

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2010

Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	5-6
Management's Discussion and Analysis	7-16
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statements:	
Statement of Net Assets	A 18
Statement of Activities	B 19
Governmental Fund Financial Statements:	
Balance Sheet	C 20
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D 21
Statement of Revenues, Expenditures and Changes in Fund Balances	E 22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 23
Proprietary Fund Financial Statements:	
Statement of Net Assets	G 24
Statement of Revenues, Expenses and Changes in Fund Net Assets	H 25
Statement of Cash Flows	I 26
Notes to Financial Statements	27-40
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund	42
Notes to Required Supplementary Information - Budgetary Reporting	43
Schedule of Funding Progress for the Retiree Health Plan	44
Other Supplementary Information:	<u>Schedule</u>
Nonmajor Governmental Funds:	
Combining Balance Sheet	1 46
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2 47
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3 48-49
Combining Balance Sheet - Capital Projects Funds	4 50
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Capital Projects Funds	5 51
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	6 52
Schedule of Expenditures of Federal Awards	7 53
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 <u>Government Auditing Standards</u>	55-56
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	57-58
Schedule of Findings and Questioned Costs	59-64

Central Lee Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**Board of Education
(Before September 2009 Election)**

John Johnson	President	2009
Robert Bryant	Vice President	2011
Robert Galle	Board Member	2011
Verna Brunstein	Board Member	2009
Larry Engler	Board Member	2011

**Board of Education
(After September 2009 Election)**

John Johnson	President	2013
Robert Bryant	Vice President	2011
Robert Galle	Board Member	2011
Verna Brunstein	Board Member	2013
Larry Engler	Board Member	2011

School Officials

John Henriksen	Superintendent	2010
Sandra Meierotto	Board Secretary	2010
Sharon Bradley	Board Treasurer	2010
Gruhn Law Firm	Attorney	2010
James Miller	Attorney	2010

CENTRAL LEE COMMUNITY SCHOOL DISTRICT

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Central Lee Community School District, Donnellson, Iowa as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Central Lee Community School District at June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 22, 2011 on our consideration of the Central Lee Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for Retiree Health Plan on pages 7 through 16 and 42 through 44 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 Central Lee Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2009 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 7, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson PC
NOLTE, CORNMAN & JOHNSON, P.C.

February 22, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Central Lee Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$9,172,186 in fiscal 2009 to \$8,960,627 in fiscal 2010, General Fund expenditures also decreased from \$8,698,563 in fiscal 2009 to \$8,553,243 in fiscal 2010. As result, the District's General Fund balance increased from \$453,388 in fiscal 2009 to \$860,781 in fiscal 2010, representing an increase of 89.86%.
- The decrease in General Fund revenues was mainly attributable to decreases in state revenues in fiscal 2010 due to the 10% across the board cut by the state. The decrease in expenditures was due primarily to a decrease in instruction and administration services expenditures.
- The District's solvency ratio (unreserved-undesignated fund balance/general fund revenues) increased from 3.77% for fiscal 2009 to 7.59% for fiscal 2010. The State School Budget Review Committee recommends a solvency ratio of 5%-10%.

USING THIS ANNUAL REPORT

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

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

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

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

Notes to 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, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the District.

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

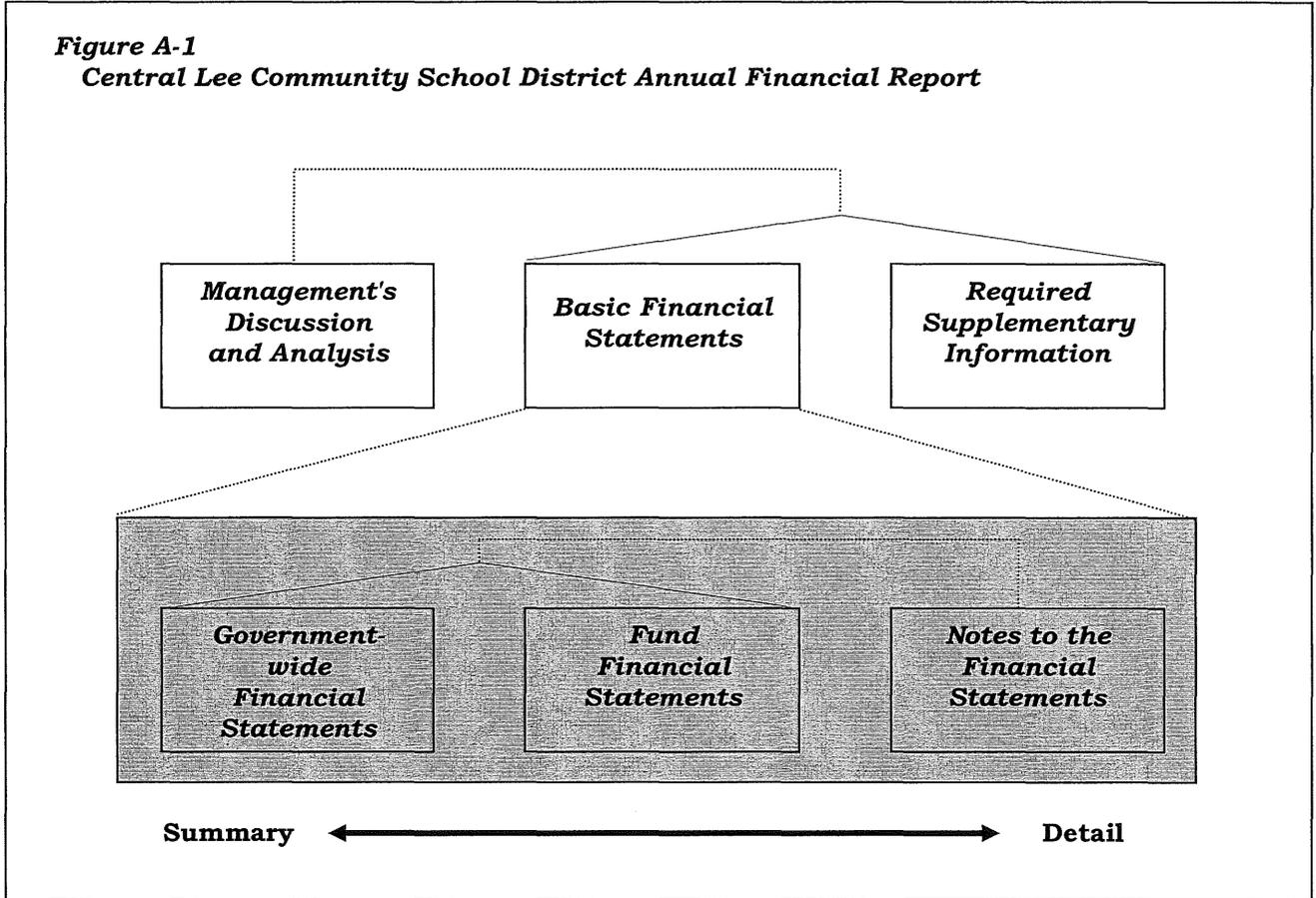


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2010 compared to June 30, 2009.

Figure A-3 Condensed Statement of Net Assets							
	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Current and other assets	\$ 6,417,589	7,536,562	31,060	28,195	6,448,649	7,564,757	-14.75%
Capital assets	7,083,942	6,470,384	44,015	48,407	7,127,957	6,518,791	9.34%
Total assets	13,501,531	14,006,946	75,075	76,602	13,576,606	14,083,548	-3.60%
Long-term liabilities	1,961,167	416,492	0	0	1,961,167	416,492	370.88%
Other liabilities	3,820,848	6,024,203	4,733	2,859	3,825,581	6,027,062	-36.53%
Total liabilities	5,782,015	6,440,695	4,733	2,859	5,786,748	6,443,554	-10.19%
Net assets:							
Invested in capital assets, net of related debt	5,623,037	6,171,170	44,015	48,407	5,667,052	6,219,577	-8.88%
Restricted	1,334,214	780,768	0	0	1,334,214	780,768	70.88%
Unrestricted	762,265	614,313	26,327	25,336	788,592	639,649	23.29%
Total net assets	\$ 7,719,516	7,566,251	70,342	73,743	7,789,858	7,639,994	1.96%

The District's combined net assets increased by \$148,864 or 1.96% from the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$553,446 or 70.88% from the prior year. The increase in restricted net assets was due primarily to the increases in the Debt Service and Capital Projects fund balances. An increase in the amount of state categorical fund carryover balances for fiscal 2010 as compared to fiscal 2009 was also a contributing factor in restricted net assets.

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 \$148,943 or 23.29%. This increase was due primarily to the increase in the General Fund carryover balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2010 compared to the year ended June 30, 2009.

Figure A-4							
Changes of Net Assets							
	Governmental Activities		Business Type Activities		Total School District		Total Change
	2010	2009	2010	2009	2010	2009	2009-10
Revenues and transfers:							
Program revenues:							
Charges for services	\$ 1,478,485	1,509,622	200,013	210,976	1,678,498	1,720,598	-2.45%
Operating grants and contributions and restricted interest	1,736,016	1,323,065	201,659	190,456	1,937,675	1,513,521	28.02%
Capital grants and contributions and restricted interest	13,300	0	0	0	13,300	0	100.00%
General revenues:							
Property tax	2,526,253	2,473,420	0	0	2,526,253	2,473,420	2.14%
Income surtax	360,554	371,559	0	0	360,554	371,559	-2.96%
Statewide sales, service and use tax	710,143	679,221	0	0	710,143	679,221	4.55%
Unrestricted state grants	3,247,784	3,971,584	0	0	3,247,784	3,971,584	-18.22%
Unrestricted investment earnings	42,628	85,167	177	610	42,805	85,777	-50.10%
Other	55,668	67,964	695	0	56,363	67,964	-17.07%
Transfers	(2,000)	(48,140)	2,000	48,140	0	0	0.00%
Total revenues and transfers	10,168,831	10,433,462	404,544	450,182	10,573,375	10,883,644	-2.85%
Program expenses:							
Governmental activities:							
Instructional	6,519,992	6,386,645	0	0	6,519,992	6,386,645	2.09%
Support services	2,659,165	2,370,749	1,217	139	2,660,382	2,370,888	12.21%
Non-instructional programs	0	0	406,728	418,409	406,728	418,409	-2.79%
Other expenses	836,409	760,251	0	0	836,409	760,251	10.02%
Total expenses	10,015,566	9,517,645	407,945	418,548	10,423,511	9,936,193	4.90%
Change in net assets	153,265	915,817	(3,401)	31,634	149,864	947,451	-84.18%
Net assets beginning of year	7,566,251	6,650,434	73,743	42,109	7,639,994	6,692,543	14.16%
Net assets end of year	\$ 7,719,516	7,566,251	70,342	73,743	7,789,858	7,639,994	1.96%

In fiscal 2010, property tax, income surtax, statewide sales, service and use tax and unrestricted state grants account for 67.31% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.29% of the revenue from business type activities.

The District's total revenues were approximately \$10.57 million of which \$10.17 million was for governmental activities and \$0.40 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a decrease of 2.85% in revenues and an increase of 4.91% in expenses. Property tax increased \$52,833 and statewide sales, services and use tax increased \$30,922 to fund expenditures.

Governmental Activities

Revenues for governmental activities were \$10,168,831 and expenses were \$10,015,566 for the year ended June 30, 2010.

The following table presents the total and net cost of the District’s major governmental activities: instruction, support services and other expenses for the year ended June 30, 2010 compared to the year ended June 30, 2009.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2010	2009	Change 2009-10	2010	2009	Change 2009-10
Instruction	\$ 6,519,992	6,386,645	2.09%	3,659,652	3,881,779	-5.72%
Support services	2,659,165	2,370,749	12.17%	2,652,805	2,364,188	12.21%
Other expenses	836,409	760,251	10.02%	475,308	438,991	8.27%
Totals	\$ 10,015,566	9,517,645	5.23%	6,787,765	6,684,958	1.54%

For the year ended June 30, 2010:

- The cost financed by users of the District’s programs was \$1,478,485.
- Federal and state governments as well as residents of the District subsidized certain programs with grants and contributions totaling \$1,749,316.
- The net cost of governmental activities was financed with \$2,526,253 in property tax, \$360,554 in income surtax, \$710,143 in statewide sales, services and use tax, \$3,247,784 in unrestricted state grants, \$42,628 in investment interest and \$55,668 in other revenue.

Business Type Activities

Revenues of the District’s business type activities were \$404,544 and expenses were \$407,945. The District’s business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Central Lee Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$2,245,000, above last year’s ending fund balances of a \$1,182,147. The primary reasons for the increase in combined fund balances is the increase in fund balance for the General Fund and the Capital Projects Fund.

Governmental Fund Highlights

- The District’s improving General Fund financial position is the product of many factors. General Fund revenues decreased as compared to the previous year due to the 10% across the board cut in state funding. General Fund expenditures decreased compared to the previous year. Although both revenues and expenditures decreased as compared to the previous year, the General Fund was still able to gain in fund balance.

- The General Fund balance increased from \$453,388 to \$860,781, due in part to the District being able to significantly reduce expenditures compared to the prior year.
- The Capital Projects balance increased from \$474,643 to \$785,377, due in part to the issuance of bonds and increase in local tax revenue.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$73,743 at June 30, 2009 to \$70,342 at June 30, 2010, representing a decrease of approximately 4.61%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$669,207 less than budgeted revenues, a variance of approximately 5.95%. The most significant dollar variance resulted from the District receiving less in state sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had invested \$7,127,957, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 9.34% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$345,254.

The original cost of the District's capital assets was \$13,706,558. Governmental funds account for \$13,450,043 with the remainder of \$256,515 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$0 at June 30, 2009, compared to \$1,025,069 at June 30, 2010. The increase in construction in progress is due to the costs associated with the District's geothermal project that was started during the year.

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Land	\$ 203,592	203,592	0	0	203,592	203,592	0.00%
Construction in progress	1,025,069	0	0	0	1,025,069	0	100.00%
Buildings	4,781,326	5,152,057	0	0	4,781,326	5,152,057	-7.20%
Improvements other than buildings	496,785	558,999	0	0	496,785	558,999	-11.13%
Machinery and equipment	577,170	555,736	44,015	48,407	621,185	604,143	2.82%
Total	\$ 7,083,942	6,470,384	44,015	48,407	7,127,957	6,518,791	9.34%

Long-Term Debt

At June 30, 2010, the District had long-term debt outstanding of \$1,961,167 in total long-term debt outstanding. This was a 370.88% increase from the prior year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

During the year ended June 30, 2010, the District issued \$1,355,000 of revenue bonds for the geothermal project. The District's first principal and interest payment for these bonds is due July 1, 2010.

The District has a bus lease payable of \$156,178 that will be paid from the Capital Projects Fund through 2012.

At June 30, 2010, the District had a computer lease payable of \$73,629 that will be paid from the Capital Projects Fund.

The District had a land contract payable of \$58,107 that is also payable from the Capital Projects Fund.

The District had total outstanding Early Retirement payable from the Special Revenue, Management Levy Fund of \$311,320 at June 30, 2010.

Figure A-7			
Outstanding Long-Term Obligations			
	Total		Total
	School District		Change
	June 30,		June 30,
	2010	2009	2009-10
Revenue Bonds	\$ 1,355,000	0	100.00%
Bus Lease	156,178	229,167	-31.85%
Computer Lease	73,629	0	100.00%
Land Contract	58,107	70,047	-17.05%
Early Retirement	311,320	117,278	165.45%
Compensated Absences	6,933	0	100.00%
Totals	<u>\$ 1,961,167</u>	<u>416,492</u>	<u>370.88%</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- With the District's current financial challenges, the FY 2010 state budget cut of 10% results in a significant decrease in General Fund revenue, shifting funding on property taxes and other revenue sources. As a result of these lost revenues, the District will explore all opportunities to reduce expenditures and/or increase revenues.
- The District also continues to make fiscal adjustments in order to match declining enrollment and uncertain allowable growth.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,921,448	19,516	2,940,964
Receivables:			
Property tax:			
Delinquent	29,478	0	29,478
Succeeding year	2,629,149	0	2,629,149
Income surtax	340,200	0	340,200
Accounts	2,558	0	2,558
Due from other governments	468,952	0	468,952
Inventories	0	11,544	11,544
Capital assets, net of accumulated depreciation	7,083,942	44,015	7,127,957
Net OPEB asset	25,804	0	25,804
Total Assets	13,501,531	75,075	13,576,606
Liabilities			
Accounts payable	403,221	676	403,897
Interest payable	14,763	0	14,763
Salaries and benefits payable	773,715	62	773,777
Deferred revenue:			
Succeeding year property tax	2,629,149	0	2,629,149
Unearned revenue	0	3,995	3,995
Long-term liabilities:			
Portion due within one year:			
Revenue bonds payable	225,000	0	225,000
Bus lease payable	76,333	0	76,333
Computer lease payable	24,432	0	24,432
Land contract payable	12,895	0	12,895
Early retirement payable	93,538	0	93,538
Compensated absences payable	6,933	0	6,933
Portion due after one year:			
Revenue bonds payable	1,130,000	0	1,130,000
Bus lease payable	79,845	0	79,845
Computer lease payable	49,197	0	49,197
Land contract payable	45,212	0	45,212
Early retirement payable	217,782	0	217,782
Compensated absences payable	5,782,015	4,733	5,786,748
Net Assets			
Invested in capital assets, net of related debt	5,623,037	44,015	5,667,052
Restricted for:			
Categorical funding	173,612	0	173,612
Physical plant and equipment levy	15,769	0	15,769
Capital projects	603,368	0	603,368
Debt service	388,683	0	388,683
Other special revenue purposes	152,782	0	152,782
Unrestricted	762,265	26,327	788,592
Total Net Assets	\$ 7,719,516	70,342	7,789,858

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges	Contributions	Capital Grants,	Govern- mental Activities	Business Type Activities	Total
		for Services	and Restricted Interest	and Restricted Interest			
Functions/Programs							
Governmental activities:							
Instruction:							
Regular	\$ 4,230,937	980,293	1,074,553	0	(2,176,091)	0	(2,176,091)
Special	1,153,711	264,035	150,120	0	(739,556)	0	(739,556)
Other	1,135,344	233,510	157,829	0	(744,005)	0	(744,005)
	<u>6,519,992</u>	<u>1,477,838</u>	<u>1,382,502</u>	<u>0</u>	<u>(3,659,652)</u>	<u>0</u>	<u>(3,659,652)</u>
Support services:							
Student	265,054	0	0	0	(265,054)	0	(265,054)
Instructional staff	234,263	0	0	0	(234,263)	0	(234,263)
Administration	802,127	0	0	0	(802,127)	0	(802,127)
Operation and maintenance of plant	850,094	0	0	0	(850,094)	0	(850,094)
Transportation	507,627	647	5,713	0	(501,267)	0	(501,267)
	<u>2,659,165</u>	<u>647</u>	<u>5,713</u>	<u>0</u>	<u>(2,652,805)</u>	<u>0</u>	<u>(2,652,805)</u>
Other expenditures:							
Facilities acquisitions	196,927	0	0	13,300	(183,627)	0	(183,627)
Long-term debt interest	66,954	0	0	0	(66,954)	0	(66,954)
AEA flowthrough	347,801	0	347,801	0	0	0	0
Depreciation(unallocated)*	224,727	0	0	0	(224,727)	0	(224,727)
	<u>836,409</u>	<u>0</u>	<u>347,801</u>	<u>13,300</u>	<u>(475,308)</u>	<u>0</u>	<u>(475,308)</u>
Total governmental activities	10,015,566	1,478,485	1,736,016	13,300	(6,787,765)	0	(6,787,765)
Business Type activities:							
Support services:							
Operation and maintenance of plant	1,217	0	0	0	0	(1,217)	(1,217)
Non-instructional programs:							
Food service operations	406,728	200,013	201,659	0	0	(5,056)	(5,056)
Total business type activities	407,945	200,013	201,659	0	0	(6,273)	(6,273)
Total	\$ 10,423,511	1,678,498	1,937,675	13,300	(6,787,765)	(6,273)	(6,794,038)
General Revenues and Transfers:							
Property tax levied for:							
General purposes				\$ 2,526,253	0	2,526,253	
Income surtax				360,554	0	360,554	
Statewide sales, services and use tax				710,143	0	710,143	
Unrestricted state grants				3,247,784	0	3,247,784	
Unrestricted investment earnings				42,628	177	42,805	
Other				55,668	695	56,363	
Transfers				(2,000)	2,000	0	
Total general revenues and transfers				<u>6,941,030</u>	<u>2,872</u>	<u>6,943,902</u>	
Changes in net assets				153,265	(3,401)	149,864	
Net assets beginning of year				7,566,251	73,743	7,639,994	
Net assets end of year				<u>\$ 7,719,516</u>	<u>70,342</u>	<u>7,789,858</u>	

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 JUNE 30, 2010

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
Assets				
Cash and cash equivalents	\$ 1,324,115	1,000,396	596,937	2,921,448
Receivables:				
Property tax:				
Delinquent	26,973	0	2,505	29,478
Succeeding year	2,384,149	0	245,000	2,629,149
Income surtax	340,200	0	0	340,200
Accounts	2,541	17	0	2,558
Due from other governments	356,311	112,641	0	468,952
Total Assets	\$ 4,434,289	1,113,054	844,442	6,391,785
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 75,544	327,677	0	403,221
Salaries and benefits payable	773,615	0	100	773,715
Deferred revenue:				
Succeeding year property tax	2,384,149	0	245,000	2,629,149
Income surtax	340,200	0	0	340,200
Total liabilities	3,573,508	327,677	245,100	4,146,285
Fund balances:				
Reserved for:				
Construction	0	182,009	0	182,009
Categorical funding	173,612	0	0	173,612
Debt service	0	0	388,683	388,683
Designated for special purposes by the board	7,350	0	0	7,350
Unreserved, reported in:				
General fund	679,819	0	0	679,819
Special revenue funds	0	0	210,659	210,659
Capital projects fund	0	603,368	0	603,368
Total fund balances	860,781	785,377	599,342	2,245,500
Total Liabilities and Fund Balances	\$ 4,434,289	1,113,054	844,442	6,391,785

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2010

Total fund balances of governmental funds (page 20) \$ 2,245,500

**Amounts reported for governmental activities in the
 Statement of Net Assets are different because:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds. 7,083,942

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. (14,763)

Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period. 340,200

Other postemployment benefit assets, are not yet available to finance expenditures of the current fiscal period. 25,804

Long-term liabilities, including revenue bonds payable, bus lease payable, computer lease payable, land contract payable, early retirement payable, and compensated absences payable are not due and payable in the current period and, therefore, are not reported in the governmental funds. (1,961,167)

Net assets of governmental activities (page 18) \$ 7,719,516

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 2,676,474	710,143	214,644	3,601,261
Tuition	1,213,743	0	0	1,213,743
Other	100,376	22,391	267,727	390,494
State sources	4,207,309	0	0	4,207,309
Federal sources	762,335	0	0	762,335
Total revenues	<u>8,960,237</u>	<u>732,534</u>	<u>482,371</u>	<u>10,175,142</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	3,931,990	0	138,494	4,070,484
Special	1,160,356	0	0	1,160,356
Other	871,745	0	266,695	1,138,440
	<u>5,964,091</u>	<u>0</u>	<u>405,189</u>	<u>6,369,280</u>
Support services:				
Student	265,913	0	0	265,913
Instructional staff	136,213	98,396	0	234,609
Administration	799,857	0	5,482	805,339
Operation and maintenance of plant	589,766	0	102,687	692,453
Transportation	449,593	0	7,973	457,566
	<u>2,241,342</u>	<u>98,396</u>	<u>116,142</u>	<u>2,455,880</u>
Other expenditures:				
Facilities acquisitions	0	1,213,764	2,664	1,216,428
Long-term debt:				
Principal	0	0	109,696	109,696
Interest and fiscal charges	0	0	66,490	66,490
AEA flowthrough	347,801	0	0	347,801
	<u>347,801</u>	<u>1,213,764</u>	<u>178,850</u>	<u>1,740,415</u>
Total expenditures	<u>8,553,234</u>	<u>1,312,160</u>	<u>700,181</u>	<u>10,565,575</u>
Excess (deficiency) of revenues over (under) expenditures	407,003	(579,626)	(217,810)	(390,433)
Other financing sources (uses):				
Transfers in	0	1,219,500	563,036	1,782,536
Transfers out	0	(1,782,536)	0	(1,782,536)
Revenue bond issuance	0	1,355,000	0	1,355,000
Lease proceeds	0	98,396	0	98,396
Sale of equipment	390	0	0	390
Total other financing sources (uses)	<u>390</u>	<u>890,360</u>	<u>563,036</u>	<u>1,453,786</u>
Net change in fund balances	407,393	310,734	345,226	1,063,353
Fund balance beginning of year	453,388	474,643	254,116	1,182,147
Fund balance end of year	<u>\$ 860,781</u>	<u>785,377</u>	<u>599,342</u>	<u>2,245,500</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2010

Net change in fund balances - total governmental funds (page 22) \$ 1,063,353

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays, depreciation expense, and loss on disposal of assets for the year are as follows:

Expenditures for capital assets	\$ 1,160,638	
Depreciation expense	(338,862)	
Loss on disposal of assets	(208,218)	613,558

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:

Issued	(1,453,396)	
Repaid	109,696	(1,343,700)

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. (464)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. (4,311)

Other postemployment benefit assets are not available to finance expenditures of the current year period in the governmental funds. 25,804

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	(194,042)	
Compensated absences	(6,933)	(200,975)

Changes in net assets of governmental activities (page 19) \$ 153,265

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 JUNE 30, 2010

	<u>School Nutrition</u>
Assets	
Cash and cash equivalents	\$ 19,516
Inventories	11,544
Capital assets, net of accumulated depreciation	<u>44,015</u>
Total Assets	<u>75,075</u>
Liabilities	
Accounts payable	676
Salaries and benefits payable	62
Unearned revenue	<u>3,995</u>
Total Liabilities	<u>4,733</u>
Net Assets	
Invested in capital assets	44,015
Unrestricted	<u>26,327</u>
Total Net Assets	<u><u>\$ 70,342</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2010

	School Nutrition
Operating revenues:	
Local sources:	
Charges for services	\$ 200,013
Miscellaneous	695
Total operating revenues	200,708
Operating expenses:	
Support services:	
Operation and maintenance of plant:	
Services	1,217
Non-instructional programs:	
Food service operations:	
Salaries	150,496
Benefits	20,611
Services	17,535
Supplies	211,694
Depreciation	6,392
	406,728
Total operating expenses	407,945
Operating loss	(207,237)
Non-operating revenues:	
State sources	4,569
Federal sources	197,090
Interest income	177
Total non-operating revenues	201,836
Net loss before other financing sources	(5,401)
OTHER FINANCING SOURCES:	
Capital contributions	2,000
Change in net assets	(3,401)
Net assets beginning of year	73,743
Net assets end of year	\$ 70,342

SEE NOTES TO BASIC FINANCIAL STATEMENT.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2010

Exhibit I

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 201,150
Cash received from miscellaneous operating activities	695
Cash payments to employees for services	(171,045)
Cash payments to suppliers for goods or services	(200,426)
Net cash used in operating activities	(169,626)
Cash flows from non-capital financing activities:	
State grants received	4,569
Federal grants received	166,370
Net cash provided by non-capital financing activities	170,939
Cash flows from investing activities:	
Interest on investments	176
Net increase in cash and cash equivalents	1,489
Cash and cash equivalents at beginning of year	18,027
Cash and cash equivalents at end of year	\$ 19,516
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (207,236)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	30,720
Depreciation	6,392
Increase in inventories	(1,376)
Increase in accounts payable	676
Increase in salaries and benefits payable	62
Increase in unearned revenue	1,136
Net cash used in operating activities	\$ (169,626)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2010, the District received Federal commodities valued at \$30,720.

During the year ended June 30, 2010, the District received capital contributions from the PPEL Fund valued at \$2,000.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

The Central Lee Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the city of Donnellson, Iowa, and the predominate agricultural territory in Lee County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Central Lee Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Central Lee Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

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

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

Unrestricted net 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 that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental fund:

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

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

The District reports the following proprietary fund:

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

C. Measurement Focus and Basis of Accounting

The government-wide and the proprietary financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded

when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

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

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

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

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

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

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

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2009.

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

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

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

Asset Class	Amount
Land	\$ 1,000
Buildings	1,000
Improvements other than buildings	1,000
Intangibles	25,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Intangibles	5-20 years
Machinery and equipment	5-20 years

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

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

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2010. 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 Balances - 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.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2010, the District had investments valued at an amortized cost of \$135,500 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

(3) Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Statewide Sales, Services and Use Tax	\$ 563,036
Construction Projects	Statewide Sales, Services and Use Tax	1,219,500
Total		<u>\$ 1,782,536</u>

The transfer from the Statewide Sales, Services and Use Tax Fund to the Debt Service Fund was to make the initial payment on the Apple computer lease, principal and interest payments on the bus lease as well as set up a debt reserve account for revenue bonds dated July 9, 2009.

The transfer from the Statewide Sales, Services and Use Tax Fund to the Construction Projects Fund was to move proceeds from the revenue bonds dated July 9, 2009 to a fund that was used to track expenditures for the District's geothermal project.

(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. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Bankers Trust Co. NA is the trustee for the program.

The District pledges its state foundation aid payments and General Fund receipts as security for the warrants issued. Repayments must be made when General Fund receipts are received. The District must make minimum warrant repayments on the 25th of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate on the Series 2009-10A warrants was 2.50%. A summary of the District's ISCAP activity for the year ended June 30, 2010 is as follows:

Series	Warrant Date	Final Warrant Maturity	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2009-10A	6/25/09	6/23/10	\$ 0	400,000	400,000	0

During the year ended June 30, 2010 the District paid \$12,959 of interest on the ISCAP warrants.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2010 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 203,592	0	0	203,592
Construction in progress	0	1,025,069	0	1,025,069
Total capital assets not being depreciated	<u>203,592</u>	<u>1,025,069</u>	<u>0</u>	<u>1,228,661</u>
Capital assets being depreciated:				
Buildings	8,581,022	0	279,800	8,301,222
Improvements other than buildings	1,397,546	0	0	1,397,546
Machinery and equipment	2,543,556	135,569	156,511	2,522,614
Total capital assets being depreciated	<u>12,522,124</u>	<u>135,569</u>	<u>436,311</u>	<u>12,221,382</u>
Less accumulated depreciation for:				
Buildings	3,428,965	162,513	71,582	3,519,896
Improvements other than buildings	838,547	62,214	0	900,761
Machinery and equipment	1,987,820	114,135	156,511	1,945,444
Total accumulated depreciation	<u>6,255,332</u>	<u>338,862</u>	<u>228,093</u>	<u>6,366,101</u>
Total capital assets being depreciated, net	<u>6,266,792</u>	<u>(203,293)</u>	<u>208,218</u>	<u>5,855,281</u>
Governmental activities capital assets, net	<u>\$ 6,470,384</u>	<u>821,776</u>	<u>208,218</u>	<u>7,083,942</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 254,515	2,000	0	256,515
Less accumulated depreciation	206,108	6,392	0	212,500
Business type activities capital assets, net	<u>\$ 48,407</u>	<u>(4,392)</u>	<u>0</u>	<u>44,015</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 37,478
Special		5,355
Other		904
Support services:		
Student		487
Instructional staff		0
Administration		9,748
Operation and maintenance of plant		7,057
Transportation		53,106
		<u>114,135</u>
Unallocated depreciation		<u>224,727</u>
Total depreciation expense - governmental activities		<u>\$ 338,862</u>
Business type activities:		
Food service operations		<u>\$ 6,392</u>

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2010 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Revenue Bonds	\$ 0	1,355,000	0	1,355,000	225,000
Bus Lease	229,167	0	72,989	156,178	76,333
Computer Lease	0	98,396	24,767	73,629	24,432
Land Contract	70,047	0	11,940	58,107	12,895
Early Retirement	117,278	327,632	133,590	311,320	93,538
Compensated Absences	0	6,933	0	6,933	6,933
Total	\$ 416,492	1,787,961	243,286	1,961,167	439,131

Revenue Bonds

Details of the District's June 30, 2010 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of July 9, 2009			
	Interest Rates	Principal	Interest	Total
2011	3.25%	\$ 225,000	49,044	274,044
2012	3.50%	205,000	41,800	246,800
2013	3.75%	220,000	34,087	254,087
2014	4.00%	235,000	25,262	260,262
2015	4.25%	235,000	15,569	250,569
2016	4.50%	235,000	5,288	240,288
Total		\$ 1,355,000	171,050	1,526,050

The District has pledged future statewide sales, services and use tax revenues to repay the \$1,355,000 of bonds issued July 2009. The bonds were issued for the purpose of financing the costs of a geothermal project. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2016. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 39 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$1,526,050. For the current year, no principal or interest was paid on the bonds and total statewide sales, services and use tax revenues were \$710,143.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- a) \$135,500 of the proceeds from the issuance of the revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.

- b) All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

Bus Lease

Details of the District's June 30, 2010 bus lease indebtedness, which is paid from the Sales, Services and Use Tax Fund is as follows:

Year Ending June 30,	Bus Lease dated October 11, 2006			
	Interest Rates	Principal	Interest	Total
2011	4.60%	\$ 76,333	7,184	83,517
2012	4.60%	79,845	3,673	83,518
Total		\$ 156,178	10,857	167,035

Computer Lease

Details of the District's June 30, 2010 computer lease indebtedness, which is paid from the Statewide Sales, Services and Use Tax Fund is as follows:

Year Ending June 30,	Computer Lease dated April 14, 2010			
	Interest Rates	Principal	Interest	Total
2011	5.70%	\$ 24,432	335	24,767
2012	5.70%	24,543	224	24,767
2013	5.70%	24,654	113	24,767
Total		\$ 73,629	672	74,301

Land Contract

Details of the District's June 30, 2010 land contract indebtedness, which is paid from the Sales, Services and Use Tax Fund is as follows:

Year Ending June 30,	Land purchase dated October 1, 2001			
	Interest Rates	Principal	Interest	Total
2011	8.00%	\$ 12,895	4,649	17,544
2012	8.00%	13,927	3,617	17,544
2013	8.00%	15,041	2,503	17,544
2014	8.00%	16,244	1,300	17,544
Total		\$ 58,107	12,069	70,176

Early Retirement

The District offers a voluntary early retirement plan to its certified and classified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees complete an application which is required to be approved by the Board of Education. Early retirement benefits paid during the year ended June 30, 2010, totaled \$133,590.

(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 4.30% of their annual salary and the District is required to contribute 6.65% of annual covered payroll for the years ended June 30, 2010, 2009 and 2008. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$383,672, \$355,169, \$364,634, respectively, equal to the required contributions for each year.

(8) Other Postemployment Benefits (OPEB)

The District implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions during the year ended June 30, 2010.

Plan Description - The District operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses. There are 59 active and 16 retired members in the plan. Participants must be age 55 or older at retirement.

The medical benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 25 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 9,735
Interest on net OPEB obligation	0
Adjustment to annual required contribution	0
Annual OPEB cost	<u>9,735</u>
Contributions made	<u>(35,539)</u>
Increase in net OPEB obligation	(25,804)
Net OPEB obligation beginning of year	<u>0</u>
Net OPEB obligation end of year	<u><u>\$ (25,804)</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the District contributed \$35,539 to the plan. Plan members eligible for benefits contributed \$79,925 or 69% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/10	\$ 9,735	365.06%	(25,804)

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$153,711, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$153,711. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$4.884 million and the ratio of the UAAL to covered payroll was 3.15%. As of June 30, 2010 there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3% discount rate based on the District's funding policy. The projected annual medical trend rate is 9%. The ultimate medical trend rate is 5%. The medical trend is reduced by a percentage each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from information provided by the Central Lee Community School District.

Projected claim costs of the medical plan are \$1,002 per month for retirees who have family coverage and \$649 per month for retirees who have single coverage. The UAAL is being amortized as a level percentage of the projected payroll expense on an open basis over 25 years.

(9) Risk Management

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

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$347,801 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Construction Commitment

The District has entered into a contract totaling \$1,382,767 for construction of a geothermal project. As of June 30, 2010, costs of \$1,025,069 had been occurred against the contract. The balance of \$357,698 remaining at June 30, 2010 will be paid as work on the project progresses.

(12) Categorical Funding

The District's ending balances for categorical funding by project as of June 30, 2010 are as follows:

Program	Amount
Teacher salary supplement	\$ 39,168
Returning dropout and dropout prevention	65,147
Early intervention	16,700
Model core curriculum	25,223
Professional development	27,374
Total	<u>\$ 173,612</u>

REQUIRED SUPPLEMENTARY INFORMATION

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES
 AND CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2010

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to
	Funds	Fund		Original	Final	Actual
	Actual	Actual				Variance
Revenues:						
Local sources	\$ 5,205,498	200,885	5,406,383	5,473,861	5,473,861	(67,478)
State sources	4,207,309	4,569	4,211,878	5,220,224	5,220,224	(1,008,346)
Federal sources	762,335	197,090	959,425	552,808	552,808	406,617
Total revenues	10,175,142	402,544	10,577,686	11,246,893	11,246,893	(669,207)
Expenditures/Expenses:						
Instruction	6,369,280	0	6,369,280	7,443,260	7,443,260	1,073,980
Support services	2,455,880	1,217	2,457,097	2,838,298	2,838,298	381,201
Non-instructional programs	0	406,728	406,728	463,509	463,509	56,781
Other expenditures	1,740,415	0	1,740,415	2,997,741	2,997,741	1,257,326
Total expenditures/expenses	10,565,575	407,945	10,973,520	13,742,808	13,742,808	2,769,288
Deficiency of revenues under expenditures/expenses	(390,433)	(5,401)	(395,834)	(2,495,915)	(2,495,915)	2,100,081
Other financing sources, net	1,453,786	2,000	1,455,786	1,500,500	1,500,500	(44,714)
Excess(deficiency)of revenues and other financing sources over(under) expenditures/expenses	1,063,353	(3,401)	1,059,952	(995,415)	(995,415)	2,055,367
Balance beginning of year	1,182,147	73,743	1,255,890	1,885,579	1,885,579	(629,689)
Balance end of year	\$ 2,245,500	70,342	2,315,842	890,164	890,164	1,425,678

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2010

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis.

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 function level, not by fund. The Code of Iowa also provides district expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FUNDING PROGRESS FOR THE
 RETIREE HEALTH PLAN
 (IN THOUSANDS)
 REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial		Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a
			Accrued Liability (AAL) (b)	Unfunded AAL (UAAAL) (b-a)			Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	-	\$ 154	154	0.0%	4,884	3.15%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2010

	Special Revenue Funds					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	Other Nonmajor Governmental Funds
Assets						
Cash and pooled investments	\$ 39,703	152,782	15,769	208,254	388,683	596,937
Receivables:						
Property tax:						
Delinquent	2,505	0	0	2,505	0	2,505
Succeeding year	245,000	0	0	245,000	0	245,000
Total Assets	\$ 287,208	152,782	15,769	455,759	388,683	844,442
Liabilities and Fund Balances						
Liabilities:						
Salaries and benefits payable	\$ 100	0	0	100	0	100
Deferred revenue:						
Succeeding year property tax	245,000	0	0	245,000	0	245,000
Total liabilities	245,100	0	0	245,100	0	245,100
Unreserved fund balances	42,108	152,782	15,769	210,659	388,683	599,342
Total liabilities and fund balances	\$ 287,208	152,782	15,769	455,759	388,683	844,442

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2010

	Special Revenue Funds					Total
	Manage- ment Levy	Student Activity	Physical		Debt Service	Total Other Nonmajor Governmental Funds
			Plant and Equipment Levy	Total Special Revenue		
REVENUES:						
Local sources:						
Local tax	\$ 214,644	0	0	214,644	0	214,644
Other	0	265,126	768	265,894	1,833	267,727
Total revenues	214,644	265,126	768	480,538	1,833	482,371
EXPENDITURES:						
Current:						
Instruction:						
Regular	138,494	0	0	138,494	0	138,494
Other	0	266,695	0	266,695	0	266,695
Support services:						
Administration	0	0	5,482	5,482	0	5,482
Operation and maintenance of plant	89,540	0	13,147	102,687	0	102,687
Student transportation	0	0	7,973	7,973	0	7,973
Other expenditures:						
Facilities acquisitions	0	0	2,664	2,664	0	2,664
Long-term debt:						
Principal	0	0	0	0	109,778	109,778
Interest	0	0	0	0	66,408	66,408
Total expenditures	228,034	266,695	29,266	523,995	176,186	700,181
Deficiency of revenues under expenditures	(13,390)	(1,569)	(28,498)	(43,457)	(174,353)	(217,810)
Other financing sources:						
Transfers in	0	0	0	0	563,036	563,036
Net change in fund balances	(13,390)	(1,569)	(28,498)	(43,457)	388,683	345,226
Fund balance beginning of year	55,498	154,351	44,267	254,116	0	254,116
Fund balance end of year	\$ 42,108	152,782	15,769	210,659	388,683	599,342

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2010

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
All School Play	\$ 4,983	1,787	2,176	4,594
Drama Club	1,806	800	385	2,221
Quiz Bowl	15	0	0	15
Yearbook	1,355	6,113	5,459	2,009
Milk Machine	2,709	7,129	6,265	3,573
Art Club	1,341	1,796	1,776	1,361
Pep Club	99	0	0	99
AFS Club	5,266	12,589	4,147	13,708
Student Council	11,326	3,754	5,825	9,255
Spanish Club	864	3,379	2,987	1,256
Science Club	1,191	852	1,448	595
Computer Club	163	0	0	163
FFA	33,586	43,630	45,847	31,369
FCCLA Group	27	0	0	27
National Honor Society	17	1,172	1,189	0
Class of 2013	18	0	18	0
Class of 2011	0	4,696	4,271	425
Class of 2010	192	450	518	124
Post Prom Activities	386	13	45	354
SAEP-Entrepreneurship	27,848	14,609	7,163	35,294
Athletics	13	7,877	7,863	27
Athletic Activities	2,854	10,035	12,405	484
Concessions	2,484	28,873	30,131	1,226
Golf	278	820	1,013	85
Cross Country	456	698	1,110	44
Soccer	376	4,266	4,510	132
Boys Basketball	1,454	9,174	8,472	2,156
Football	4,827	15,236	16,815	3,248
Baseball	65	4,684	3,748	1,001
Boys Track	1,311	983	2,255	39
Girls Basketball	5,901	9,439	13,747	1,593
Volleyball	3,000	4,225	5,367	1,858
Softball	324	2,869	3,018	175
Girls Track	803	1,333	1,842	294
Cheerleaders	1,655	2,613	4,171	97
Dance Team	149	5,244	4,163	1,230

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2010

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
HS Student Activities	549	2,158	377	2,330
Renaissance Program	1,684	10,209	9,507	2,386
S.A.D.D	239	0	0	239
MS Student Council	2,714	4,751	3,867	3,598
MS Student Activities	8,513	23,007	23,936	7,584
Athletic Resale	247	238	238	247
MS Football	966	1,555	2,470	51
MS Volleyball	2,188	926	2,280	834
MS Girls Basketball	1,389	1,054	1,922	521
MS Boys Basketball	1,903	1,010	2,162	751
MS Girls Track	87	507	209	385
MS Boys Track	123	326	210	239
MS Softball	489	872	685	676
MS Baseball	366	852	1,075	143
Academic Booster Club	0	200	0	200
Future Problem Solvers	10	0	0	10
Special Olympics	40	0	0	40
Special Needs Field Trips	2,881	600	653	2,828
Art Club K8	0	1,203	0	1,203
T.A.G. Club	530	0	0	530
Elementary Resale Account	1,331	843	948	1,226
Elementary Student Activities	6,435	2,337	2,511	6,261
Interest Account	2,525	1,340	3,496	369
 Total	 \$ 154,351	 265,126	 266,695	 152,782

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECTS FUNDS
 YEAR ENDED JUNE 30, 2010

	Capital Project Funds		
	Statewide		
	Construction Projects	Sales, Services and Use Tax	Total
ASSETS			
Cash and pooled investments	\$ 509,686	490,710	1,000,396
Receivables:			
Accounts	0	17	17
Due from other governments	0	112,641	112,641
TOTAL ASSETS	\$ 509,686	603,368	1,113,054
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 327,677	0	327,677
Fund balances:			
Reserved for:			
Construction	182,009	0	182,009
Unreserved:			
Capital projects:	0	603,368	603,368
Total fund balances	182,009	603,368	785,377
TOTAL LIABILITIES AND FUND BALANCES	\$ 509,686	603,368	1,113,054

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 CAPITAL PROJECTS FUNDS
 YEAR ENDED JUNE 30, 2010

	Capital Project Funds		
	Statewide		
	Construction Projects	Sales, Services and Use Tax	Total
REVENUES:			
Local sources:			
Local tax	\$ 0	710,143	710,143
Other	6,544	15,847	22,391
TOTAL REVENUES	6,544	725,990	732,534
EXPENDITURES:			
Current:			
Support services:			
Instructional staff	0	98,396	98,396
Other expenditures:			
Facilities acquisitions	1,044,035	169,729	1,213,764
TOTAL EXPENDITURES	1,044,035	268,125	1,312,160
Excess (deficiency) of revenues over (under) expenditures	(1,037,491)	457,865	(579,626)
Other financing sources (uses):			
Transfer in	1,219,500	0	1,219,500
Transfer out	0	(1,782,536)	(1,782,536)
Revenue bond issuance	0	1,355,000	1,355,000
Lease proceeds	0	98,396	98,396
Total other financing sources (uses)	1,219,500	(329,140)	890,360
Excess of revenues and other financing sources over expenditures	182,009	128,725	310,734
Fund balance beginning of year	0	474,643	474,643
Fund balance end of year	\$ 182,009	603,368	785,377

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

	Modified Accrual Basis						
	Years Ended June 30,						
	2010	2009	2008	2007	2006	2005	2004
Revenues:							
Local sources:							
Local tax	\$ 3,601,261	3,493,382	3,372,263	3,348,880	3,136,981	3,189,323	3,497,010
Tuition	1,213,743	1,197,429	1,113,423	981,596	803,065	724,243	595,298
Other	390,494	473,312	533,582	529,619	482,003	390,920	383,090
Intermediate sources	0	0	0	0	0	0	2,834
State sources	4,207,309	4,928,448	5,027,800	4,861,274	4,531,530	4,466,282	4,003,832
Federal sources	762,335	357,020	259,263	296,527	268,240	376,006	292,168
Total	\$ 10,175,142	10,449,591	10,306,331	10,017,896	9,221,819	9,146,774	8,774,232
Expenditures:							
Current:							
Instruction:							
Regular	\$ 4,070,484	4,149,685	4,393,908	4,261,021	4,175,716	3,792,917	3,777,269
Special	1,160,356	1,315,008	1,197,589	1,108,147	988,254	1,210,190	1,094,013
Other	1,138,440	1,110,044	1,110,902	1,089,480	912,535	942,480	802,322
Support services:							
Student	265,913	201,708	299,344	280,908	289,636	276,961	221,495
Instructional staff	234,609	141,679	123,247	235,853	135,997	151,639	109,362
Administration	805,339	857,584	961,251	886,861	885,935	776,587	762,246
Operation and maintenance							
of plant	692,453	683,814	690,085	679,850	686,548	639,309	592,371
Transportation	457,566	470,114	468,759	778,867	324,288	438,627	349,528
Other expenditures:							
Facilities acquisitions	1,216,428	222,563	166,044	204,456	202,602	332,966	173,956
Long-term debt:							
Principal	109,696	930,281	490,092	441,118	392,590	369,686	346,127
Interest	66,490	63,698	46,625	79,567	97,312	117,521	139,702
AEA flow-through	347,801	321,260	316,552	310,819	289,512	281,037	282,203
Total	\$ 10,565,575	10,467,438	10,264,398	10,356,947	9,380,925	9,329,920	8,650,594

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

Grantor/ Program	CFDA Number	Grant Number	Expendi- tures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY10	\$ 21,383
National School Lunch Program	10.555	FY10	175,707 *
			<u>197,090</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I Cluster Programs:			
Title I Grants to Local Educational Agencies	84.010	FY10	93,160
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY10	<u>21,384</u>
			<u>114,544</u>
Safe and Drug-Free Schools and Communities-State Grants	84.186	FY10	<u>3,333</u>
Advanced Placement Program	84.330	FY10	<u>56</u>
Improving Teacher Quality State Grants	84.367	FY10	<u>33,556</u>
Grants for State Assessment and Related Activities	84.369	FY10	<u>6,448</u>
ARRA - State Fiscal Stabilization Fund (SFSF)- Education State Grants, Recovery Act	84.394	FY10	<u>409,762</u>
Area Education Agency:			
Special Education Cluster Programs:			
Special Education - Grants to States	84.027	FY10	47,097
ARRA - Special Education Grants to States, Recovery Act	84.391	FY10	<u>103,023</u>
			<u>150,120</u>
Career and Technical Education - Basic Grants to State	84.048	FY10	<u>9,689</u>
Total			<u>\$ 924,598</u>

* - Includes \$30,720 of non-cash awards

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Central Lee 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 Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

CENTRAL LEE COMMUNITY SCHOOL DISTRICT

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3050

Telephone (641) 792-1910

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

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Central Lee Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 22, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Central Lee Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Central Lee Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Central Lee Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and another deficiency we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-10 to be a material weakness.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-B-10 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Central Lee Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain

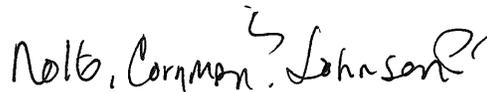
provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance 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, 2010 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.

Central Lee Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Central Lee Community School District's responses and, accordingly, we express no opinion on them.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Central Lee Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

February 22, 2011

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3050

Telephone (641) 792-1910

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

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

Compliance

We have audited the compliance of Central Lee Community School District with the types of compliance requirements described in 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, 2010. Central Lee 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 grant agreements applicable to each of its major federal programs is the responsibility of Central Lee Community School District's management. Our responsibility is to express an opinion on Central Lee 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 Non-Profit 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 Central Lee 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 Central Lee Community School District's compliance with those requirements.

In our opinion, Central Lee 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, 2010.

Internal Control Over Compliance

The management of Central Lee Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Central Lee 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Central Lee Community School District's internal control over compliance.

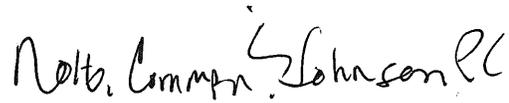
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness.

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-10 to be a material weakness.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part III of the accompanying Schedule of Findings and Questioned costs as item III-B-10 to be a significant deficiency.

Central Lee Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Central Lee Community School District's responses and, accordingly, we express no opinion on them.

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


NOLTE, CORNMAN & JOHNSON, P.C.

February 22, 2011

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) A significant deficiency and material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency and material weakness in internal control over the major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Clustered
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - Individual
 - CFDA Number 84.394 - ARRA - State Fiscal Stabilization Fund (SFSF)
Education State Grants, Recovery Act.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Central Lee Community School District did not qualify as a low-risk auditee.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

II-A-10 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

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

Conclusion - Response accepted.

II-B-10 Employees Officiating Athletic Events - We noted during our audit that employees who officiated athletic events for the District were paid as independent contractors rather than including this compensation as W-2 wages.

Recommendation - The District should review procedures in place to ensure that employees that officiate athletic events have the amount added to their W-2 for tax purposes.

Response - The District will comply with the recommendation and report all employee earnings on the employee's W-2.

Conclusion - Response accepted.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2010
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.394: ARRA - State Fiscal Stabilization Fund (SFSF)
Education State Grants, Recovery Act
Federal Award Year: 2010
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-10 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

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

Conclusion - Response accepted.

CFDA Number 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2010
U.S. Department of Agriculture
Passed through the Iowa Department of Education

III-B-10 Free and Reduced Lunch Application - We noted during our audit an instance of a free and reduced lunch application that was marked as free but should have been marked as reduced.

Recommendation - The District should review procedures in place to ensure the accuracy in the determination of free and reduced lunch applications.

Response - The District will review filing procedures and be more diligent in checking free and reduced applications.

Conclusion - Response accepted.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-10 Certified Budget - District expenditures for the year ended June 30, 2010, did not exceed the amounts budgeted.
- IV-B-10 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-C-10 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-D-10 Business Transactions - No business transactions between the District and District officials or employees were noted.
- IV-E-10 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-10 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- IV-G-10 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- IV-H-10 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- IV-I-10 Deposits and Investments - We noted no instances of non-compliance with the deposits and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- IV-J-10 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- IV-K-10 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
- IV-L-10 Statewide Sales, Services and Use Tax - According to the District's revenue purpose statement, statewide sales, services and use tax money can be spent for PPEL type expenditures. According to Chapter 298.3 of the Code of Iowa, PPEL monies may be used for a purchase of a single unit of equipment exceeding \$500 per unit. Therefore, statewide sales, services and use tax expenditures have the same \$500 per unit of equipment restriction as PPEL expenditures.

We noted during our audit that the District entered into a lease-purchase agreement with Apple Computer Company for laptop computers, network set up, software and other related support/warranties for the District's One on One Initiative. The related debt obligation to this capital asset purchase has been recognized by the District as a Capital Projects capital-lease purchase. The first lease payment is due in fiscal 2011 and the

District intends on paying the entire lease amount from the Capital Projects Fund. Per contents of the lease agreement, it appears not all of the items listed in the lease agreement would be allowable Capital Projects Fund expenditures.

We also noted during our audit that the District purchased tables and chairs for a total of \$6,534.70 that were under the \$500 per unit of equipment restriction as mentioned above.

Recommendation - According to the Uniform Administrative Procedures Manual, "Iowa school districts operate under Dillon's Rule which states that school corporations possess and can exercise the following powers and not others: Those granted in express words, those necessarily implied or necessarily incident to the powers expressly granted, and those absolutely essential to the declared objects and purposes of the school corporation - not simply convenient or desired, but indispensable. School districts cannot do by indirect means anything they do not have direct authority to do, and laws granting powers to school districts shall be construed narrowly to limit district authority to the precise language of the authorizing statute. The mere absence of a prohibition against an action or activity in code does not give a school district authority to initiate that action or activity. Interpretation of school law and rules relating to the school laws may only be done by the Iowa Attorney General's Office and the Iowa Department of Education. These Opinions or Rules, once given, have the effect of law on school corporations."

According to the District's revenue purpose statement, statewide sales, services and use tax can be spent for PPEL type expenditures. According to Chapter 298.3 of the Code of Iowa, PPEL monies may be used expressly for the purchase, lease or lease-purchase of a single unit of equipment or technology exceeding \$500 per unit. Additionally, Iowa Administrative Code 281-98.64(3) specifically identifies equipment maintenance as an inappropriate use of PPEL funds. Therefore, statewide sales, services and tax expenditures have the same restrictions outlined in the Code sections.

As school districts operate under Dillon's Rule, the purchase of the individual items for more than \$500 per unit would be allowable Capital Projects Fund expenditures. However, costs included in the lease-purchase agreement for items such as training, maintenance, warranties and software licensing do not appear to be allowable Capital Projects Fund expenditures as expressly stated in Chapter 298.3 of the Code of Iowa.

It would appear that \$7,666.20 of the lease is for training expenditures that are unallowable from the Capital Projects Fund. It is our opinion that these costs are inappropriate Capital Projects Fund expenditures and should be paid from the General Fund. The District should make a corrective transfer from the General Fund to the Capital Projects Fund \$7,666.20 for the training expenditures.

The District should review the revenue purpose statement for use of statewide sales, services and use tax as well as Chapter 298.3 of the Code of Iowa with regard to allowable expenditures from the PPEL Fund to avoid non compliance. The District should make a corrective transfer from the General fund to the Capital Projects Funds for \$14,200.90.

Response - The District will make the appropriate transfer and future purchases will comply with their statewide sales, services and use tax revenue statement.

Conclusion - Response accepted.

Pursuant to Chapter 425F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax are as follows:

Beginning Balance		\$	97,905
Statewide sales, services and use tax			710,143
Expenditures/transfers out:			
School infrastructure:			
Buildings	\$	167,053	
Equipment		98,396	
Other improvements		2,676	
Debt service for school infrastructure:			
Revenue debt		274,044	
Bus lease		83,517	
Land contract		17,544	
			<u>643,230</u>
Ending balance		\$	<u>164,818</u>

As a result of the statewide sales, services and use tax revenue received during the year ended June 30, 2010, the District reduced the following levies:

	<u>Per \$1,000 of Taxable Valuation</u>	<u>Property Tax Dollars</u>
Physical Plant and Equipment Levy	<u>\$ 1.67000</u>	<u>\$ 342,172</u>

IV-M-10 Appropriate Signatures- We noted during our audit that the Apple computer lease the District entered into during the year was not signed by the Board President. According to 291.1 of the Code of Iowa, the Board President shall sign all contracts that bind the District financially.

Recommendation - The District should have the Board President sign all contracts entered into by the District.

Response - The Board approved this Apple Lease on April 13, 2010, so the Superintendent signed off on the lease. The Board President will sign all future contracts entered into by the District.

Conclusion - Response accepted.