

CLEAR LAKE COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

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Independent Auditor's Report

To the Board of Education of  
Clear Lake 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 Clear Lake Community School District, Clear Lake, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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.

The financial statements of Clear Lake Community School Foundation have not been audited, and we were not engaged to audit the Foundation financial statements as part of our audit of the Clear Lake Community School District's basic financial statements. The Foundation's financial statements are included in the District's financial statements as a discretely presented component unit. Because we were not engaged to audit the Foundation's financial statements and because we did not apply any auditing procedures to the Foundation's financial statements, we do not express an opinion on the discretely presented component unit.

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 Clear Lake 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 report dated October 31, 2006, on our consideration of Clear Lake Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 38 through 39 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 required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Clear Lake 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, (which are not presented herein). For 2005 we did not issue an opinion on the discretely presented component unit and we issued unqualified opinions on the governmental activities, the business type activities, each major fund and the aggregate remaining fund information. We issued unqualified opinions for 2004 and 2003. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BURTON E. TRACY & CO., P.C.  
Certified Public Accountants

October 31, 2006

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Clear Lake Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$10,872,559 in fiscal 2005 to \$11,395,108 in fiscal 2006, while General Fund expenditures increased from \$11,127,349 in fiscal 2005 to \$11,356,830 in fiscal 2006. The District's General Fund balance increased from (\$217,935) in fiscal 2005 to (\$179,657) in fiscal 2006.
- The increase in General Fund revenues was attributable to an increase in property tax, state and tuition revenues. The increase in expenditures was due to a combination of factors including higher salaries and employee benefits, higher energy costs and equipment replacements and repairs.

### USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Clear Lake 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 Clear Lake Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Clear Lake Community School District acts solely as an agent or custodian for the benefit of those outside of District government.

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

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

Other Supplementary Information provides detailed information about the Nonmajor Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

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

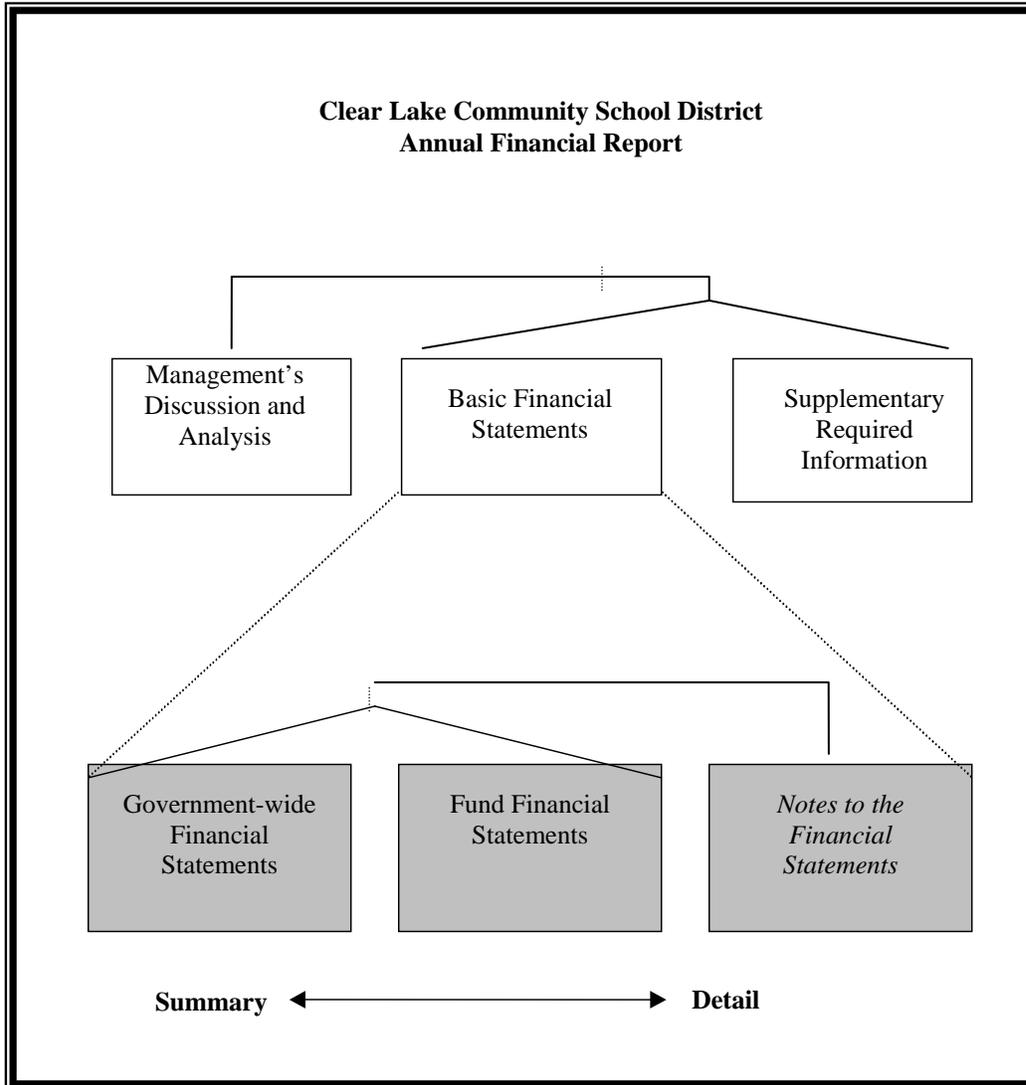


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

## REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

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

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

additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

### *Fund Financial Statements*

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

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

The District has three kinds of funds:

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

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

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

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

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

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency Funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures. The District does not have any agency funds at this time.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District’s net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3

	Condensed Statement of Net Assets						
	Governmental Activities		Business-type Activities		Total School District		Change 2005-2006
	2006	2005	2006	2005	2006	2005	
\$	\$	\$	\$	\$	\$	\$	
Current and other assets	11,391,204	9,511,691	161,634	107,097	11,552,838	9,618,788	1,934,050
Capital assets	10,680,102	10,622,044	53,537	45,257	10,733,639	10,667,301	66,338
<b>Total assets</b>	<b>\$22,071,306</b>	<b>\$20,133,735</b>	<b>\$215,171</b>	<b>\$152,354</b>	<b>\$22,286,477</b>	<b>\$20,286,089</b>	<b>2,000,388</b>
Long-term liabilities	4,175,000	4,545,055			4,175,000	4,545,055	(370,055)
Other liabilities	10,030,893	9,285,815	47,795	31,575	10,078,688	9,317,390	761,298
<b>Total liabilities</b>	<b>\$14,205,893</b>	<b>\$13,830,870</b>	<b>47,795</b>	<b>31,575</b>	<b>14,253,688</b>	<b>13,862,445</b>	<b>391,243</b>
Net Assets:							
Invested in capital assets, net of related debt	6,150,102	5,282,044	53,537	45,257	6,203,639	5,327,301	876,338
Restricted	1,685,086	1,006,706			1,685,086	1,006,706	678,380
Unrestricted	30,225	14,115	113,839	75,522	144,064	89,637	54,427
<b>TOTAL NET ASSETS</b>	<b>\$7,865,413</b>	<b>\$6,302,865</b>	<b>\$167,376</b>	<b>\$120,779</b>	<b>8,032,789</b>	<b>6,423,644</b>	<b>1,609,145</b>

The District’s total net assets increased by nearly \$1,609,145, over the prior year. The largest portion of the District’s net assets is the invested in capital assets (e.g., infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District’s restricted net assets increased approximately \$678,380 over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$54,427.

Figure A-4 shows the change in net assets for the years ended June 30, 2006 and 2005.

Figure A-4

	Change in Net Assets						
	Governmental		Business-type		Total		Change
	Activities		Activities		School District		
2006	2005	2006	2005	2006	2005	2005-2006	
	\$	\$	\$	\$	\$	\$	\$
Revenues							
Program Revenues:							
Charges for services	\$1,172,762	\$1,014,257	\$403,343	\$384,395	\$1,576,105	\$1,398,652	\$177,453
Operating grants & contributions	\$1,168,615	\$1,108,256	\$224,754	\$216,576	\$1,393,369	\$1,324,832	\$68,537
Capital grants & contributions	\$67,041	\$164,799			\$67,041	\$164,799	(\$97,758)
General Revenues:							
Property taxes	\$5,232,739	\$5,241,633			\$5,232,739	\$5,241,633	(\$8,894)
Income Surtax	\$320,730	\$308,771			\$320,730	\$308,771	\$11,959
Local option sales tax	\$1,503,563	\$1,536,580			\$1,503,563	\$1,536,580	(\$33,017)
Unrestricted state grants	\$4,761,189	\$4,659,794			\$4,761,189	\$4,659,794	101,395
Unrestricted investment earnings	\$129,241	\$70,793	\$3,788	\$1,233	\$133,029	\$72,026	\$61,003
Other revenue	\$3,112	\$15,837			\$3,112	\$15,837	(\$12,725)
<b>Total Revenues</b>	<b>\$14,358,992</b>	<b>\$14,120,720</b>	<b>\$631,885</b>	<b>\$602,204</b>	<b>\$14,990,877</b>	<b>\$14,722,924</b>	<b>\$267,953</b>
Expenses:							
Instruction	\$7,837,684	\$7,720,934			\$7,837,684	\$7,720,934	\$116,750
Support services	\$3,859,250	\$3,585,292			\$3,859,250	\$3,585,292	\$273,958
Non-instructional programs			\$598,899	\$566,680	\$598,899	\$566,680	\$32,219
Other expenditures	\$1,085,899	\$1,247,038			1,085,899	1,247,038	(\$161,139)
<b>Total expenses</b>	<b>\$12,782,833</b>	<b>\$12,553,264</b>	<b>\$598,899</b>	<b>\$566,680</b>	<b>\$13,381,732</b>	<b>\$13,119,944</b>	<b>\$261,788</b>
<b>Change in net assets before transfers</b>	<b>\$1,576,159</b>	<b>\$1,567,456</b>	<b>\$32,986</b>	<b>\$35,524</b>	<b>\$1,609,145</b>	<b>\$1,602,980</b>	
Transfers	(\$13,611)	(\$1,425)	\$13,611	\$1,425			
<b>CHANGE IN NET ASSETS</b>	<b>\$1,562,548</b>	<b>\$1,566,031</b>	<b>\$46,597</b>	<b>\$36,949</b>	<b>\$1,609,145</b>	<b>\$1,602,980</b>	
Net assets beginning of year	\$6,302,865	\$4,736,834	\$120,779	\$83,830	\$6,423,644	\$4,820,664	
Net assets end of year	<u>\$7,865,413</u>	<u>\$6,302,865</u>	<u>\$167,376</u>	<u>\$120,779</u>	<u>\$8,032,789</u>	<u>\$6,423,644</u>	

Property tax and unrestricted state grants account for 67% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for about 87% of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$14,358,992 and expenses were \$12,782,833. Higher expenditures of the Operation and maintenance of plant services and Transportation services and higher salaries and employee benefits caused the increase in expenses between 2005 and 2006.

### Business Type Activities

Revenues for business type activities were \$631,885 and expenses were \$598,899. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## **INDIVIDUAL FUND ANALYSIS**

As previously noted, Clear Lake 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 \$1,549,392, well above last year's ending fund balances of \$868,619. Part of the increase was due to the fund balance in Capitol projects increasing by \$358,889.

### **Governmental Fund Highlights**

- The District's General Fund financial position increased by \$38,278 from the previous year.
- The General Fund balance increased from (\$217,935) in 2005 to (\$179,657) in 2006, due in part to the budget cuts.
- The Capital Projects Fund balance increased from \$686,816 in fiscal 2005 to \$1,045,705 in fiscal year 2006 this was due to the 1% local option tax. This balance will be used to repay notes payable and to finance future capital improvements and equipment purchases.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$157,182 in fiscal 2005 to \$418,827 in fiscal 2006. The district fund balance increase was due to not having as many major projects such as the High School gym floor and furnishing the High School after the High School renovation/addition project was completed in fiscal 2005.

### **Proprietary Fund Highlights**

School Nutrition Fund balanced increased from \$120,779 at June 30, 2005 to \$167,376 at June 30, 2006, representing an increase of approximately 38%. For fiscal 2006, the Food Service Director works really hard at watching food costs and employee wages and benefits. The option of the salad and/or pasta bars at lunch continues to have great success which results in an increase in meals served and a related increase in revenue.

## **BUDGETARY HIGHLIGHTS**

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except blended component units, internal service funds, permanent funds and agency funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's certified budget is prepared on the cash basis.

School districts have two levels of budgetary control. One form of budgetary control exists through the "certified budget", which includes all funds of the District as noted above. This budget is certified with the County Auditor and Department of Management each year. Iowa school districts may not certify a general fund budget in excess of its spending authority.

The other level of budgetary control is the "unspent (maximum) authorized budget" and pertains only to the General Fund of the District. The maximum authorized budget is the total "spending authority" in the General Fund of the District. The unspent balance is a budgetary concept and does not mean the "actual General Fund cash". It is imperative for users of District financial information to make this important distinction. The unspent balance is the amount of spending authority that is carried over into the next fiscal year. The unspent

balance is a budgetary carryover and does not represent actual dollars (General Fund cash) or actual financial position (unreserved, undesignated General Fund balance) of the District.

The certified budget was exceeded in the support services function area due to timing of the account codes changing do to state requirements, there was not sufficient time to amend the certified budget.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

By the end of fiscal 2006, the District had invested \$10,680,102 net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers and audio-visual equipment, transportation equipment, and administrative office. This is a net increase of .5 percent from last year. More detailed information about capital assets is available in Note 5 to the financial statements.

During fiscal year 2006 the District spent approximately \$270,000 for roof repairs, tuck pointing and football field improvements. The District also purchased approximately \$92,000 for computers.

At June 30, 2006 \$19,800 of work was completed on a \$46,925 window replacement contract. The project was completed after year-end.

### Long-Term Debt

At year-end the District had \$4,530,000 in general obligation bonds. This represents a decrease of approximately 7% from last year. Revenue bond anticipation note was used on the High School renovation/addition project and was paid off in fiscal year 2006; no additional revenue bond anticipation notes were issued in 2006. See figure A-7.

**Figure A-7  
Outstanding Long-Term Obligations**

	<b>Total School District</b>		<b>Percentage</b>
	<b>2006</b>	<b>2005</b>	<b>Change</b>
			<b>2005-2006</b>
	\$	\$	
General Obligation Bonds	\$4,530,000	\$4,865,000	-7%
Revenue bond anticipation note (financed with sales taxes)		\$475,000	-100%
Early Retirement	\$42,018	\$73,099	-43%
Compensated Absences	\$38,556	\$31,161	24%
<b>TOTAL</b>	<b>\$4,610,654</b>	<b>\$5,444,260</b>	<b>-17%</b>

## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of some existing circumstances that could significantly affect its financial health in the future. Some of these include declining enrollment of -9.7 students and employee salary and benefit increases for 2006-2007 of about \$365,000. We continue to seek any cost saving plans that we can implement.

## **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 Mike Wright Superintendent or Lorna Leerar, Business Manager/Board Secretary.

## BASIC FINANCIAL STATEMENTS

## CLEAR LAKE COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2006

	Governmental Activities	Business-type Activities	Total	Component Unit - Clear Lake Community School Foundation
	\$	\$	\$	\$
<b>Assets</b>				
Cash and cash equivalents:				
ISCAP	2,808,429	-	2,808,429	-
Other	2,418,257	137,271	2,555,528	332,296
Receivables:				
Property tax:				
Delinquent	63,305	-	63,305	-
Succeeding year	5,398,350	-	5,398,350	-
Accounts	16,771	822	17,593	-
Accrued interest:				
ISCAP	14,549	-	14,549	-
Due from other governments	671,543	-	671,543	-
Inventories	-	23,541	23,541	-
Capital assets, net of accumulated depreciation	10,680,102	53,537	10,733,639	-
<b>Total assets</b>	<b>22,071,306</b>	<b>215,171</b>	<b>22,286,477</b>	<b>332,296</b>
<b>Liabilities</b>				
Accounts payable	210,295	172	210,467	-
Salaries and benefits payable	1,105,358	37,321	1,142,679	-
Accrued interest payable	38,296	-	38,296	-
Deferred revenue:				
Succeeding year property tax	5,398,350	-	5,398,350	-
Other	-	10,302	10,302	-
ISCAP warrants payable	2,809,000	-	2,809,000	-
ISCAP accrued interest payable	13,576	-	13,576	-
ISCAP premium	20,444	-	20,444	-
Long-term liabilities:				
Portion due within one year:				
General obligation bonds payable	355,000	-	355,000	-
Termination benefits	42,018	-	42,018	-
Compensated absences	38,556	-	38,556	-
Portion due after one year:				
General obligation bonds payable	4,175,000	-	4,175,000	-
<b>Total liabilities</b>	<b>14,205,893</b>	<b>47,795</b>	<b>14,253,688</b>	<b>-</b>

See notes to financial statements.

## CLEAR LAKE COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2006

	Governmental Activities	Business-type Activities	Total	Component Unit - Clear Lake Community School Foundation
	\$	\$	\$	\$
<b>Net assets</b>				
Invested in capital assets, net of related debt	6,150,102	53,537	6,203,639	-
Restricted for:				
Gifted and talented program	27,250	-	27,250	-
Management levy	41,625	-	41,625	-
Physical plant and equipment levy	418,827	-	418,827	-
Other special revenue purposes	151,679	-	151,679	-
Local option sales tax capital projects	1,045,705	-	1,045,705	-
Unrestricted	30,225	113,839	144,064	332,296
<b>Total net assets</b>	<u>7,865,413</u>	<u>167,376</u>	<u>8,032,789</u>	<u>332,296</u>

CLEAR LAKE COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

<b>Functions/Programs</b>	<u>Program Revenues</u>			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular instruction	5,080,584	542,346	531,782	-
Special instruction	1,629,080	164,631	80,115	-
Other instruction	1,128,020	442,685	120,029	-
	<u>7,837,684</u>	<u>1,149,662</u>	<u>731,926</u>	<u>-</u>
Support services:				
Student services	296,249	-	-	-
Instructional staff services	430,435	-	-	-
Administration services	1,334,730	-	-	-
Operation and maintenance of plant services	1,293,230	4,037	-	-
Transportation services	504,606	19,063	4,662	-
	<u>3,859,250</u>	<u>23,100</u>	<u>4,662</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	140,056	-	-	67,041
Long-term debt interest	246,612	-	2,526	-
AEA flowthrough	429,501	-	429,501	-
Depreciation (unallocated)*	269,730	-	-	-
	<u>1,085,899</u>	<u>-</u>	<u>432,027</u>	<u>67,041</u>
Total governmental activities	12,782,833	1,172,762	1,168,615	67,041
Business type activities:				
Non-instructional programs:				
Food service operations	598,899	403,343	224,754	-
Total primary government	13,381,732	1,576,105	1,393,369	67,041
Component Unit:				
Clear Lake Community School Foundation	10,039	-	47,165	-
Total	<u>13,391,771</u>	<u>1,576,105</u>	<u>1,440,534</u>	<u>67,041</u>

**General Revenues:**

Property taxes levied for:  
  General purposes  
  Debt service  
  Capital outlay  
  Income surtax  
  Local option sales and services tax  
  Unrestricted state grants  
  Unrestricted investment earnings  
  Other

Total general revenues

Transfers

Total general revenues and transfers

**Change in net assets**

Net assets beginning of year

Net assets end of year

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business Type Activities	Total	Component Unit
\$	\$	\$	\$
(4,006,456)	-	(4,006,456)	-
(1,384,334)	-	(1,384,334)	-
(565,306)	-	(565,306)	-
(5,956,096)	-	(5,956,096)	-
(296,249)	-	(296,249)	-
(430,435)	-	(430,435)	-
(1,334,730)	-	(1,334,730)	-
(1,289,193)	-	(1,289,193)	-
(480,881)	-	(480,881)	-
(3,831,488)	-	(3,831,488)	-
(73,015)	-	(73,015)	-
(244,086)	-	(244,086)	-
-	-	-	-
(269,730)	-	(269,730)	-
(586,831)	-	(586,831)	-
(10,374,415)	-	(10,374,415)	-
-	29,198	29,198	-
(10,374,415)	29,198	(10,345,217)	-
-	-	-	37,126
(10,374,415)	29,198	(10,345,217)	37,126
4,461,867	-	4,461,867	-
331,278	-	331,278	-
439,594	-	439,594	-
320,730	-	320,730	-
1,503,563	-	1,503,563	-
4,761,189	-	4,761,189	-
129,241	3,788	133,029	12,774
3,112	-	3,112	-
11,950,574	3,788	11,954,362	12,774
(13,611)	13,611	-	-
11,936,963	17,399	11,954,362	12,774
1,562,548	46,597	1,609,145	49,900
6,302,865	120,779	6,423,644	282,396
7,865,413	167,376	8,032,789	332,296

## CLEAR LAKE COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2006

	General	Capital Projects	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
<b>Assets</b>				
Cash and pooled investments:				
ISCAP	2,808,429	-	-	2,808,429
Other	846,453	766,131	805,673	2,418,257
Receivables:				
Property tax:				
Delinquent	52,287	-	11,018	63,305
Succeeding year	4,723,003	-	675,347	5,398,350
Accounts	14,502	-	2,269	16,771
Accrued interest - ISCAP	14,549	-	-	14,549
Due from other governments	376,862	279,574	15,107	671,543
	<u>8,836,085</u>	<u>1,045,705</u>	<u>1,509,414</u>	<u>11,391,204</u>
<b>Total assets</b>				
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	59,572	-	150,723	210,295
Salaries and benefits payable	1,105,358	-	-	1,105,358
ISCAP warrants payable	2,809,000	-	-	2,809,000
ISCAP accrued interest payable	13,576	-	-	13,576
ISCAP premium	20,444	-	-	20,444
Deferred revenue:				
Succeeding year property tax	4,723,003	-	675,347	5,398,350
Other	284,789	-	-	284,789
Total liabilities	<u>9,015,742</u>	<u>-</u>	<u>826,070</u>	<u>9,841,812</u>
Fund balances:				
Reserved for:				
Gifted and talented program	27,250	-	-	27,250
Debt service	-	-	29,195	29,195
Unreserved reported in:				
General fund	(206,907)	-	-	(206,907)
Special revenue funds	-	-	654,149	654,149
Capital projects funds	-	1,045,705	-	1,045,705
Total fund balances	<u>(179,657)</u>	<u>1,045,705</u>	<u>683,344</u>	<u>1,549,392</u>
	<u>8,836,085</u>	<u>1,045,705</u>	<u>1,509,414</u>	<u>11,391,204</u>
<b>Total liabilities and fund balances</b>				

## CLEAR LAKE COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

	\$
<b>Total fund balances of governmental funds (Exhibit C)</b>	1,549,392
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	10,680,102
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	284,789
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.	(38,296)
Long-term liabilities, including bonds payable, termination benefits and compensated absences liability are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(4,610,574)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>7,865,413</u></u>

## CLEAR LAKE COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	General	Capital Projects	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	4,641,524	1,503,563	940,273	7,085,360
Tuition	653,066	-	-	653,066
Other	173,962	26,227	456,379	656,568
State sources	5,647,831	-	622	5,648,453
Federal sources	278,725	-	64,041	342,766
Total revenues	<u>11,395,108</u>	<u>1,529,790</u>	<u>1,461,315</u>	<u>14,386,213</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	5,021,630	-	58,944	5,080,574
Special instruction	1,629,080	-	-	1,629,080
Other instruction	717,062	-	409,791	1,126,853
	<u>7,367,772</u>	<u>-</u>	<u>468,735</u>	<u>7,836,507</u>
Support services:				
Student services	296,249	-	-	296,249
Instructional staff services	430,435	-	-	430,435
Administration services	1,144,924	-	168,211	1,313,135
Operation and maintenance of plant services	1,275,457	-	-	1,275,457
Transportation services	412,492	-	-	412,492
	<u>3,559,557</u>	<u>-</u>	<u>168,211</u>	<u>3,727,768</u>
Other expenditures:				
Facilities acquisition	-	-	769,713	769,713
Long-term debt:				
Principal	-	-	810,000	810,000
Interest and fiscal charges	-	-	250,854	250,854
AEA flowthrough	429,501	-	-	429,501
	<u>429,501</u>	<u>-</u>	<u>1,830,567</u>	<u>2,260,068</u>
Total expenditures	<u>11,356,830</u>	<u>-</u>	<u>2,467,513</u>	<u>13,824,343</u>
Excess (deficiency) of revenues over (under) expenditures	<u>38,278</u>	<u>1,529,790</u>	<u>(1,006,198)</u>	<u>561,870</u>
Other financing sources (uses):				
Compensation for loss of fixed assets	-	-	118,903	118,903
Operating transfers in	-	-	1,170,901	1,170,901
Operating transfers out	-	(1,170,901)	-	(1,170,901)
Total other financing sources (uses)	<u>-</u>	<u>(1,170,901)</u>	<u>1,289,804</u>	<u>118,903</u>
Net change in fund balances	38,278	358,889	283,606	680,773
Fund balances beginning of year	<u>(217,935)</u>	<u>686,816</u>	<u>399,738</u>	<u>868,619</u>
Fund balances end of year	<u>(179,657)</u>	<u>1,045,705</u>	<u>683,344</u>	<u>1,549,392</u>

See notes to financial statements.

## CLEAR LAKE COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		680,773
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
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 year as follows:		
Loss on disposal of capital assets	(13,010)	
Insurance reimbursement for damaged assets	(118,903)	
Expenditures for capital assets	616,046	
Depreciation expense	<u>(426,075)</u>	58,058
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.		(14,211)
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		810,000
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.		4,242
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	31,081	
Compensated absences	<u>(7,395)</u>	<u>23,686</u>
<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>1,562,548</u></u>

## CLEAR LAKE COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Fund

June 30, 2006

	Nonmajor School Nutrition
	<u>\$</u>
<b>Assets</b>	
Cash and cash equivalents	137,271
Accounts receivable	822
Inventories	23,541
Capital assets, net of accumulated depreciation	<u>53,537</u>
<b>Total assets</b>	<u>215,171</u>
<b>Liabilities</b>	
Accounts payable	172
Salaries and benefits payable	37,321
Deferred revenue	<u>10,302</u>
<b>Total liabilities</b>	<u>47,795</u>
<b>Net assets</b>	
Invested in capital assets, net of related debt	53,537
Unrestricted	<u>113,839</u>
<b>Total net assets</b>	<u><u>167,376</u></u>

## CLEAR LAKE COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Nonmajor School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>403,343</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	230,464
Benefits	60,326
Purchased services	2,610
Supplies	298,035
Other expenses	2,133
Depreciation	5,331
	<u>598,899</u>
Operating loss	<u>(195,556)</u>
Non-operating revenue:	
State sources	7,251
Federal sources	217,503
Interest income	3,788
Total non-operating revenue	<u>228,542</u>
Changes in net assets before contributed capital	32,986
Contributed capital	<u>13,611</u>
Change in net assets	46,597
Net assets beginning of year	<u>120,779</u>
Net assets end of year	<u><u>167,376</u></u>

## CLEAR LAKE COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Fund

Year ended June 30, 2006

	Nonmajor School Nutrition \$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	404,963
Cash payments to employees for services	(276,614)
Cash payments to suppliers for goods or services	(263,020)
Net cash used by operating activities	<u>(134,671)</u>
Cash flows from non-capital financing activities:	
State grants received	7,251
Federal grants received	177,127
Net cash provided by non-capital financing activities	<u>184,378</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities:	
Interest on investments	<u>3,788</u>
Net increase (decrease) in cash and cash equivalents	53,495
Cash and cash equivalents at beginning of year	<u>83,776</u>
Cash and cash equivalents at end of year	<u><u>137,271</u></u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>	
Operating gain (loss)	(195,556)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	40,376
Depreciation	5,331
Decrease (increase) in inventories	(739)
Decrease (increase) in accounts receivable	(303)
(Decrease) increase in accounts payable	121
(Decrease) increase in salaries and benefits payable	14,176
(Decrease) increase in deferred revenue	1,923
Net cash used in operating activities	<u><u>(134,671)</u></u>

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

During the year ended June 30, 2006, the District received \$40,376 of federal commodities.

During the year ended June 30, 2006, the School Nutrition Fund received \$13,611 of equipment that was purchased by other funds

## CLEAR LAKE COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Fund

June 30, 2006

	Private Purpose Trust Scholarships
	<u>\$</u>
<b>Assets</b>	
Cash and pooled investments	247,599
Accrued interest receivable	<u>1,519</u>
Total assets	249,118
<b>Liabilities</b>	<u>-</u>
<b>Net Assets</b>	
Reserved for scholarships	<u><u>249,118</u></u>

## CLEAR LAKE COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Fund

Year ended June 30, 2006

	Private Purpose Trust Scholarships
	<u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	1,100
Investment revenue	<u>10,388</u>
Total additions	11,488
Deductions:	
Support services:	
Scholarships awarded	<u>17,800</u>
Change in net assets	(6,312)
Net assets beginning of year	<u>255,430</u>
Net assets end of year	<u><u>249,118</u></u>

# CLEAR LAKE COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

Year ended June 30, 2006

### 1. Summary of Significant Accounting Policies

Clear Lake Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of Clear Lake, Iowa and the predominately agricultural territory in a portion of Cerro Gordo 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, Clear Lake Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The Clear Lake Community School Foundation is included in the financial statements as a discretely presented component unit.

The Clear Lake Community School Foundation was established to further develop, increase and extend the facilities and services of the Clear Lake Community School District by providing broader educational opportunities to its students, staff, faculty, and the residents of the geographical area which it serves. The Foundation financial statements are shown in the Statement of Net Assets and the Statement of Activities in separate columns. As explained in the Independent Auditor's Opinion, the Foundation financial statements have not been audited.

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

#### B. Basis of Presentation

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

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

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those 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 Capital Projects fund is used to account for all resources used in the acquisition and construction of capital facilities.

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

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

#### C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when

they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants, and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgements, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

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

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

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

#### D. Assets, Liabilities, and Fund Equity

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

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

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

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 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	-
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 over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	20-50 years
Improvements other than buildings	15 years
Furniture and equipment	5-12 years

The District's collection of library books and other similar materials are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to District policy that requires proceeds from the sale of these items, if any, to be used to acquire other collection items.

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

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

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds, amounts received in advance for meal sales and succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the 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. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the support services function exceeded the amount budgeted.

## 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 the following investments:

	<u>Fair Value</u>
	\$
Hartford Advisors Fund Class A	8,762

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The District's investment in the Hartford Advisors Fund is 100% of the District's total investments.

### 3. Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
		\$
Nonmajor Governmental Funds:		
Debt Service	Capital Projects Fund	727,349
Physical Plant and Equipment Levy	Capital Projects Fund	443,552

These transfers moved revenues from the fund statutorily required to collect the resources to the funds statutorily required to expend the resources.

### 4. Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2006, is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
			\$	\$	\$	\$
2005-06B	1/26/06	1/26/07	685,384	13,889	683,000	13,052
2006-07A	6/28/06	6/28/07	2,123,045	660	2,126,000	524
Total			<u>2,808,429</u>	<u>14,549</u>	<u>2,809,000</u>	<u>13,576</u>

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

Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
\$	\$	\$	\$
-	800,000	800,000	-

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

Series	Interest Rates on Warrants	Interest Rates on Investments
	%	%
2005-06A	4.000	3.903
2005-06B	4.500	4.722
2006-07A	4.500	5.676

## 5. Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Construction in progress	16,670	19,800	16,670	19,800
Land	106,704	-	-	106,704
Total capital assets not being deprec.	123,374	19,800	16,670	126,504
Capital assets being depreciated:				
Buildings	12,823,117	250,643	-	13,073,760
Improvements other than buildings	417,353	118,352	-	535,705
Furniture and equipment	1,698,718	125,018	90,231	1,733,505
Total capital assets being deprec.	14,939,188	494,013	90,231	15,342,970
Less accumulated depreciation for:				
Buildings	2,883,310	256,871	-	3,140,181
Improvements other than buildings	351,978	12,859	-	364,837
Furniture and equipment	1,205,230	156,345	77,221	1,284,354
Total accumulated depreciation	4,440,518	426,075	77,221	4,789,372
Total capital assets being depreciated , net	10,498,670	67,938	13,010	10,553,598
Governmental activities capital assets, net	10,622,044	87,738	29,680	10,680,102

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Business type activities:</b>				
Furniture and equipment	151,485	13,611	-	165,096
Less accumulated deprec.	<u>106,228</u>	<u>5,331</u>	-	<u>111,559</u>
Business type activities				
Capital assets, net	<u>45,257</u>	<u>8,280</u>	-	<u>53,537</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	31,091
Other instruction	1,167
Support Services:	
Administration	14,200
Operation and maintenance of plant services	17,773
Transportation	<u>92,114</u>
	156,345
Unallocated depreciation	<u>269,730</u>
	426,075
Total depreciation expense - governmental activities	<u>426,075</u>
Business type activities:	
Food service operations	<u>5,331</u>

## 6. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
General obligation bonds	4,865,000	-	335,000	4,530,000	355,000
Local option sales and services tax					
tax revenue bond anticipation note	475,000	-	475,000	-	-
Compensated absences	31,161	38,556	31,161	38,556	38,556
Termination benefits	<u>73,099</u>	<u>21,875</u>	<u>52,956</u>	<u>42,018</u>	<u>42,018</u>
Total	<u>5,444,260</u>	<u>60,431</u>	<u>894,117</u>	<u>4,610,574</u>	<u>435,574</u>

### Termination Benefits

The District offers a voluntary early retirement plan to its employees. Eligible employees must be between the ages of fifty-five to sixty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education.

Early retirement benefits are based on IPERS reduction factors for early retirement for retirees that are between the ages of sixty to sixty-five. For retirees ages fifty-five to sixty the benefit is based on the difference between the current base salary and Step 1 of the B.A. salary schedule.

Early retirement benefits will be paid in one installment by July 30, of the year following retirement.

At June 30, 2006, the District has obligations to six participants with a total liability of \$42,018. Actual early retirement expenditures for the year ended June 30, 2006 totaled \$52,956.

General Obligation Bonds Payable

On February 19, 1997, the District sold general obligation bonds, that mature as follows:

<u>Year Ending June 30,</u>	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	%	\$	\$	\$
2007	4.95	355,000	229,780	584,780
2008	5.00	375,000	213,095	588,095
2009	5.10	395,000	195,095	590,095
2010	5.20	415,000	175,543	590,543
2011	5.30	435,000	154,585	589,585
2012-2016	5.40-5.60	2,555,000	411,640	2,966,640
		<u>4,530,000</u>	<u>1,379,738</u>	<u>5,909,738</u>

**7. Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$395,313, \$387,807, and \$384,077 respectively, equal to the required contributions for each year.

**8. Risk Management**

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

**9. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$429,501 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.

**10. Construction Commitment**

The District has entered into a window replacement contract for \$46,925. As of June 30, 2006 costs of \$19,800 had been incurred against the contract.

## 11. Lease Commitment

The District entered into a five-year agreement to lease copy machines in fiscal year 2006. The lease is being treated as an operating lease. The minimum payments the District will make over the next five years are as follows:

<u>Year Ended June 30</u>	<u>Lease Payment</u>
	\$
2007	54,000
2008	54,000
2009	54,000
2010	54,000
2011	45,000

During the year ended June 30, 2006 the District paid rents of \$49,595.

## 12. Deficit Fund Balances

At June 30, 2006 the District had a deficit unreserved fund balance of \$206,907 in the General Fund.

REQUIRED SUPPLEMENTARY INFORMATION

CLEAR LAKE COMMUNITY SCHOOL DISTRICT

Budgetary Comparison of Revenues, Expenditures, 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 Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	8,394,994	407,131	8,802,125	8,414,094	8,414,094	388,031
State sources	5,648,453	7,251	5,655,704	5,696,695	5,696,695	(40,991)
Federal sources	342,766	217,503	560,269	545,000	545,000	15,269
Total revenues	<u>14,386,213</u>	<u>631,885</u>	<u>15,018,098</u>	<u>14,655,789</u>	<u>14,655,789</u>	<u>362,309</u>
Expenditures:						
Instruction	7,836,507	-	7,836,507	7,858,000	7,858,000	21,493
Support services	3,727,768	-	3,727,768	3,546,708	3,546,708	(181,060)
Non-instructional programs	-	598,899	598,899	650,000	650,000	51,101
Other expenditures	2,260,068	-	2,260,068	2,549,529	2,549,529	289,461
Total expenditures	<u>13,824,343</u>	<u>598,899</u>	<u>14,423,242</u>	<u>14,604,237</u>	<u>14,604,237</u>	<u>180,995</u>
Excess (deficiency) of revenues over (under) expenditures	561,870	32,986	594,856	51,552	51,552	543,304
Other financing sources net	<u>118,903</u>	<u>13,611</u>	<u>132,514</u>	<u>-</u>	<u>-</u>	<u>132,514</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	680,773	46,597	727,370	51,552	51,552	675,818
Balance beginning of year	<u>868,619</u>	<u>120,779</u>	<u>989,398</u>	<u>1,845,920</u>	<u>1,845,920</u>	<u>(856,522)</u>
Balance end of year	<u><u>1,549,392</u></u>	<u><u>167,376</u></u>	<u><u>1,716,768</u></u>	<u><u>1,897,472</u></u>	<u><u>1,897,472</u></u>	<u><u>(180,704)</u></u>

CLEAR LAKE 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, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Internal Service, Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

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

During the year ended June 30, 2006, expenditures in the support services function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

## CLEAR LAKE COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2006

Assets	Special Revenue Funds				Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	Debt Service	
	\$	\$	\$	\$	
Cash and pooled investments	92,610	152,049	535,680	25,334	805,673
Receivables:					
Property tax:					
Delinquent	2,033	-	5,124	3,861	11,018
Succeeding year	190,002	-	160,164	325,181	675,347
Accounts	-	2,269	-	-	2,269
Due from other governments	-	-	15,107	-	15,107
<b>Total assets</b>	<b>284,645</b>	<b>154,318</b>	<b>716,075</b>	<b>354,376</b>	<b>1,509,414</b>
<b>Liabilities &amp; Fund Balances</b>					
Liabilities:					
Accounts payable	11,000	2,639	137,084	-	150,723
Deferred revenue:					
Succeeding year property tax	190,002	-	160,164	325,181	675,347
Total liabilities	201,002	2,639	297,248	325,181	826,070
Fund balances:					
Reserved for debt service	-	-	-	29,195	29,195
Unreserved reported in:					
Special revenue funds	83,643	151,679	418,827	-	654,149
Total fund equity	83,643	151,679	418,827	29,195	683,344
<b>Total liabilities and fund balances</b>	<b>284,645</b>	<b>154,318</b>	<b>716,075</b>	<b>354,376</b>	<b>1,509,414</b>

## CLEAR LAKE COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Special Revenue Funds				
	Management	Student	Physical	Debt	Total
	Levy	Activity Fund	Plant and Equipment Levy	Service	
\$	\$	\$	\$	\$	
Revenues:					
Local sources:					
Local tax	167,444	-	440,710	332,119	940,273
Other	2,047	438,349	13,457	2,526	456,379
State sources	114	-	290	218	622
Federal sources	-	-	64,041	-	64,041
Total revenues	<u>169,605</u>	<u>438,349</u>	<u>518,498</u>	<u>334,863</u>	<u>1,461,315</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	58,944	-	-	-	58,944
Other instruction	-	409,791	-	-	409,791
Support services:					
Administration services	118,616	-	49,595	-	168,211
Other expenditures:					
Facilities acquisition	-	-	769,713	-	769,713
Long-term debt:					
Principal	-	-	-	810,000	810,000
Interest and fiscal charges	-	-	-	250,854	250,854
Total expenditures	<u>177,560</u>	<u>409,791</u>	<u>819,308</u>	<u>1,060,854</u>	<u>2,467,513</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(7,955)</u>	<u>28,558</u>	<u>(300,810)</u>	<u>(725,991)</u>	<u>(1,006,198)</u>
Other financing sources (uses):					
Compensation for loss of fixed assets	-	-	118,903	-	118,903
Operating transfers in	-	-	443,552	727,349	1,170,901
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>562,455</u>	<u>727,349</u>	<u>1,289,804</u>
Net change in fund balances	(7,955)	28,558	261,645	1,358	283,606
Fund balances beginning of year	<u>91,598</u>	<u>123,121</u>	<u>157,182</u>	<u>27,837</u>	<u>399,738</u>
Fund balances end of year	<u>83,643</u>	<u>151,679</u>	<u>418,827</u>	<u>29,195</u>	<u>683,344</u>

## CLEAR LAKE COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

Account	Balance	Revenues	Expenditures	Intra-Fund Transfers	Balance End
	Beginning of Year				of Year
	\$	\$	\$	\$	\$
Activity tickets	-	12,616	-	(12,591)	25
American field service	879	-	-	-	879
Athletic towel	-	894	470	(212)	212
Athletics concessions	-	21,053	16,275	(4,778)	-
Academic exe.	1,457	3,425	2,437	-	2,445
Band	-	3,619	3,664	120	75
Band trip	6,224	-	124	(443)	5,657
Band uniforms	20,297	18,948	39,688	443	-
Baseball	-	3,254	4,327	1,123	50
Baseball concession	-	5,122	4,966	-	156
Baseball camp	2,628	2,654	2,703	-	2,579
Boys basketball	-	6,130	6,197	77	10
Boys basketball camp	5,506	12,420	11,237	-	6,689
Boys golf	-	623	1,890	1,267	-
Boys golf camp	340	1,240	1,298	-	282
Boys soccer camp	1,016	3,558	2,939	-	1,635
Boys tennis	-	75	80	5	-
Boys tennis camp	80	75	-	-	155
Boys track	-	2,349	1,200	(1,149)	-
Boys track camp	1,032	-	722	-	310
Central book fair	(61)	2,077	1,864	-	152
Clear Creek building	3,112	7,541	8,264	-	2,389
Cheerleading	-	356	1,108	752	-
Cheerleading camp fund	(1,942)	17,400	10,367	-	5,091
Clear Creek playground	1,610	-	-	-	1,610
Cross country	-	935	1,224	289	-
Cross country camp	100	79	75	-	104
Dance team	2,197	18,800	18,322	-	2,675
Drama	-	1,200	1,135	(65)	-
Drum & bugle	6,209	44	-	-	6,253
Excel	223	590	124	-	689
Football	-	19,500	14,308	(5,192)	-
Football camp	(2,270)	32,658	28,095	-	2,293
French trip	50	-	-	-	50
General athletics	4,842	18,949	14,611	25,768	34,948
Girls basketball	-	6,616	5,688	(928)	-
Girls basketball camp	6,202	14,389	13,430	-	7,161
Girls golf	-	666	2,149	1,483	-
Girls golf camp	869	903	917	-	855
Girls soccer	-	2,841	3,992	1,226	75
Girls soccer camp	1,104	2,489	1,469	-	2,124
Girls tennis	-	-	80	80	-
Girls tennis camp	187	75	-	-	262
Girls track	-	1,631	852	(779)	-

## CLEAR LAKE COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

Account	Balance	Revenues	Expenditures	Intra-Fund Transfers	Balance End
	Beginning of Year				of Year
	\$	\$	\$	\$	\$
Girls track camp	(614)	1,700	1,257	171	-
Hall of pride	567	-	-	-	567
HS building	2,545	14,334	13,634	-	3,245
Interest	(10)	5,201	-	(5,191)	-
JH athletics	-	680	4,747	4,067	-
JH band	3,938	(2,595)	1,075	(4,206)	(3,938)
JH building	6,008	4,792	8,681	-	2,119
Jump rope for heart	1,474	-	45	-	1,429
Lincoln building	2,044	2,874	4,082	-	836
Magazine campaign	3,787	26,954	20,561	57	10,237
Middle school art club	178	-	-	-	178
Middle school concessions	-	-	83	83	-
Mock trial fund	-	-	150	150	-
Model United Nations	43	15,186	14,849	-	380
National Honor Society	-	381	554	173	-
Outdoor classroom fund	7,540	802	2,708	-	5,634
Primary book fair	1,046	150	325	-	871
Prom	4,383	3,373	621	-	7,135
Soccer	-	2,772	3,668	971	75
Softball	-	2,540	2,213	(47)	280
Softball resale	-	3,953	1,685	-	2,268
Softball camp	1,626	1,453	1,850	-	1,229
Spanish club	152	-	140	-	12
Speech	-	360	789	429	-
Student council	3,906	5,599	4,046	-	5,459
Student model legislature	-	-	-	-	-
Sunset building	(103)	1,418	1,806	-	(491)
Tour of homes	(32)	4,449	440	-	3,977
Tim Tjaden fund	520	150	450	-	220
Values for youth today fund	897	-	-	-	897
Vocal	-	3,211	3,256	(800)	(845)
Vocal music trip	54	1,968	1,962	-	60
Volleyball	-	2,918	2,324	(594)	-
Volleyball camp	1,837	1,823	1,112	-	2,548
Washington D.C. trip	55	57,551	58,450	844	-
Wrestling	-	9,153	6,275	(2,603)	275
Wrestling camp	(601)	2,609	1,820	-	188
Yearbook	18,487	19,165	18,338	-	19,314
June 30, 2006 accrual entries	-	2,269	2,639	-	(370)
June 30, 2005 accrual entries	1,503	(6,638)	(5,135)	-	-
Totals	123,121	438,349	409,791	-	151,679

## CLEAR LAKE 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	7,085,360	7,102,629	6,517,071	5,171,246
Tuition	653,066	551,059	578,747	505,203
Other	656,568	538,311	597,615	535,384
State sources	5,648,453	5,497,907	5,583,902	5,649,892
Federal sources	342,766	430,622	1,170,412	319,330
Total revenues	<u>14,386,213</u>	<u>14,120,528</u>	<u>14,447,747</u>	<u>12,181,055</u>
Expenditures:				
Instruction:				
Regular instruction	5,080,574	5,350,921	5,103,892	5,026,884
Special instruction	1,629,080	1,606,248	1,669,377	1,686,325
Other instruction	1,126,853	767,184	827,780	706,396
Support services:				
Student services	296,249	350,707	352,392	369,823
Instructional staff services	430,435	408,423	351,026	352,696
Administration services	1,313,135	1,185,912	1,252,502	1,135,896
Operation and maintenance of plant services	1,275,457	1,209,981	1,084,470	1,053,541
Transportation services	412,492	481,040	354,789	339,116
Other expenditures:				
Facilities acquisition	769,713	876,919	3,235,345	380,860
Long-term debt:				
Principal	810,000	995,000	300,000	285,000
Interest and other charges	250,854	282,548	289,799	301,206
AEA flowthrough	429,501	426,920	433,697	447,475
Total expenditures	<u>13,824,343</u>	<u>13,941,803</u>	<u>15,255,069</u>	<u>12,085,218</u>

## CLEAR LAKE COMMUNITY SCHOOL DISTRICT

## Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u> \$
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
National School Lunch Program	10.555	FY06	149,000
School Breakfast Program	10.553	FY06	<u>28,127</u>
			177,127
Food Distribution (Non-cash Expenditure)	10.550	FY06	40,376
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Education Agencies	84.010	1233-G-06	117,652
Improving Teacher Quality State Grants	84.367	FY06	50,525
Grants for State Assessments and Related Activities	84.369	FY05	16,902
State Grants for Innovative Programs	84.298	FY06	3,285
Safe & Drug Free Schools and Communities - State Grant	84.186	FY06	7,871
Fund for the Improvement of Education	84.215	FY05	48,934
Fund for the Improvement of Education	84.215	FY06	<u>15,107</u>
			64,041
Northern Trails Area Education Agency:			
Vocational Education - Basic Grants to States	84.048	FY06	2,376
Special Education Grants to States	84.027	FY06	<u>73,506</u>
Total			<u><u>553,661</u></u>

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

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  
Clear Lake 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 Clear Lake 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 October 31, 2006. We did not issue an opinion on the Clear Lake Community School Foundation, which is included as a discretely presented component unit, because we were not engaged to, and did not audit the Foundation. 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 Clear Lake Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 06-II-A is a material weakness.

### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Clear Lake Community School District and other parties to whom Clear Lake 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 Clear Lake Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BURTON E. TRACY & CO., P.C.  
Certified Public Accountants

October 31, 2006

Independent Auditor's Report on Compliance with Requirements Applicable  
to Each Major Program and Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Board of Education of the  
Clear Lake Community School District:

Compliance

We have audited the compliance of the Clear Lake Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Clear Lake Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Clear Lake Community School District's management. Our responsibility is to express an opinion on Clear Lake Community School District's compliance based on our audit.

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

In our opinion, Clear Lake Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control over Compliance

The management of Clear Lake Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Clear Lake Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgement, could adversely affect Clear Lake Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. Reportable conditions are described as items 06-III-A and 06-III-B in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe items 06-III-A and 06-III-B are material weaknesses.

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

BURTON E. TRACY & CO., P.C.  
Certified Public Accountants

October 31, 2006

CLEAR LAKE COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 20, 2006

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

- (a) An unqualified opinion was issued on the governmental activities, the business type activities, each major fund and the aggregate remaining fund information. The discretely presented component unit was not audited and no opinion was issued for it.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including material weaknesses.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed an audit finding which was required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - CFDA Number 84.010 Title I Grants to Local Education Agencies
  - CFDA Number 10.553 Clustered Programs:
  - CFDA Number 10.555 School Breakfast Program
  - CFDA Number 10.555 National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Clear Lake Community School did not qualify as a low-risk auditee.

CLEAR LAKE COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 20, 2006

Part II: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

06-II-A Segregation of Duties: The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although we noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

Recommendation: We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures and investigate methods to increase monitoring activities to obtain the maximum internal control possible under the circumstances.

District Response: The District is aware of the lack of complete segregation of duties and will make changes as the opportunity arises.

Conclusion: Response accepted.

CLEAR LAKE COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 20, 2006

Part III: Findings and Questioned Costs for Federal Awards:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

CFDA Number 84.010: Title I Grants to Local Education Agencies  
Federal Award Year: 2006  
U.S. Department of Education  
Passed through the Iowa Department of Education

CFDA Number 10.553: School Breakfast Program  
CFDA Number 10.555: National School Lunch Program  
Federal Award Year: 2006  
U.S. Department of Agriculture  
Passed through the Iowa Department of Education

06-III-A Segregation of Duties: The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although we noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

Recommendation: We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures and investigate methods to increase monitoring activities to obtain the maximum internal control possible under the circumstances.

District Response: The District is aware of the lack of complete segregation of duties and will make changes as the opportunity arises.

Conclusion: Response accepted.

CFDA Number 84.010: Title I Grants to Local Education Agencies  
Federal Award Year: 2006  
U.S. Department of Education  
Passed through the Iowa Department of Education

06-III-B Title I Salary Expenditures: Office of Management and Budget Circular A-87 requires that employees working on a single Federal award semi-annually certify that 100% of their time is spent on that federal program. The District did not have controls in place to obtain the required certifications.

CLEAR LAKE COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 20, 2006

Part III: Findings and Questioned Costs for Federal Awards (continued):

Recommendation: The District should adopt a standard time certification form and a timeline for completing the form twice a year.

District Response: We have created a form and will have it completed twice a year.

Conclusion: Response accepted.

CLEAR LAKE COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 20, 2006

Part IV: Other Findings Related to Statutory Reporting:

06-IV-A Certified Budget: Expenditures for the year ended June 30, 2006, exceeded the amount budgeted in the support services function.

Recommendation: The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

District Response: We will amend future budgets before expenditures exceed the amount budgeted.

Conclusion: Response accepted.

06-IV-B Questionable Expenditures: No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

06-IV-C Travel Expenses: No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

06-IV-D Business Transactions: No transactions between the District and District officials or employees were noted.

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

06-IV-F Board Minutes:. We noted that many minutes of board meetings were published late.

Recommendation: All minutes of board meetings should be published within two weeks of the board meeting as required by Iowa law.

District response: We will get copies of the minutes to the publisher sooner so that they can be published within the required time.

Conclusion: Response accepted.

06-IV-G Certified Enrollment: No variances in the basic enrollment data certified to the Department of Education were noted.

06-IV-H Deposits and Investments: The District received a donation of stock in July 2000. After the stock was transferred to the District the stock was sold and the proceeds were invested in a mutual fund. All dividends are being reinvested in the mutual fund. A broker is investing the funds for the District.

The type of investments that a school may have is limited by the Code of Iowa and the District's investment policy. The District may accept a gift of stock, however the reinvestment of the proceeds from the sale of the stock in a mutual fund and the additional purchase of

CLEAR LAKE COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 20, 2006

Part IV: Other Findings Related to Statutory Reporting (Continued):

mutual fund shares with dividends is not allowed by the District's investment policy and may not be allowed by the Code of Iowa. The Code of Iowa also requires a public funds custodial agreement with entities that are investing the District's monies.

Recommendation: The District should consult with its attorney to determine if the District is in compliance with the Code of Iowa in regard to this investment.

District Response: The donation of the stock and reinvestment was handled in accordance with the wishes of the donor. We will contact our attorney to determine if there should be changes in the way the investment is being handled.

Conclusion: Response accepted.

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

06-IV-J Financial Condition: The General Fund has a deficit unreserved fund balance of \$206,907 at June 30, 2006 and the Student Activity Fund has three accounts with a deficit balance at year end.

Recommendation: The District should continue to monitor these funds and investigate alternatives to eliminate the deficits.

District Response: We are investigating methods to eliminate the deficits.

Conclusion: Response accepted.

06-IV-K Reclassification of Student Activity Fund Accounts: The Student Activity Fund is to be used to account for extracurricular student activities, clubs and organizations. We noted accounts in the Student Activity Fund that did not appear to be student activities or clubs.

Recommendation: We recommend these accounts be reviewed and transferred to the proper fund.

District Response: We will review the accounts and make any necessary adjustments.

Conclusion: Response accepted.