

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

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

June 30, 2004

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Independent Auditor's Report

To the Board of Education of
South Clay 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 South Clay Community School District, Gillett Grove, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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 South Clay Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 10 to the financial statements, during the year ended June 30, 2004, South Clay Community School District adopted Governmental Accounting Standards Board Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement Number 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement Number 38, Certain Financial Statement Note Disclosures; Statement Number 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation Number 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated August 31, 2004, on our consideration of South Clay Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 35 through 37 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South Clay Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003, (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

August 31, 2004

South Clay Community School District Management's Discussion and Analysis

South Clay 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, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

Financial Highlights

General Fund revenues decreased from \$1,557,224 in fiscal year 2003 to \$1,512,169 in fiscal year 2004, while General Fund expenditures decreased from \$1,582,464 in fiscal year 2003 to \$1,466,310 in fiscal year 2004. This resulted in an increase in the District's General Fund balance from \$125,156 in fiscal year 2003 to \$171,517 in fiscal year 2004, a 37 percent increase from the prior year.

The decrease in General Fund revenues were attributable to a decrease in enrollment and grant revenues in fiscal year 2004. The decrease in expenditures was due primarily to cuts in certified personnel.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different view of the district:

- The first two statements are *government-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the District-wide statements.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short term* as well as what remains for future spending.
- *Proprietary funds* statements offer *short-* and *long-term* financial information about the activities the District operates *like businesses*, such as food services.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District’s budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

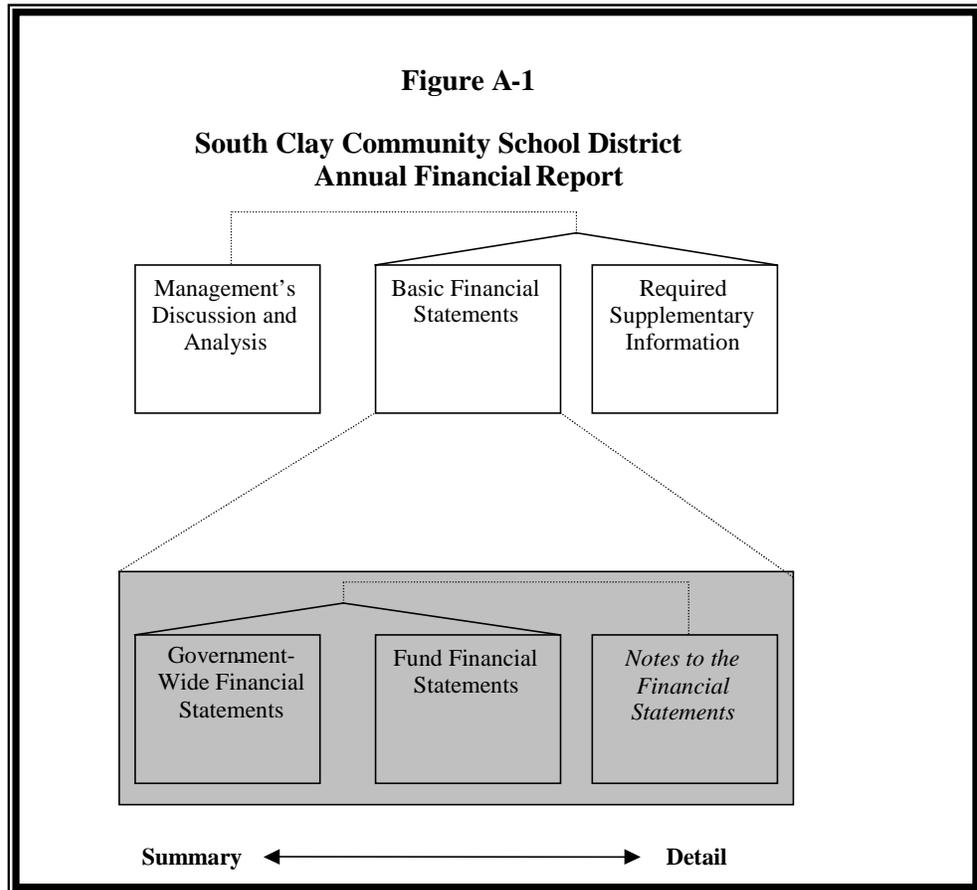


Figure A-2 below summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents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

Figure A-2: Major Features of the Government Wide and Fund Financial Statements

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

Government-Wide Financial Statements

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

The two Government-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school building and other facilities.

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

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

Fund Financial Statements

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

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as federal grants).

The District has two kinds of funds:

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

Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.

- *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 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. *Internal service funds*, (the other kind of proprietary fund) are optional and available to report activities that provide supplies and services for other District programs and activities. At this time the District uses one internal service fund to account for the District's employee benefit flexible benefit plan.

Financial Analysis of the District as a Whole

Net assets. Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004.

Figure A-3
Condensed Statement of Net Assets (in thousands of dollars)

	Governmental Activities 2004	Business Type Activities 2004	Total School District 2004
Current and other assets	\$1,448,063	\$2,710	\$1,450,773
	163,682		163,682
Capital assets		-	
Total assets	1,611,745	2,710	1,614,455
Current liabilities	927,279	381	927,660
	7,544		7,544
Non-current liabilities		-	
Total liabilities	934,823	381	935,204
Net assets			
Invested in capital assets, net of related debt	163,682	-	163,682
	305,744		305,744
Restricted		-	305,744
Unrestricted	207,496	2,329	209,825
Total net assets	676,922	2,329	679,251

Changes in net assets. Fiscal year 2003-2004 marks the initial District implementation of the GASB-34 financial reporting model. As a result, prior year comparisons are not available but

will be provided in all subsequent years. *Figure A-4* reflects only totals from the current fiscal year ending June 30, 2004.

Governmental Activities -

Referring to *Figure A-4*, revenues for the District's governmental activities were \$1,663,833 for fiscal year 2004. Total governmental expenditures were \$1,513,019.

In a difficult budget year, the District did a remarkable job trimming expenses to match available revenues.

Figure A-4			
Changes in Net Assets			
	Governmental Activities <u>2004</u>	Business Type Activities <u>2004</u>	Total School District <u>2004</u>
Revenues			
Program revenues			
Charges for services and sales	\$ 81,557	\$17,001	\$ 98,558
Operating Grants & Contributions	172,542	15,365	187,907
Capital Grants & Contributions	5,473	-	5,473
General revenues			
Property taxes	950,424	-	950,424
State formula aid	448,211	-	448,211
Other	5,626	5	5,631
Total revenues	1,663,833	32,371	1,696,204
Expenses			
Instruction	1,023,985	-	1,023,985
Support	408,295	-	408,295
Noninstructional	3,964	35,654	39,618
Other	76,775	-	76,775
Total expenses	1,513,019	35,654	1,548,673
Excess (deficiency) before special item	150,814	(3,283)	147,531
Special item:	-	-	-
Increase (decrease) in net assets	150,814	(3,283)	147,531

Figure A-5 presents the cost of four major district activities. The table also shows each activity's *net cost* (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

Figure A-5

Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 1,023,985	\$ 862,660
Support Services	408,295	373,673
Non-instructional programs	3,964	3,964
Other expense	76,775	13,150
Total	\$ 1,513,019	\$1,253,447

Note: totals may not add due to rounding.

- The cost of all governmental activities this year was \$1,513,019
- Some of the cost was financed by the users of the District's programs \$(81,557) (see F.A-4)
- The federal and state governments subsidized certain programs with grants and contributions (\$178,015)
- Most of the District's costs (\$1,253,447), however were financed by District and state taxpayers.
- This portion of governmental activities was financed with \$950,424 in property taxes, \$448,211 of unrestricted state aid based on the statewide finance formula, and \$5,626 in investment earnings and other revenues.

Business-Type Activities

Revenues of the District's business-type activities were \$32,371 and expenses were \$35,654. (Refer to Figure A-4.)

Financial Analysis of the District's Funds

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported combined fund balances of \$477,261, an increase over last year's ending fund balances of \$391,915.

Governmental Fund Highlights

The General Fund balance increased from \$125,156 to \$171,517, due in part to the reduction in staff and general cuts made throughout the district.

The Nonmajor Governmental (PPEL, Capital Projects and Activity) Funds balance increased \$68,694 to \$140,904. The increase was due in large part to no expenditures in the Capital Projects Fund.

The Management Fund balance decreased \$29,709 to \$164,840 due to a lack of tax revenue for the year.

Business Type Fund Highlights

The School Nutrition Fund net assets decreased from \$5,612 at June 30, 2003 to \$2,329 at June 30, 2004, representing a decrease of 3,283. The major cause of this reduction is due to the decrease in enrollment, and specifically, the decrease in free/reduced eligibility.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report.

During FY04, total revenues were above expectations held when the FY04 budget was assembled in February, 2003. Ultimately, actual amounts exceeded budgeted revenue by \$15,669. This was due mainly to a Star Schools Grant that was received. When a preliminary budget is set, the District always requests the ability to expend its full budget if necessary, but has the goal of keeping disbursements in line with revenues as actual revenue accumulates. As a result, the District's certified budget should always exceed the actual expenditures during the year. It is apparent that even in such a difficult fiscal year in which to accurately predict revenues, the District was able to meet its goal and keep total disbursements (\$1,624,526) slightly below total receipts (\$1,714,127).

Capital Asset and Debt Administration

Capital Assets

By the end of 2004, the District had invested \$163,682 in a broad range of assets, including school buildings, computer and audio-visual equipment and transportation equipment. (see *Figure A-6*). This amount represents a net increase of \$63,200 from last year. (More detailed information about capital assets can be found in Note 6 to the financial statements.) Total depreciation expense for the year was \$32,181.

Figure A-6

	Governmental Activities 2004	Business-Type Activities 2004	Total School District 2004
Land	650	-	650
Improvements	-	-	-
Buildings	73,130	-	73,130
Equipment & Furniture	89,902	-	89,902
TOTAL	163,682	-	163,682

Long-Term Debt

The only long-term debt the District has is \$5,000 for the asbestos removal loan.

Factors Bearing on the District's Future

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

- The national recession that has adversely impacted the State of Iowa's budget has translated into reduced levels of state aid funding for education. Future increases in state aid to schools, (allowable growth) will be predicated upon the condition of the national economy.
- Enrollment declines continue to plague our district and will be a major factor in our finances over the next several years.
- Due to our rural environment, no new industry or housing developments are foreseen.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Angie Smith – Business Manager, South Clay Community School District, 300 Railway St, Gillett Grove, IA 51341.

BASIC FINANCIAL STATEMENTS

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	617,805	5,704	623,509
Receivables:			
Property tax:			
Delinquent	10,711	-	10,711
Succeeding year	745,458	-	745,458
Due from other governments	68,146	-	68,146
Interfund receivable (payable)	5,943	(5,943)	-
Inventories	-	2,949	2,949
Capital assets, net of accumulated depreciation	163,682	-	163,682
Total assets	1,611,745	2,710	1,614,455
Liabilities			
Warrants issued in excess of bank balance	181,821	-	181,821
Deferred revenue:			
Succeeding year property tax	745,458	-	745,458
Other	-	381	381
Long-term liabilities:			
Portion due within one year:			
Notes payable	5,000	-	5,000
Portion due after one year:			
Notes payable	2,544	-	2,544
Total Liabilities	934,823	381	935,204
Net assets			
Invested in capital assets, net of related debt	163,682	-	163,682
Restricted for:			
Management levy	164,840	-	164,840
Physical plant and equipment levy	70,763	-	70,763
Other special revenue purposes	2,736	-	2,736
Capital projects	67,405	-	67,405
Unrestricted	207,496	2,329	209,825
Total net assets	676,922	2,329	679,251

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
Governmental activities:				
Instruction:				
Regular instruction	740,570	48,494	89,528	-
Special instruction	276,576	-	23,303	-
Other instruction	6,839	-	-	-
	<u>1,023,985</u>	<u>48,494</u>	<u>112,831</u>	<u>-</u>
Support services:				
Student services	10,215	-	-	-
Instructional staff services	35,012	-	-	-
Administration services	152,802	-	-	-
Operation and maintenance of plant services	149,970	-	-	-
Transportation services	60,296	33,063	1,559	-
	<u>408,295</u>	<u>33,063</u>	<u>1,559</u>	<u>-</u>
Non-instructional programs	<u>3,964</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	16,101	-	-	5,473
AEA flowthrough	58,152	-	58,152	-
Depreciation (unallocated)*	2,522	-	-	-
	<u>76,775</u>	<u>-</u>	<u>58,152</u>	<u>5,473</u>
Total governmental activities	1,513,019	81,557	172,542	5,473
Business type activities				
Non-instructional programs:				
Food service operations	<u>35,654</u>	<u>17,001</u>	<u>15,365</u>	<u>-</u>
Total	<u>1,548,673</u>	<u>98,558</u>	<u>187,907</u>	<u>5,473</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Capital projects				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				

Change in net assets

Net assets beginning of year, as restated

Net assets end of year

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

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
(602,548)	-	(602,548)
(253,273)	-	(253,273)
(6,839)	-	(6,839)
<u>(862,660)</u>	<u>-</u>	<u>(862,660)</u>
(10,215)	-	(10,215)
(35,012)	-	(35,012)
(152,802)	-	(152,802)
(149,970)	-	(149,970)
(25,674)	-	(25,674)
<u>(373,673)</u>	<u>-</u>	<u>(373,673)</u>
<u>(3,964)</u>	<u>-</u>	<u>(3,964)</u>
(10,628)	-	(10,628)
-	-	-
(2,522)	-	(2,522)
<u>(13,150)</u>	<u>-</u>	<u>(13,150)</u>
(1,253,447)	-	(1,253,447)
<u>-</u>	<u>(3,288)</u>	<u>(3,288)</u>
<u>(1,253,447)</u>	<u>(3,288)</u>	<u>(1,256,735)</u>
771,256	-	771,256
77,191	-	77,191
34,572	-	34,572
67,405	-	67,405
448,211	-	448,211
5,124	5	5,129
502	-	502
<u>1,404,261</u>	<u>5</u>	<u>1,404,266</u>
150,814	(3,283)	147,531
<u>526,108</u>	<u>5,612</u>	<u>531,720</u>
<u>676,922</u>	<u>2,329</u>	<u>679,251</u>

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2004

	General Fund	Management	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	325,000	164,840	127,002	616,842
Receivables:				
Property tax:				
Delinquent	9,736	-	975	10,711
Succeeding year	745,458	-	-	745,458
Interfund receivable	5,943	-	-	5,943
Due from other governments	55,219	-	12,927	68,146
	<u>1,141,356</u>	<u>164,840</u>	<u>140,904</u>	<u>1,447,100</u>
Total assets				
Liabilities and Fund Balances				
Liabilities:				
Warrants issued in excess of bank balance	181,821	-	-	181,821
Deferred revenue:				
Succeeding year property tax	745,458	-	-	745,458
Other	42,560	-	-	42,560
Total liabilities	969,839	-	-	969,839
Fund balances:				
Unreserved	171,517	164,840	140,904	477,261
	<u>1,141,356</u>	<u>164,840</u>	<u>140,904</u>	<u>1,447,100</u>
Total liabilities and fund balances				

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

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

June 30, 2004

Total fund balances of governmental funds (Exhibit C)	477,261
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	163,682
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	42,560
An internal service fund is used by the District's management to charge the costs of the employee flexible benefit program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	963
Long-term liabilities, including notes payable are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(7,544)</u>
Net assets of governmental activities (Exhibit A)	<u><u>676,922</u></u>

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	General Fund	Management	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	808,114	-	144,603	952,717
Tuition	32,481	-	-	32,481
Other	50,821	545	2,831	54,197
State sources	561,772	-	-	561,772
Federal sources	58,981	-	5,473	64,454
Total revenues	<u>1,512,169</u>	<u>545</u>	<u>152,907</u>	<u>1,665,621</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	757,868	7,318	3,689	768,875
Special instruction	276,576	-	-	276,576
Other instruction	6,839	-	-	6,839
	<u>1,041,283</u>	<u>7,318</u>	<u>3,689</u>	<u>1,052,290</u>
Support services:				
Student services	10,018	197	-	10,215
Instructional staff services	35,012	-	-	35,012
Administration services	146,119	1,041	5,642	152,802
Operation and maintenance of plant services	80,272	15,917	53,781	149,970
Transportation services	91,490	5,781	-	97,271
	<u>362,911</u>	<u>22,936</u>	<u>59,423</u>	<u>445,270</u>
Non-instructional programs	<u>3,964</u>	<u>-</u>	<u>-</u>	<u>3,964</u>
Other expenditures:				
Facilities acquisition	-	-	16,101	16,101
Long-term debt:				
Principal	-	-	5,000	5,000
AEA flowthrough	58,152	-	-	58,152
	<u>58,152</u>	<u>-</u>	<u>21,101</u>	<u>79,253</u>
Total expenditures	<u>1,466,310</u>	<u>30,254</u>	<u>84,213</u>	<u>1,580,777</u>
Excess (deficiency) of revenues over (under) expenditures	<u>45,859</u>	<u>(29,709)</u>	<u>68,694</u>	<u>84,844</u>
Other financing sources (uses):				
Sales of materials and equipment	502	-	-	502
Operating transfers in	-	-	5,000	5,000
Operating transfers out	-	-	(5,000)	(5,000)
Total other financing sources (uses)	<u>502</u>	<u>-</u>	<u>-</u>	<u>502</u>
Net change in fund balances	46,361	(29,709)	68,694	85,346
Fund balances beginning of year, as restated	<u>125,156</u>	<u>194,549</u>	<u>72,210</u>	<u>391,915</u>
Fund balances end of year	<u>171,517</u>	<u>164,840</u>	<u>140,904</u>	<u>477,261</u>

See notes to financial statements.

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		85,346
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the year as follows:		
Expenditures for capital assets	95,381	
Depreciation expense	<u>(32,181)</u>	63,200
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.		(2,290)
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		5,000
An internal service fund is used by the District's management to charge the costs of the employee flexible benefit program to the individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.		<u>(442)</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>150,814</u></u>

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2004

	<u>Enterprise Fund</u> Nonmajor School Nutrition Fund \$	<u>Governmental Activities - Internal Service Fund</u> \$
Assets		
Cash and cash equivalents	5,704	963
Inventories	<u>2,949</u>	<u>-</u>
Total assets	<u>8,653</u>	<u>963</u>
Liabilities		
Interfund payable	5,943	-
Deferred revenue	<u>381</u>	<u>-</u>
Total liabilities	<u>6,324</u>	<u>-</u>
Net assets		
Unrestricted	<u>2,329</u>	<u>963</u>

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	Enterprise Funds	Governmental Activities - Internal Service Fund
	Nonmajor School Nutrition Fund	Fund
	\$	\$
Operating revenue:		
Local sources:		
Charges for service	17,001	8,250
Operating expenses:		
Non-instructional programs:		
Salaries	18,153	-
Benefits	-	4,817
Purchased services	1,382	3,843
Supplies	16,119	32
	<u>35,654</u>	<u>8,692</u>
Operating gain (loss)	<u>(18,653)</u>	<u>(442)</u>
Non-operating revenue:		
State sources	562	-
Federal sources	14,803	-
Interest income	5	-
Total non-operating revenue	<u>15,370</u>	<u>-</u>
Change in net assets	(3,283)	(442)
Net assets beginning of year	<u>5,612</u>	<u>1,405</u>
Net assets end of year	<u><u>2,329</u></u>	<u><u>963</u></u>

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2004

	<u>Enterprise Fund</u> Nonmajor School Nutrition Fund \$	<u>Governmental Activities - Internal Service Fund</u> \$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	17,382	8,250
Cash payments to employees for services	(12,210)	(4,817)
Cash payments to suppliers for goods or services	(12,974)	(3,875)
Net cash used by operating activities	<u>(7,802)</u>	<u>(442)</u>
Cash flows from non-capital financing activities:		
State grants received	562	-
Federal grants received	10,024	-
Net cash provided by non-capital financing activities	<u>10,586</u>	<u>-</u>
Cash flows from capital and related financing activities:	<u>-</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	5	-
Net increase (decrease) in cash and cash equivalents	2,789	(442)
Cash and cash equivalents at beginning of year	<u>2,915</u>	<u>1,405</u>
Cash and cash equivalents at end of year	<u><u>5,704</u></u>	<u><u>963</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:		
Operating gain (loss)	(18,653)	(442)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	4,779	-
Decrease (increase) in inventories	(252)	-
(Decrease) increase in accounts payable	5,943	-
(Decrease) increase in deferred revenue	381	-
Net cash used in operating activities	<u><u>(7,802)</u></u>	<u><u>(442)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$4,779 of federal commodities.

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2004

1. Summary of Significant Accounting Policies

South Clay Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Gillett Grove and Webb, Iowa and the predominately agricultural territory in a portion of Clay and Buena Vista Counties. 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, South Clay 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 South Clay Community School District has no component units that 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 does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the County Assessor's Conference Board.

B. Basis of Presentation

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

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

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions, and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, 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 nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other 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 instruction, support and other costs.

The Management Fund is a special revenue fund used to pay for unemployment, early retirement, insurance agreements and costs of liability insurance and judgements or settlements relating to liability.

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

The District's internal service fund is also reported as a proprietary fund. The internal service fund is used to account for the District's employee benefit cafeteria plan.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit, which are stated at cost. The District had no investments as of June 30, 2004.

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

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

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

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003, through June 30, 2004, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

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

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

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

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	500
Buildings	5,000
Improvements other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	5,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	10-50 years
Furniture and equipment	5-20 years

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

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

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Employees are not paid for unused vacation and sick leave benefits when employment with the District ends.

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements in the other expenditures function exceeded the amount budgeted.

2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

3. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2004 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	School Nutrition Fund	5,943

During the year School Nutrition Fund salaries are paid by the General Fund, then reimbursed by the School Nutrition Fund. At June 30, 2004 the School Nutrition Fund owed the General Fund for salaries and employee benefits.

4. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
		\$
Debt service fund	Special Revenue: Physical Plant and Equipment Levy Fund	5,000

This transfer moved revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

5. Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year, as Restated	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	650	-	-	650
Capital assets being depreciated:				
Buildings	290,299	-	-	290,299
Improvements other than buildings	-	-	-	-
Furniture and equipment	265,900	95,381	-	361,281
Total capital assets being deprec.	556,199	95,381	-	651,580
Less accumulated depreciation for:				
Buildings	214,647	2,522	-	217,169
Improvements other than buildings	-	-	-	-
Furniture and equipment	241,720	29,659	-	271,379
Total accumulated depreciation	456,367	32,181	-	488,548
Total capital assets being depreciated, net	99,832	63,200	-	163,032
Governmental activities capital assets, net	100,482	63,200	-	163,682
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	26,953	-	-	26,953
Less accumulated depreciation	26,953	-	-	26,953
Business type activities capital assets, net	-	-	-	-

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	128,53
Support Services:	
Transportation	16,806
	<u>296,59</u>
Unallocated depreciation	25,22
	<u>32,181</u>
Total depreciation expense – governmental activities	<u><u>32,181</u></u>
Business type activities:	
Food services	<u><u>-</u></u>

6. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
EPA loan	12,544	-	5,000	7,544	5,000
Total	<u>12,544</u>	<u>-</u>	<u>5,000</u>	<u>7,544</u>	<u>5,000</u>

EPA Loan

The District obtained a loan from the United States Environmental Protection Agency (EPA) for the removal of asbestos from within the school premises. The loan in the amount of \$62,544, is an interest free loan requiring semi-annual payments of \$2,500.

During the year ended June 30, 2004 the District made principal payments totaling \$5,000 under the note agreement. Principal payments are due as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>
	\$
2005	5,000
2006	<u>2,544</u>
	<u><u>7,544</u></u>

Bonds Payable

The District had no bonded indebtedness at June 30, 2004

7. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their covered annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$32,769, \$32,182, and \$32,214 respectively, equal to the required contributions for each year.

8. Risk Management

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

Each member's contributions to ISEBA fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. The District's annual contributions to ISEBA for the year ended June 30, 2004, were \$27,526.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the District's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

South Clay 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.

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.

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Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

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

9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$58,152 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

10. Accounting Change and Restatement

Governmental Accounting Standards Board (GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements separate the District's programs between governmental and business type activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities, and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund			Total
	General	Management fund	Nonmajor	
Net assets, June 30, 2003, as previously reported	\$ 125,156	194,549	\$ 72,210	\$ 391,915
GASB Interpretation 6 adjustments	-	-	-	-
Net assets, July 1, 2003, as restated for Governmental funds	<u>125,156</u>	<u>194,549</u>	<u>72,210</u>	391,915
GASB 34 adjustments:				
Capital assets net of accumulated depreciation of \$456,367				100,482
Net assets and liabilities of Internal Service Fund				1,405
Long-term liabilities:				
Note payable				(12,544)
Deferred revenue				<u>44,850</u>
Net assets July 1, 2003, as restated				<u>526,108</u>

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Receipts:						
Local sources	1,101,800	17,387	1,119,187	983,316	983,316	135,871
State sources	501,062	562	501,624	635,922	635,922	(134,298)
Federal sources	78,513	14,803	93,316	79,220	79,220	14,096
Total receipts	<u>1,681,375</u>	<u>32,752</u>	<u>1,714,127</u>	<u>1,698,458</u>	<u>1,698,458</u>	<u>15,669</u>
Disbursements:						
Instruction	1,050,661	-	1,050,661	1,171,883	1,171,883	121,222
Support services	449,723	-	449,723	576,525	576,525	126,802
Non-instructional programs	9,906	29,963	39,869	40,806	40,806	937
Other expenditures	84,273	-	84,273	67,330	67,330	(16,943)
Total disbursements	<u>1,594,563</u>	<u>29,963</u>	<u>1,624,526</u>	<u>1,856,544</u>	<u>1,856,544</u>	<u>232,018</u>
Excess (deficiency) of receipts over (under) disbursements	86,812	2,789	89,601	(158,086)	(158,086)	247,687
Other financing sources (uses) net	<u>502</u>	<u>-</u>	<u>502</u>	<u>5,000</u>	<u>5,000</u>	<u>(4,498)</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements	87,314	2,789	90,103	(153,086)	(153,086)	243,189
Balance beginning of year	<u>-</u>	<u>2,915</u>	<u>2,915</u>	<u>382,821</u>	<u>382,821</u>	<u>(379,906)</u>
Balance end of year	<u><u>87,314</u></u>	<u><u>5,704</u></u>	<u><u>93,018</u></u>	<u><u>229,735</u></u>	<u><u>229,735</u></u>	<u><u>(136,717)</u></u>

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
	\$	\$	\$
Revenues	1,681,375	(15,754)	1,665,621
Expenditures	1,594,563	(13,786)	1,580,777
Net	86,812	(1,968)	84,844
Other financing sources (uses) net	502	-	502
Beginning fund balances	-	391,915	391,915
Ending fund balances	<u>87,314</u>	<u>389,947</u>	<u>477,261</u>
	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
	\$	\$	\$
Revenues	32,752	(381)	32,371
Expenditures	29,963	5,691	35,654
Net	2,789	(6,072)	(3,283)
Beginning fund balances	2,915	2,697	5,612
Ending fund balances	<u>5,704</u>	<u>(3,375)</u>	<u>2,329</u>

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Internal Service, Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the [cash basis](#). Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

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

During the year ended June 30, [2004](#), disbursements in the other expenditures function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2004

Assets	Special Revenue Funds		Capital Projects Fund	Total
	Student Activity Fund	Physical Plant and Equipment Levy	Local Option Sales Tax	
	\$	\$	\$	
Cash and pooled investments	2,736	69,788	54,478	127,002
Receivables:				
Property tax:				
Delinquent	-	975	-	975
Due from other governments	-	-	12,927	12,927
Total assets	<u>2,736</u>	<u>70,763</u>	<u>67,405</u>	<u>140,904</u>
Liabilities & Fund Balances				
Liabilities	-	-	-	-
Fund balances:				
Unreserved fund balance	<u>2,736</u>	<u>70,763</u>	<u>67,405</u>	<u>140,904</u>
Total liabilities and fund balances	<u>2,736</u>	<u>70,763</u>	<u>67,405</u>	<u>140,904</u>

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	Special Revenue Funds		Capital Projects Fund	Debt Service	Total
	Student Activity Fund	Physical Plant and Equipment Levy	Local Option Sales Tax		
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	-	77,198	67,405	-	144,603
Other	2,286	545	-	-	2,831
Federal sources	-	5,473	-	-	5,473
Total revenues	<u>2,286</u>	<u>83,216</u>	<u>67,405</u>	<u>-</u>	<u>152,907</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	3,689	-	-	-	3,689
Support services:					
Administration services	-	5,642	-	-	5,642
Operation and maintenance of plant services	-	53,781	-	-	53,781
Other expenditures:					
Facilities acquisition	-	16,101	-	-	16,101
Long-term debt:					
Principal	-	-	-	5,000	5,000
Total expenditures	<u>3,689</u>	<u>75,524</u>	<u>-</u>	<u>5,000</u>	<u>84,213</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,403)</u>	<u>7,692</u>	<u>67,405</u>	<u>(5,000)</u>	<u>68,694</u>
Other financing sources (uses):					
Operating transfers in	-	-	-	5,000	5,000
Operating transfers out	-	(5,000)	-	-	(5,000)
Total other financing sources (uses)	<u>-</u>	<u>(5,000)</u>	<u>-</u>	<u>5,000</u>	<u>-</u>
Net change in fund balances	(1,403)	2,692	67,405	-	68,694
Fund balances beginning of year, as restated	<u>4,139</u>	<u>68,071</u>	<u>-</u>	<u>-</u>	<u>72,210</u>
Fund balances end of year	<u><u>2,736</u></u>	<u><u>70,763</u></u>	<u><u>67,405</u></u>	<u><u>-</u></u>	<u><u>140,904</u></u>

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

<u>Account</u>	<u>Balance Beginning of Year</u> \$	<u>Revenues</u> \$	<u>Expenditures</u> \$	<u>Transfers</u>	<u>Balance End of Year</u> \$
Pop	493	1,010	2,202	1,945	1,246
T-Shirt fund raiser	(290)	1,064	303	709	1,180
Annual	3,078	212	326	(2,654)	310
Field trip fund raiser	858	-	858	-	-
Total	<u>4,139</u>	<u>2,286</u>	<u>3,689</u>	<u>-</u>	<u>2,736</u>

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2004	2003	2002	2001
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	952,717	815,405	700,021	775,168
Tuition	32,481	41,658	24,240	25,292
Other	54,197	50,220	49,338	58,331
State sources	561,772	649,228	694,093	620,563
Federal sources	64,454	84,340	30,118	30,354
Total revenues	<u>1,665,621</u>	<u>1,640,851</u>	<u>1,497,810</u>	<u>1,509,708</u>
Expenditures:				
Instruction:				
Regular instruction	768,875	836,618	781,802	714,976
Special instruction	276,576	329,226	309,139	300,926
Other instruction	6,839	5,994	4,045	2,967
Support services:				
Student services	10,215	18,329	20,372	18,913
Instructional staff services	35,012	57,010	68,535	63,980
Administration services	152,802	124,671	146,006	123,003
Operation and maintenance of plant services	149,970	74,670	78,000	91,329
Transportation services	97,271	103,113	92,227	85,319
Central support services	-	5,406	-	21,711
Other expenditures:				
Facilities acquisition	16,102	32,216	5,438	33,228
Long-term debt:				
Principal	5,000	5,000	5,000	5,000
AEA flowthrough	58,152	62,294	61,792	61,138
Total expenditures	<u>1,580,778</u>	<u>1,658,292</u>	<u>1,575,999</u>	<u>1,526,048</u>

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting

To the Board of Education of the
South Clay Community School District:

We have audited the financial statements of the South Clay Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated August 31, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether South Clay 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 grants, noncompliance 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 noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 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. Prior year statutory comments have all been resolved.

Internal Control over Financial Reporting

In planning and performing our audit, we considered South Clay Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item [04-I-A](#) is a material weakness. Prior year reportable conditions have all been resolved except for item [04-I-A](#).

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

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

August 31, [2004](#)

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part I: Findings related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

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

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

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

Conclusion: Response accepted.

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

04-II-A Official Depositories: Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

04-II-B Certified Budget: Disbursements for the year ended June 30, 2004, exceeded the amount budgeted in the other expenditures functional area.

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

District Response: We will review this area in future years to determine the need for amendment.

Conclusion: Response accepted.

04-II-C Questionable Expenditures: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

04-II-D Travel Expenses: No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

04-II-E Business Transactions: We noted no transactions between the District and District officials or employees.

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

04-II-G Board Minutes: We noted no transactions requiring Board approval that had not been approved by the Board.

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

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

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

04-II-K PPEL Expenditures: We noted that a few maintenance supplies were purchased from the PPEL Fund.

Recommendation: The District should monitor this fund to ensure only expenditures allowed by law are paid from this fund.

District Response: We will monitor PPEL expenditures more closely in the future.

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Conclusion: Response accepted.