b>\$ 7,784,291</b>	<b>\$ 106,286</b>	<b>\$ 7,890,577</b>

See notes to financial statements.

Central Lyon Community School District  
Statement of Activities  
June 30, 2006

Functions/Programs	Program Revenues			
	Expenses	Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest
<b>Governmental activities:</b>				
Instruction:				
Regular instruction	\$ 2,585,729	\$ 45,362	\$ 256,923	\$ -
Special instruction	781,642	21,698	126,758	-
Other instruction	821,558	504,215	9,596	-
	4,188,929	571,275	393,277	-
Support services:				
Student services	121,286	-	83,680	-
Instructional staff services	205,290	-	-	-
Administration Services	669,738	-	3,720	-
Operation and maintenance of plan	533,075	11,140	35,150	-
Transportation services	191,901	-	30,556	-
	1,721,290	11,140	153,106	-
Non-instructional programs				
Other expenditures:				
Long-term debt interest	180,604	-	58,079	6,301
AEA flow through	221,103	-	221,103	-
	401,707	-	279,182	6,301
Total governmental activities	6,311,926	582,415	825,565	6,301
<b>Business type activities:</b>				
Non-instructional programs:				
Food service operations	250,150	175,622	106,193	-
Total	\$ 6,562,076	\$ 758,037	\$ 931,758	\$ 6,301
<b>General Revenues:</b>				
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
\$ (2,283,444)	\$ -	\$ (2,283,444)
(633,186)	-	(633,186)
(307,747)	-	(307,747)
(3,224,377)	-	(3,224,377)
(37,606)	-	(37,606)
(205,290)	-	(205,290)
(666,018)	-	(666,018)
(486,785)	-	(486,785)
(161,345)	-	(161,345)
(1,557,044)	-	(1,557,044)
-	-	-
(116,224)	-	(116,224)
-	-	-
(116,224)	-	(116,224)
(4,897,645)	-	(4,897,645)
-	31,665	31,665
(4,897,645)	31,665	(4,865,980)
2,115,238		2,115,238
225,890		225,890
159,013		159,013
320,231		320,231
2,478,453		2,478,453
89,586	62	89,648
18,441		18,441
5,406,852	62	5,406,914
509,207	31,727	540,934
7,275,084	74,559	7,349,643
\$ 7,784,291	\$ 106,286	\$ 7,890,577

Central Lyon Community School District  
Balance Sheet – Governmental Funds  
June 30, 2006

Exhibit C

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
<b>Assets</b>					
Cash and pooled investments:					
ISCAP	\$ 1,461,146	\$ -	\$ -	\$ -	\$ 1,461,146
Other	1,192,944	340,546	428,083	245,887	2,207,460
Receivables:					
Property tax:					
Delinquent	29,995	3,944	-	5,163	39,102
Local option sales taxes	-	-	21,930	-	21,930
Accounts	48,672	-	-	-	48,672
Accrued interest:					
ISCAP	9,385	-	-	-	9,385
Total assets	<u>2,742,142</u>	<u>344,490</u>	<u>450,013</u>	<u>251,050</u>	<u>3,787,695</u>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	198,049	-	-	11,696	209,745
Salaries and benefits payable	439,639	-	-	53,979	493,618
ISCAP warrants payable	1,461,000	-	-	-	1,461,000
ISCAP accrued interest payable	19,283	-	-	-	19,283
Total liabilities	<u>2,117,971</u>	<u>-</u>	<u>-</u>	<u>65,675</u>	<u>2,183,646</u>
Fund balances:					
Reserved for debt service	-	344,490	-	-	344,490
Unreserved	624,171	-	450,013	185,375	1,259,559
Total fund balances	<u>624,171</u>	<u>344,490</u>	<u>450,013</u>	<u>185,375</u>	<u>1,604,049</u>
Total liabilities and fund balances	<u>\$ 2,742,142</u>	<u>\$ 344,490</u>	<u>\$ 450,013</u>	<u>\$ 251,050</u>	<u>\$ 3,787,695</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, 2006

Exhibit D

**Total fund balances of governmental funds (page 20)** \$ 1,604,049

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. 9,922,090

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. (8,821)

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. (3,733,027)

**Net assets of governmental activities (page 17)** \$ 7,784,291

See notes to financial statements.

Central Lyon Community School District  
Statement of Revenues, Expenditures and  
Changes in Fund Balances – Governmental Funds  
June 30, 2006

Exhibit E

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
<b>Revenues:</b>					
Local sources:					
Local tax	\$ 1,980,108	\$ 225,890	\$ 320,231	\$ 294,143	\$ 2,820,372
Tuition	61,414	-	-	-	61,414
Other	153,424	58,079	6,301	510,755	728,559
Intermediate sources	221,103	-	-	-	221,103
State sources	2,736,536	156	-	205	2,736,897
Federal sources	252,788	-	-	-	252,788
<b>Total Revenues</b>	<b>5,405,373</b>	<b>284,125</b>	<b>326,532</b>	<b>805,103</b>	<b>6,821,133</b>
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular instruction	2,320,020	-	-	-	2,320,020
Special instruction	781,222	-	-	420	781,642
Other instruction	424,943	-	-	465,046	889,989
	<b>3,526,185</b>	<b>-</b>	<b>-</b>	<b>465,466</b>	<b>3,991,651</b>
Support services:					
Student services	121,286	-	-	-	121,286
Instructional staff services	186,607	-	-	-	186,607
Administration Services	584,995	84,743	-	-	669,738
Operation and maintenance of plant services	379,112	-	-	152,928	532,040
Transportation services	176,692	-	-	-	176,692
	<b>1,448,692</b>	<b>84,743</b>	<b>-</b>	<b>152,928</b>	<b>1,686,363</b>
Non-instructional programs	-	-	-	-	-
Other expenditures:					
Facilities acquisition	-	-	-	91,995	91,995
Long-term debt interest	-	194,979	-	-	194,979
AEA flow through	221,103	-	-	-	221,103
	<b>221,103</b>	<b>194,979</b>	<b>-</b>	<b>91,995</b>	<b>508,077</b>
<b>Total expenditures</b>	<b>5,195,980</b>	<b>279,722</b>	<b>-</b>	<b>710,389</b>	<b>6,186,091</b>
Excess (deficiency) of revenues over (under) expenditures	209,393	4,403	326,532	94,714	635,042
Other financing sources (uses):					
Operating transfers in (out)	-	299,537	(191,455)	(108,082)	-
General obligation bonds	-	(3,245,000)	-	-	(3,245,000)
Revenue bonds issued	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>(2,945,463)</b>	<b>(191,455)</b>	<b>(108,082)</b>	<b>(3,245,000)</b>
<b>Net Change in fund balances</b>	<b>209,393</b>	<b>(2,941,060)</b>	<b>135,077</b>	<b>(13,368)</b>	<b>(2,609,958)</b>
Fund balances beginning of year	414,778	3,285,550	314,936	198,743	4,214,007
Fund balances end of year	<b>\$ 624,171</b>	<b>\$ 344,490</b>	<b>\$ 450,013</b>	<b>\$ 185,375</b>	<b>\$ 1,604,049</b>

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, 2006

Exhibit F

**Net change in fund balance - total governmental funds (page 22)** \$(2,609,958)

**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	160,426	
Depreciation expense	(300,636)	(140,210)

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	3,245,000	3,245,000

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. 14,375

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	-	
Compensated absences	-	-

**Change in net assets of governmental activities (page 19)** \$ 509,207

See notes to financial statements.

Central Lyon Community School District  
Balance Sheet – Proprietary Funds  
June 30, 2006

Exhibit G

	School Nutrition	FFA Property	Enterprise Totals
<b>Assets</b>			
Cash and cash equivalents	\$ 21,965	\$ 5,373	\$ 27,338
Inventories	4,971	-	4,971
Capital assets, net of accumulated depreciation	79,283	-	79,283
<b>Total assets</b>	106,219	5,373	111,592
<b>Liabilities</b>			
Accounts payable	-	503	503
Deferred Revenues	3,332	-	3,332
Salaries and benefits payable	1,471	-	1,471
<b>Total Liabilities</b>	4,803	503	5,306
<b>Net Assets</b>			
Invested in capital assets, net of related debt	79,986	-	79,986
Unrestricted	21,430	4,870	26,300
<b>Total net assets</b>	\$ 101,416	\$ 4,870	\$ 106,286

See notes to financial statements.

Central Lyon Community School District  
Statement of Revenues, Expenditures and Changes in  
Fund Balances – Proprietary Funds  
June 30, 2006

Exhibit H

	School Nutrition	FFA Property	Enterprise Totals
Operating revenues:			
Local sources:			
Charges for service	\$ 159,526	\$ 16,096	\$ 175,622
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries	94,806	-	94,806
Benefits	13,009	-	13,009
Purchased services	6,667	141	6,808
Supplies	122,946	11,161	134,107
Depreciation	1,420	-	1,420
Total operating expenses	238,848	11,302	250,150
Operating loss	(79,322)	4,794	(74,528)
Non-operating revenues:			
State sources	3,510	-	3,510
Federal sources	102,683	-	102,683
Interest Income	62	-	62
Total non-operating revenues	106,255	-	106,255
Change in net assets	26,933	4,794	31,727
Net assets beginning of year	74,483	76	74,559
Net assets end of year	\$ 101,416	\$ 4,870	\$ 106,286

See notes to financial statements.

Central Lyon Community School District  
Statement of Cash Flows – Proprietary Funds  
June 30, 2006

Exhibit I

	School Nutrition	FFA Property	Enterprise Totals
<b>Cash flows from operating activities:</b>			
Cash received from sale of lunches and breakfasts	\$ 149,249	\$ -	\$ 149,249
Cash received from miscellaneous services	231	16,096	16,327
Cash paid to employees for services	(107,321)	-	(107,321)
Cash paid to supplies for goods or services	(107,039)	(10,932)	(117,971)
Net cash used by operating activities	<u>(64,880)</u>	<u>5,164</u>	<u>(59,716)</u>
<b>Cash flows from non-capital financing activities:</b>			
State grants received	3,510	-	3,510
Federal grants received	80,371	-	80,371
Net cash provided by non-capital financing activities	<u>83,881</u>	<u>-</u>	<u>83,881</u>
<b>Cash flows from capital and related financing activities:</b>			
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	<u>8,446</u>	<u>-</u>	<u>8,446</u>
<b>Cash flows from investing activities:</b>			
Interest on Investments	62	-	62
Net decrease in cash and cash equivalents	27,509	5,164	32,673
Cash and cash equivalents beginning of year	1,857	208	2,065
Cash and cash equivalents end of year	<u>\$ 29,366</u>	<u>\$ 5,372</u>	<u>\$ 34,738</u>
<b>Reconciliation of operating loss to net cash used by operating activities</b>			
Operating Loss	\$ (79,322)	\$ 4,794	\$ (74,528)
Adjustments to reconcile operating loss to net cash used by operating activities			
Commodities used	23,413	-	23,413
(Increase) Decrease in inventories	(839)	-	(839)
Increase (Decrease) in accounts payable	-	370	370
Increase in deferred revenue	(227)	-	(227)
(Decrease) in salaries and benefits payable	494	-	494
Net cash used by operating activities	<u>\$ (56,481)</u>	<u>\$ 5,164</u>	<u>\$ (51,317)</u>

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

During the year ended June 30, 2006, the District received \$22,312 of federal commodities.

See notes to financial statements.

Central Lyon Community School District  
Notes to Financial Statements  
June 30, 2006

**(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, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

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

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

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 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, 2006. 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, 2006, 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, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$1,585,160</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) **Termination Benefits**

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least fifteen years of full-time service to the District and must have reached the age of fifty-five. The application for early retirement is subject to approval by the Board of Education by February 1 of the applicable year.

Early retirement benefits are equal to the difference between the base salary and the total individual regular contract salary for the year the application is submitted.

Early retirement benefits may be paid in one lump sum on July 20 or may be used by the district to pay the retiring employee's cost of medical and/or dental insurance until the benefit is exhausted. At the time of application for early retirement benefits, the retiring employee must choose which method of payment is to be used.

At June 30, 2006, the District has obligations to eleven participants with a total liability of \$77,006. Actual early retirement expenditures for the year ended June 30, 2006 totaled \$65,923.

**(4) Interfund Transfers**

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

Transfer to	Transfer from:	Amount
Debt Service	Local Option Sales	\$ 191,455
	Physical Plant and Equipment Levy	108,083
		<u>\$ 299,538</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, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2005-06B	1/26/2006	1/26/2007	\$ 447,557	\$ 9,070	\$ 446,000	\$ 8,523
2006-07A	6/28/2006	6/28/2007	1,013,589	315	1,015,000	250
Total			<u>\$ 1,461,146</u>	<u>\$ 9,385</u>	<u>\$ 1,461,000</u>	<u>\$ 8,773</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 25<sup>th</sup> 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
2005-06B	4.500%	4.772%
2006-07A	4.500%	5.676%

## 6) Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	51,000	-	-	51,000
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>51,000</u>	<u>-</u>	<u>-</u>	<u>51,000</u>
Capital assets being depreciated:				
Buildings	12,059,350	-	-	12,059,350
Improvements other than buildings	549,651	78,000	-	627,651
Furniture and equipment	1,646,048	82,426	-	1,728,474
Total capital assets being depreciated	<u>14,255,049</u>	<u>160,426</u>	<u>-</u>	<u>14,415,475</u>
Less accumulated depreciation for:				
Buildings	3,168,641	240,872	-	3,409,513
Improvements other than buildings	312,390	19,999	-	332,389
Furniture and equipment	762,718	39,765	-	802,483
Total accumulated depreciation	<u>4,243,749</u>	<u>300,636</u>	<u>-</u>	<u>4,544,385</u>
Total capital assets being depreciated, net	<u>10,011,300</u>	<u>(140,210)</u>	<u>-</u>	<u>9,871,090</u>
Governmental activities capital assets, net	<u>10,062,300</u>	<u>(140,210)</u>	<u>-</u>	<u>9,922,090</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Business type activities:</b>				
Furniture and equipment	156,879	716	-	157,595
less accumulated depreciation	76,892	1,420	-	78,312
Business type activities capital assets, net	<u>79,987</u>	<u>(704)</u>	<u>-</u>	<u>79,283</u>

Depreciation expense was charged to the following functions:

### Governmental activities:

#### Instruction:

Regular	\$ 265,710
Special	-
Other	-

#### Support services:

Instructional staff	18,683
Administration	-
Operation and maintenance of plant	1,035
Transportation	15,209
	<u>300,637</u>

#### Unallocated

Total depreciation expense - governmental activities	<u>\$ 300,637</u>
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### Business type activities:

Food service operations	<u>\$ 1,420</u>
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**(7) Long-Term Debt**

A summary of changes in long-term debt for the year ended June 30, 2006, is as follows:

	Balance			Balance	Due
	Beginning			End	Within
	of Year	Additions	Reductions	of Year	One Year
General Obligation Bonds	\$6,210,000	\$ -	\$ 3,160,000	\$ 3,050,000	\$ 325,000
Capital Notes	745,000		85,000	660,000	85,000
Early Retirement	73,422	15,528	65,923	23,027	53,979
Compensated Absences	4,555	2,085		6,640	6,640
Total	<u>\$7,032,977</u>	<u>\$ 17,613</u>	<u>\$ 3,310,923</u>	<u>\$ 3,739,667</u>	<u>\$ 470,619</u>

Details of the District's June 30, 2006, general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of July 1, 2003			Capital Loan Notes Sept. 15, 2003		
	Interest Rate	Principal	Interest	Interest Rate	Principal	Interest
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>\$429,646</u>		<u>\$660,000</u>	<u>\$94,268</u>

Year Ending June 30,	Bond Totals		
	Principal	Interest	Total
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>\$3,710,000</u>	<u>\$523,914</u>	<u>\$4,233,914</u>

During the year ended June 30, 2006, the District made principal and interest payments totaling \$3,523,353 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, 2006, 2005, and 2004 were \$193,220, \$190,715 and \$188,324 respectively, equal to the required contributions for each year.

**(9) Risk Management**

Central Lyon Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(10) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$221,103 for the year ended June 30, 2006, and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**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 - All Governmental Funds and Proprietary Fund  
 Required Supplementary Information  
 Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual
Receipts:			
Local Sources	\$ 3,610,345	\$ 175,684	\$ 3,610,345
Intermediate sources	-	-	-
State sources	2,958,000	3,510	2,961,510
Federal sources	252,788	102,683	355,471
Total receipts	<u>6,821,133</u>	<u>281,877</u>	<u>6,927,326</u>
Disbursements:			
Instruction	3,991,651	-	3,991,651
Support services	1,686,363	-	1,686,363
Non-instructional programs	-	250,150	250,150
Other expenditures	508,077	-	508,077
Total disbursements	<u>6,186,091</u>	<u>250,150</u>	<u>6,436,241</u>
Deficiency of receipts under disbursements	635,042	31,727	491,085
Other financing sources, net	<u>(3,245,000)</u>	-	<u>(3,245,000)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(2,609,958)	31,727	(2,753,915)
Balances beginning of year	<u>4,214,007</u>	<u>74,559</u>	<u>4,288,566</u>
Balances end of year	<u>\$ 1,604,049</u>	<u>\$ 106,286</u>	<u>\$ 1,534,651</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Actual
		Variance
\$ 3,382,466	\$ 3,382,466	\$ 227,879
2,000	2,000	(2,000)
2,718,543	2,718,543	242,967
250,000	250,000	105,471
<u>6,353,009</u>	<u>6,353,009</u>	<u>574,317</u>
3,596,500	3,596,500	395,151
1,590,000	1,590,000	96,363
252,000	252,000	(1,850)
782,976	782,976	(274,899)
<u>6,221,476</u>	<u>6,221,476</u>	<u>214,765</u>
131,533	131,533	359,552
-	-	(3,245,000)
131,533	131,533	(2,885,448)
<u>1,255,172</u>	<u>1,255,172</u>	<u>3,033,394</u>
<u>\$ 1,386,705</u>	<u>\$ 1,386,705</u>	<u>\$ 147,946</u>

Central Lyon Community School District  
Notes to Required Supplementary Information – Budgetary Reporting  
Year ended June 30, 2006

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

In accordance with the Code of Iowa, 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 GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund 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, 2006, disbursements in the instruction and support services 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, 2006

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
<b>Assets</b>				
Cash and cash Equivalents:				
ISCAP	\$ -	\$ -	\$ -	\$ -
Other	44,055	178,604	23,228	245,887
Receivables:				
Property tax:				
Delinquent	2,387		2,776	5,163
<b>Total assets</b>	<b>46,442</b>	<b>178,604</b>	<b>26,004</b>	<b>251,050</b>
<b>Liabilities and Fund Equity</b>				
Liabilities:				
Accounts payable	8,969	-	2,727	11,696
Salaries and benefits payable	53,979	-	-	53,979
Deferred revenue - succeeding year property tax	-	-	-	-
<b>Total liabilities</b>	<b>62,948</b>	<b>-</b>	<b>2,727</b>	<b>65,675</b>
Fund equity:				
Unreserved fund balances	(16,506)	178,604	23,277	185,375
<b>Total liabilities and fund equity</b>	<b>\$ 46,442</b>	<b>\$ 178,604</b>	<b>\$ 26,004</b>	<b>\$ 251,050</b>

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, 2006

	Management Levy	Student Activity	Physical Plant and Equipment Levy	Total
Revenues:				
Local sources:				
Local tax	\$ 135,130	\$ -	\$ 159,013	\$ 294,143
Other	5,147	501,787	3,821	510,755
State sources	95	-	110	205
Total revenues	<u>140,372</u>	<u>501,787</u>	<u>162,944</u>	<u>805,103</u>
Expenditures:				
Current:				
Instruction:				
Special instruction	-	-	420	420
Other instruction	-	465,046	-	465,046
Support services:				
Operation and maintenance of plant services	152,928	-	-	152,928
Other expenditures:				
Facilities acquisition	-	-	91,995	91,995
Total expenditures	<u>152,928</u>	<u>465,046</u>	<u>92,415</u>	<u>710,389</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(12,556)</u>	<u>36,741</u>	<u>70,529</u>	<u>94,714</u>
Other financing sources (uses):				
Operating transfers out	-	-	(108,082)	(108,082)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(108,082)</u>	<u>(108,082)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(12,556)</u>	<u>36,741</u>	<u>(37,553)</u>	<u>(13,368)</u>
Fund balances beginning of year	<u>(3,950)</u>	<u>141,863</u>	<u>60,830</u>	<u>198,743</u>
Fund balances end of year	<u>\$ (16,506)</u>	<u>\$ 178,604</u>	<u>\$ 23,277</u>	<u>\$ 185,375</u>

See accompanying independent auditor's report.

Central Lyon Community School District  
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts  
 June 30, 2006

Account	Balance Beginning of Year	Revenues and Interfund Transfers	Expend- itures	Balance End of Year
Interest Income	\$ 8,362	\$ 8,842	\$ 3,901	\$ 13,303
All School Play	1,941	868	1,542	1,267
Speech	-	888	884	4
Vocal	340	1,506	1,582	264
Band	-	1,724	1,463	261
Historical Plaza	4,120	3,508	3,078	4,550
Spanish Mexico Trip	878	10,002	4,332	6,548
Co-Ed Track	541	6,621	6,583	579
Co-Ed Golf	86	1,192	1,104	174
Boys' Basketball	3,395	7,044	5,080	5,359
Boys' Basketball - Summer	1,330	5,034	4,178	2,186
Football	5,140	18,964	8,705	15,399
Baseball	1,341	4,453	4,368	1,426
Baseball Trip	245	984	505	724
Wrestling	1,729	7,817	6,496	3,050
Wrestling Projects Camp	-	2,446	1,316	1,130
Girls' Basketball	6,600	6,396	7,224	5,772
Girls' Basketball - Summer	210	2,116	820	1,506
Volleyball	504	6,176	5,676	1,004
Softball	585	1,107	561	1,131
Field Trips	116	1,395	1,403	108
Pictures-Elem & MS	1,741	2,316	2,314	1,743
Ticket/Cash Reserve	813	2,600	2,900	513
Book Orders	255	2,515	2,492	278
PCT Account	-	4,123	-	4,123
Middle School	322	-	179	143
Donations	516	1,070	581	1,005
Accounting	421	940	757	604
Activity Tickets	-	49,856	48,831	1,025
Adult Activity Tickets	-	2,540	1,570	970
Lion's Roar	7,490	17,414	14,359	10,545
Pictures-HS	779	861	357	1,283
National Honor Society	-	901	357	544
Middle School Cheerleaders	307	-	-	307
Student Council Scholarship	250	-	-	250
Breske Memorial	-	2,245	2,245	-
Pep Club	672	6,690	5,763	1,599
Activity Fund Reimb.	24	-	-	24
D.A.R.E. Program	326	-	126	200
Musical	3,068	4,019	5,212	1,875
Home Ec	-	742	742	-
Class of 2007	1,376	4,051	5,423	4
Class of 2008	270	1,671	-	1,941
Class of 2009	257	11	268	-
FFA	2,749	67,182	67,914	2,017
Student Council	5,727	4,324	3,665	6,386
Middle School Student Council	3,335	6,103	7,335	2,103

Central Lyon Community School District  
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts  
 June 30, 2006

Account	Balance Beginning of Year	Revenues and Interfund Transfers	Expend- itures	Balance End of Year
Scholarship	500	500	500	500
Concessions	3,107	6,872	5,623	4,356
International Club	528	139	167	500
Testing Services	-	474	474	-
Magazines	-	13,999	13,999	-
Band Trip	8,559	67,106	74,694	971
Drivers Education	-	900	576	324
All Sport Supplies	3,096	365	2,507	954
Volleyball Project	15	4,436	1,704	2,747
After Graduation Party	603	3,077	3,331	349
Cross Country Ski	163	54	54	163
Book Fair	2,501	7,525	6,520	3,506
FHA	75	-	75	-
Academic Decathlon	3	200	200	3
EL-MS Fundrasier	16,594	24,258	26,573	14,279
Mock Trial - HS	-	870	869	1
Mock Trial - TAG MS	512	-	431	81
Football Project	2,171	7,901	9,351	721
Athletic Union Clinic	3,586	2,218	3,660	2,144
Booster Concessions	2,501	35,034	34,598	2,937
Music Booster	7,929	8,055	7,587	8,397
Athletic Booster	17,288	21,059	14,992	23,355
EL/MS Teachers Lounge	1,687	149	529	1,307
EL/MS Care Committee	839	467	160	1,146
HS Care Committee	-	374	236	138
Lion Grant - CL Foundation	1,445	14,498	11,445	4,498
Totals	<u>\$ 141,863</u>	<u>\$ 501,787</u>	<u>\$ 465,046</u>	<u>\$ 178,604</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			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$2,820,372	\$2,611,018	\$2,703,639	\$2,625,839
Tuition	61,414	45,744	35,692	22,789
Other	904,243	867,187	740,485	705,125
Intermediate sources	221,103	213,226	212,511	227,369
State sources	2,740,407	2,612,826	2,406,479	2,348,840
Federal sources	355,471	294,910	301,032	258,940
Total	<u>\$7,103,010</u>	<u>\$6,644,911</u>	<u>\$6,399,838</u>	<u>\$6,188,902</u>
Expenditures:				
Instruction:				
Regular instruction	2,320,020	2,285,783	2,295,985	2,234,945
Special instruction	781,642	796,275	794,841	672,603
Other instruction	889,989	881,045	754,650	707,080
Support services:				
Student services	121,286	114,945	132,178	127,876
Instructional staff services	186,607	199,852	187,167	193,314
Administration Services	669,738	571,298	526,446	500,134
Operation and maintenance of plant services	532,040	497,758	436,429	427,151
Transportation services	176,692	162,149	143,022	143,770
Central support services	-	1,195	4,443	1,125
Non-instructional programs	250,150	287,396	255,496	233,935
Other expenditures:				
Facilities acquisition	91,995	344,200	2,151,796	539,535
Long-term debt interest	194,979	293,372	291,927	218,218
AEA flow through	221,103	213,226	212,511	227,369
Total	<u>\$6,436,241</u>	<u>\$6,648,494</u>	<u>\$8,186,891</u>	<u>\$6,227,055</u>

See accompanying independent auditor's report.

**Central Lyon Community School District**

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

To the Board of Education of  
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, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 25, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered 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-06-A is a material weakness. Prior year reportable conditions have all been resolved except for item I-06-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, 2006 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.

Heard Halse & Co.

August 25, 2006

Central Lyon Community School District  
Schedule of Findings  
Year ended June 30, 2006

**Part I: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**REPORTABLE CONDITIONS:**

I-06-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, 2006

**Part II: Other Findings Related to Required Statutory Reporting:**

- II-06-A      Certified Enrollment – No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
- II-06-B      Certified Budget - Disbursements for the year ended June 30, 2006, exceeded the amount budgeted in the instruction and support services areas.
- 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-06-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-06-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-06-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-06-F      Board Minutes - No transactions requiring Board approval, which had not been approved by the Board, were noted.
- II-06-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-06-H      Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely.
- II-06-I      Deficit Balances – The Management fund had a deficit balance at June 30, 2006.
- 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

Central Lyon Community School District  
 Schedule of Findings and Questioned Costs  
 Year ended June 30, 2006

II-06-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	\$ 2,995
Steve Wells, Spouse of District Employee	Banking – Certificate of Deposit	\$340,000
Jim Kennedy, Spouse of District Employee, Frontier Insurance & Real Estate	Insurance	\$ 77,456
David Fields, Employee, Rapid Grow Lawn	Maintenance of Grounds	\$ 8,935
Harlan Clasen, Spouse of District Employee, Clasen Excavating	Snow Removal	\$ 5,225

In accordance with an Attorney General's opinion dated November 9, 1996, the transactions with Jim Kennedy, Harlan Clasen, Ken Kuehl, Steve Wells, and Dave Fields were subjected to competitive bidding processes.