

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL  
DISTRICT

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

June 30, 2005

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Gary E. Horton CPA

PO Box 384

Clarion, IA 50525-0384

(515)532-6681 Phone

(515) 532-2405 Fax

[BETCO@mchsi.com](mailto:BETCO@mchsi.com) E-mail

Independent Auditor's Report

To the Board of Education of  
Clay Central/Everyly 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 Clay Central/Everyly Community School District, Royal, Iowa, as of and for the year ended June 30, 2005, 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 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 Clay Central/Everyly Community School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 10, 2005, on our consideration of Clay Central/Everyly Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 40 through 42 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 Clay Central/Everyly Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004, (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 5, 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

November 10, 2005

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Clay Central/Everyly 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, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2005 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$3,690,913 in fiscal 2004 to \$3,569,109 in fiscal 2005, while General Fund expenditures increased from \$3,770,495 in fiscal 2004 to \$3,967,115 in fiscal 2005. The District's General Fund balance decreased from \$(401,080) in fiscal 2004 to \$(816,948) in fiscal 2005.
- The decrease in General Fund revenues was attributable to a decrease in local tax revenue in fiscal 2005. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures. Declining enrollment and a change in the state's guaranteed funding rules are the main reason for declining revenues.

### 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 Clay Central/Everyly 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 Clay Central/Everyly 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 Clay Central/Everyly Community School District acts solely as an agent or custodian for the benefit of those outside of District government.

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

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

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds.

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

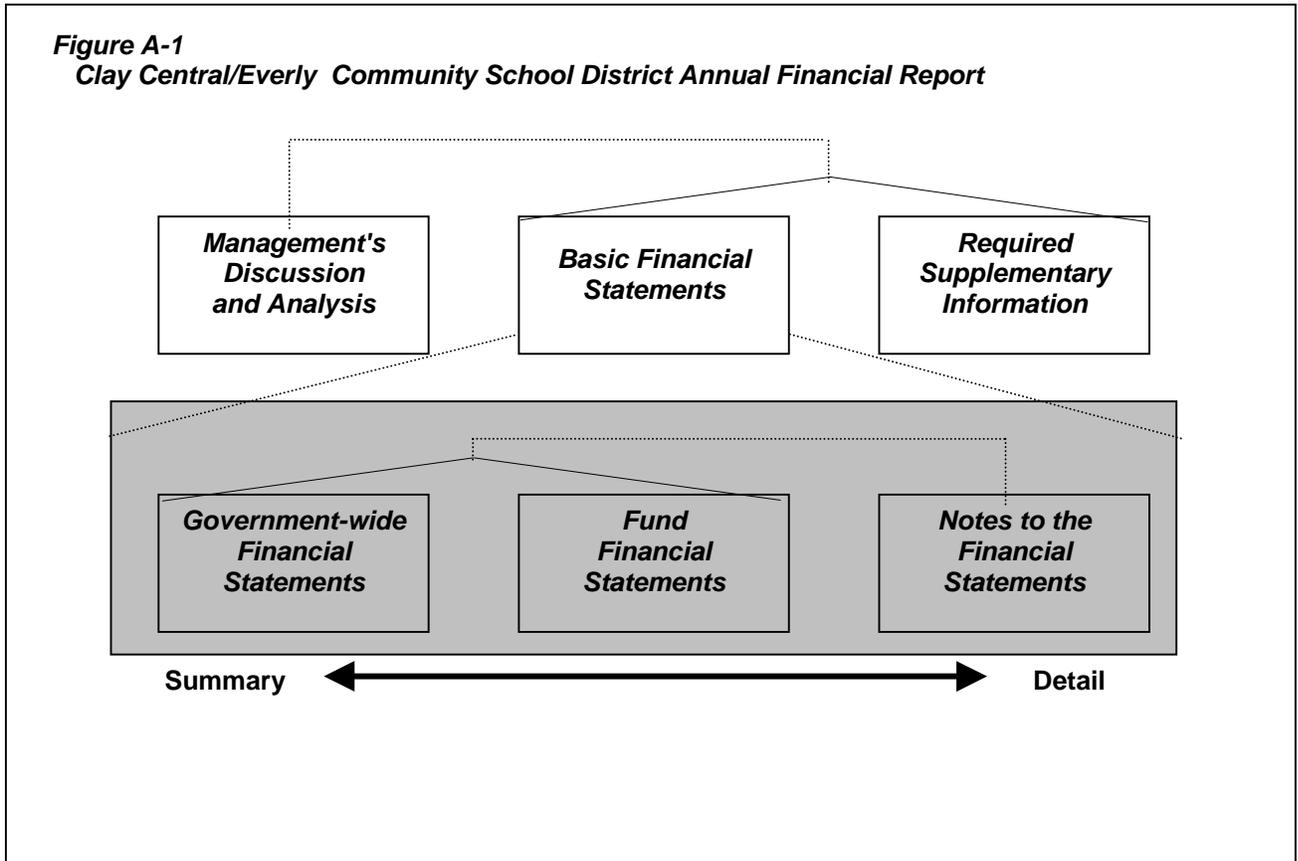


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

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

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

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

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

### Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee expenditures.

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2005 compared to June 30, 2004.

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2004-2005
	Governmental Activities		Business-type Activities		Total School District		
	2005	2004	2005	2004	2005	2004	
	\$	\$	\$	\$	\$	\$	
Current and other assets	2,654,286	3,168,589	(6,550)	10,848	2,647,736	3,179,437	-17%
Capital assets	1,399,162	1,207,792	7,333	8,950	1,406,495	1,216,742	16%
<b>Total assets</b>	<b>4,053,448</b>	<b>4,376,381</b>	<b>783</b>	<b>19,798</b>	<b>4,054,231</b>	<b>4,396,179</b>	<b>-8%</b>
Long-term liabilities	90,612	129,816	-	-	90,612	129,816	-30%
Other liabilities	3,233,973	3,257,673	11,142	26,435	3,245,115	3,284,108	-1%
<b>Total liabilities</b>	<b>3,324,585</b>	<b>3,387,489</b>	<b>11,142</b>	<b>26,435</b>	<b>3,335,727</b>	<b>3,413,924</b>	<b>-2%</b>
Net Assets:							
Invested in capital assets, net of related debt	1,342,273	1,133,925	7,333	8,950	1,349,606	1,142,875	18%
Restricted	146,311	121,304	-	-	146,311	121,304	21%
Unrestricted	(759,721)	(266,337)	(17,692)	(15,587)	(777,413)	(281,924)	-177%
<b>TOTAL NET ASSETS</b>	<b>728,863</b>	<b>988,892</b>	<b>(10,359)</b>	<b>(6,637)</b>	<b>718,504</b>	<b>982,255</b>	<b>-27%</b>

The District's combined net assets decreased by nearly 27%, or approximately \$264,000, over the prior year. The largest portion of the District's net assets is 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 that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$25,000 or 21% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$496,000, or 177%.

Figure A-4 shows the change in net assets for the years ended June 30, 2005 and 2004.

Figure A-4

	Change in Net Assets						Percentage Change 2004-2005
	Governmental Activities		Business-type Activities		Total School District		
	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$	
Revenues							
Program Revenues:							
Charges for services	328,913	269,113	88,552	84,501	417,465	353,614	18%
Operating grants & contributions	446,982	444,592	73,120	70,633	520,102	515,225	1%
Capital grants & contributions	-	17,220	-	-	-	17,220	-100%
General Revenues:							
Property taxes	1,554,417	2,239,540	-	-	1,554,417	2,239,540	-31%
Income Surtax	63,948	55,008	-	-	63,948	55,008	16%
Local option sales tax	367,053	-	-	-	367,053	-	0%
Unrestricted state grants	1,335,579	1,193,066	-	-	1,335,579	1,193,066	12%
Unrestricted investment earnings	15,869	4,746	74	38	15,943	4,784	233%
Other revenue	(39,682)	-	-	-	(39,682)	-	0%
<b>Total Revenues</b>	<b>4,073,079</b>	<b>4,223,285</b>	<b>161,746</b>	<b>155,172</b>	<b>4,234,825</b>	<b>4,378,457</b>	<b>-3%</b>
Expenses:							
Instruction	2,819,763	2,712,747	-	-	2,819,763	2,712,747	4%
Support services	1,185,852	1,228,201	-	-	1,185,852	1,228,201	-3%
Non-instructional programs	14,329	-	165,468	172,798	179,797	172,798	4%
Other expenditures	313,164	255,424	-	-	313,164	255,424	23%
<b>Total expenses</b>	<b>4,333,108</b>	<b>4,196,372</b>	<b>165,468</b>	<b>172,798</b>	<b>4,498,576</b>	<b>4,369,170</b>	<b>3%</b>
<b>Change in net assets before Transfers</b>	<b>(260,029)</b>	<b>26,913</b>	<b>(3,722)</b>	<b>(17,626)</b>	<b>(263,751)</b>	<b>9,287</b>	<b>-2940%</b>
Transfers	-	-	-	-	-	-	0%
<b>CHANGE IN NET ASSETS</b>	<b>(260,029)</b>	<b>26,913</b>	<b>(3,722)</b>	<b>(17,626)</b>	<b>(263,751)</b>	<b>9,287</b>	<b>-2940%</b>
Net assets beginning of year	988,892	961,979	(6,637)	10,989	982,255	972,968	1%
Net assets end of year	728,863	988,892	(10,359)	(6,637)	718,504	982,255	-27%

Property tax and unrestricted state grants account for 68% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 89% of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$4,073,079 and expenses were \$4,333,108.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5

### Total and Net Cost of Governmental Activities

	<b>Total Cost of Services 2005 \$</b>	<b>Total Cost of Services 2004 \$</b>	<b>Net Cost Of Services 2005 \$</b>	<b>Net Cost of Services 2004 \$</b>
Instruction	2,819,763	2,712,747	2,185,046	2,143,059
Support Services	1,185,852	1,228,201	1,184,132	1,225,603
Non-instructional Programs	14,329	-	14,329	-
Other Expenses	313,164	255,424	173,706	96,785
<b>TOTAL</b>	<b>4,333,108</b>	<b>4,196,372</b>	<b>3,557,213</b>	<b>3,465,447</b>

- The cost financed by users of the District's programs was \$328,913.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$446,982.
- The net cost of governmental activities was financed with \$1,985,418 in property and other taxes and \$1,335,579 in unrestricted state grants.

### Business Type Activities

Revenues for business type activities were \$161,746 and expenses were \$165,468. 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.

During the year ended June 30, 2005, the District increased meal prices, but the increased revenues were not enough to offset expenses.

### INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund deficit balance of \$636,914.

### **Governmental Fund Highlights**

- The District's deteriorating General Fund financial position is the result of many factors. During the year declining property taxes resulted in a decrease in revenues while the General fund expenditures increased over the prior year.
- The General Fund balance decreased from \$(401,080) to \$(816,948), due in part to the negotiated salary and benefits settlement, the prior year reduction in revenues and existing expenditure commitments of the District.

### **Proprietary Fund Highlights**

School Nutrition Fund net assets decreased from \$(6,637) at June 30, 2004 to \$(10,359) at June 30, 2005. For fiscal 2005, the District increased meal prices, resulting in the increase in revenues, but expenses still exceeded revenues for the year.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, Clay Central/Everly Community School District amended its annual budget one time to reflect additional revenue and expenditures associated with the elementary building capital project activity.

The District's receipts were \$101,051 less than budgeted receipts. The most significant variance resulted from the District receiving less in state aid and federal grants 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 ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2005, the District had invested \$1.41 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$191,120.

The original cost of the District's capital assets was \$4.78 million. Governmental funds account for \$4.77 million, with the remainder of \$.01 million accounted for in the Proprietary, School Nutrition Fund.

During the year the District spent \$289,000 for building remodeling and athletic field lights, \$51,000 for a bus and 49,000 for technology equipment.

**Figure A-6**

**Capital Assets (net of depreciation)**

	Governmental Activities		Business type Activities		Total School District		Percentage Change 2004-2005
	2005	2004	2005	2004	2005	2004	
	\$	\$	\$	\$	\$	\$	
Land	9,589	9,589	-	-	9,589	9,589	0%
Buildings	1,056,764	843,799	-	-	1,056,764	843,799	25%
Improvements	42,519	24,420	-	-	42,519	24,420	74%
Equipment & Furniture	290,290	329,984	7,333	8,950	297,623	338,934	-12%
<b>TOTAL</b>	<b>1,399,162</b>	<b>1,207,792</b>	<b>7,333</b>	<b>8,950</b>	<b>1,406,495</b>	<b>1,216,742</b>	<b>16%</b>

**Long-Term Debt**

At June 30, 2005, the District had \$90,612 in other long-term debt outstanding. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

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

	Total School District		Percentage
	2005	2004	Change 2004-2005
	\$	\$	
Energy Notes	56,889	73,867	-23%
Early Retirement	33,723	55,949	-40%
	<b>90,612</b>	<b>129,816</b>	<b>-30%</b>

**ECONOMIC 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:

- School financing is highly dependent upon student enrollment. The District's September 2005 enrollment decreased by seventeen students. This drop in enrollment will decrease the District's funding for fiscal year 2007.
- The District is projecting that our student enrollment numbers will continue to decline for the next five years. This will continue to have a negative effect on our funding.

- The District has evaluated the condition of its transportation vehicles and determined, that our current fleet will meet the needs of our district next year.

#### **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 Monte Montgomery, Superintendent, Clay Central/Everyly Community School District, 401 Church Street, P.O. Box 110, Royal, IA 51357.

## BASIC FINANCIAL STATEMENTS

## CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2005

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and cash equivalents:			
ISCAP	359,095	-	359,095
Other	194,866	3,690	198,556
Receivables:			
Property tax:			
Delinquent	24,660	-	24,660
Succeeding year	1,890,306	-	1,890,306
Accounts	260	195	455
Accrued interest:			
ISCAP	1,339	-	1,339
Due from other governments	165,802	-	165,802
Inventories	-	7,523	7,523
Interfund receivable/(payable)	17,958	(17,958)	-
Capital assets, net of accumulated depreciation	1,399,162	7,333	1,406,495
	<u>4,053,448</u>	<u>783</u>	<u>4,054,231</u>
<b>Total assets</b>			
<b>Liabilities</b>			
Accounts payable	65,247	-	65,247
Salaries and benefits payable	383,162	9,577	392,739
Accrued interest payable	273	-	273
Deferred revenue:			
Succeeding year property tax	1,890,306	-	1,890,306
Other	-	1,565	1,565
ISCAP warrants payable	881,000	-	881,000
ISCAP accrued interest payable	7,755	-	7,755
ISCAP premium	6,230	-	6,230
Long-term liabilities:			
Portion due within one year:			
Energy notes payable	17,981	-	17,981
Early retirement	18,086	-	18,086
Portion due after one year:			
Energy notes payable	38,908	-	38,908
Early retirement	15,637	-	15,637
	<u>3,324,585</u>	<u>11,142</u>	<u>3,335,727</u>
<b>Total liabilities</b>			

## CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2005

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Net assets</b>			
Invested in capital assets, net of related debt	1,342,273	7,333	1,349,606
Restricted for:			
Management levy	10,517	-	10,517
Capital outlay	96,679	-	96,679
Other special revenue purposes	39,115	-	39,115
Unrestricted	<u>(759,721)</u>	<u>(17,692)</u>	<u>(777,413)</u>
<b>Total net assets</b>	<u><u>728,863</u></u>	<u><u>(10,359)</u></u>	<u><u>718,504</u></u>

## CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2005

<b>Functions/Programs</b>	<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	1,747,072	158,824	206,291	-
Special instruction	559,174	27,803	87,279	-
Other instruction	513,517	142,286	12,234	-
	<u>2,819,763</u>	<u>328,913</u>	<u>305,804</u>	<u>-</u>
Support services:				
Student services	103,446	-	-	-
Instructional staff services	141,061	-	-	-
Administration services	486,895	-	-	-
Operation and maintenance of plant services	329,171	-	-	-
Transportation services	125,279	-	1,720	-
	<u>1,185,852</u>	<u>-</u>	<u>1,720</u>	<u>-</u>
Non-instructional programs	<u>14,329</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	96,259	-	660	-
Long-term debt interest	4,166	-	-	-
AEA flowthrough	138,798	-	138,798	-
Depreciation (unallocated)*	73,941	-	-	-
	<u>313,164</u>	<u>-</u>	<u>139,458</u>	<u>-</u>
Total governmental activities	<u>4,333,108</u>	<u>328,913</u>	<u>446,982</u>	<u>-</u>
Business type activities:				
Non-instructional programs:				
Food service operations	<u>165,468</u>	<u>88,552</u>	<u>73,120</u>	<u>-</u>
Total	<u>4,498,576</u>	<u>417,465</u>	<u>520,102</u>	<u>-</u>
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
<b>Change in net assets</b>				
Net assets beginning of year				
Net assets end of year				

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

## CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2005

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
(1,381,957)	-	(1,381,957)
(444,092)	-	(444,092)
(358,997)	-	(358,997)
<u>(2,185,046)</u>	<u>-</u>	<u>(2,185,046)</u>
(103,446)	-	(103,446)
(141,061)	-	(141,061)
(486,895)	-	(486,895)
(329,171)	-	(329,171)
(123,559)	-	(123,559)
<u>(1,184,132)</u>	<u>-</u>	<u>(1,184,132)</u>
(14,329)	-	(14,329)
(95,599)	-	(95,599)
(4,166)	-	(4,166)
-	-	-
(73,941)	-	(73,941)
<u>(173,706)</u>	<u>-</u>	<u>(173,706)</u>
(3,557,213)	-	(3,557,213)
-	(3,796)	(3,796)
<u>(3,557,213)</u>	<u>(3,796)</u>	<u>(3,561,009)</u>
1,554,417	-	1,554,417
63,948	-	63,948
367,053	-	367,053
1,335,579	-	1,335,579
15,869	74	15,943
(39,682)	-	(39,682)
<u>3,297,184</u>	<u>74</u>	<u>3,297,258</u>
(260,029)	(3,722)	(263,751)
988,892	(6,637)	982,255
<u>728,863</u>	<u>(10,359)</u>	<u>718,504</u>

## CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2005

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
<b>Assets</b>			
Cash and pooled investments:			
ISCAP	359,095	-	359,095
Other	70,311	124,555	194,866
Receivables:			
Property tax:			
Delinquent	23,946	714	24,660
Succeeding year	1,840,306	50,000	1,890,306
Accounts	-	260	260
Accrued interest - ISCAP	1,339	-	1,339
Interfund receivable/payable	72,405	36,286	108,691
Due from other governments	79,486	86,316	165,802
<b>Total assets</b>	<b><u>2,446,888</u></b>	<b><u>298,131</u></b>	<b><u>2,745,019</u></b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	49,555	15,692	65,247
Salaries and benefits payable	383,162	-	383,162
Interfund payable	38,328	52,405	90,733
ISCAP warrants payable	881,000	-	881,000
ISCAP accrued interest payable	7,755	-	7,755
ISCAP premium	6,230	-	6,230
Deferred revenue:			
Succeeding year property tax	1,840,306	50,000	1,890,306
Other	57,500	-	57,500
Total liabilities	<u>3,263,836</u>	<u>118,097</u>	<u>3,381,933</u>
Fund balances:			
Reserved for:			
Unreserved, reported in:			
General fund	(816,948)	-	(816,948)
Special Revenue funds	-	83,355	83,355
Capital Project funds	-	96,679	96,679
Total fund balances	<u>(816,948)</u>	<u>180,034</u>	<u>(636,914)</u>
<b>Total liabilities and fund balances</b>	<b><u>2,446,888</u></b>	<b><u>298,131</u></b>	<b><u>2,745,019</u></b>

## CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

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

June 30, 2005

	\$
<b>Total fund balances of governmental funds (Exhibit C)</b>	(636,914)
<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.	1,399,162
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	57,500
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	(273)
Long-term liabilities, including energy notes payable and early retirement benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(90,612)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>728,863</u></u>

## CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	1,573,273	412,066	1,985,339
Tuition	169,629	-	169,629
Other	43,678	131,475	175,153
State sources	1,627,967	32	1,627,999
Federal sources	154,562	-	154,562
Total revenues	<u>3,569,109</u>	<u>543,573</u>	<u>4,112,682</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	1,696,332	59,509	1,755,841
Special instruction	559,174	-	559,174
Other instruction	380,963	132,554	513,517
	<u>2,636,469</u>	<u>192,063</u>	<u>2,828,532</u>
Support services:			
Student services	99,203	4,243	103,446
Instructional staff services	138,982	2,079	141,061
Administration services	476,318	13,299	489,617
Operation and maintenance of plant services	319,133	2,827	321,960
Transportation services	145,105	1,471	146,576
	<u>1,178,741</u>	<u>23,919</u>	<u>1,202,660</u>
Non-instructional programs	<u>13,107</u>	<u>1,222</u>	<u>14,329</u>
Other expenditures:			
Facilities acquisition	-	401,264	401,264
Long-term debt:			
Principal	-	16,978	16,978
Interest and fiscal charges	-	4,247	4,247
AEA flowthrough	138,798	-	138,798
	<u>138,798</u>	<u>422,489</u>	<u>561,287</u>
Total expenditures	<u>3,967,115</u>	<u>639,693</u>	<u>4,606,808</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(398,006)</u>	<u>(96,120)</u>	<u>(494,126)</u>

## CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Other financing sources (uses):			
Compensation for loss of fixed assets	3,363	-	3,363
Operating transfers in	-	60,880	60,880
Operating transfers out	(21,225)	(39,655)	(60,880)
Total other financing sources (uses)	<u>(17,862)</u>	<u>21,225</u>	<u>3,363</u>
Net change in fund balances	(415,868)	(74,895)	(490,763)
Fund balances beginning of year	(323,404)	177,253	(146,151)
Prior period adjustment	<u>(77,676)</u>	<u>77,676</u>	<u>-</u>
Fund balances end of year	<u><u>(816,948)</u></u>	<u><u>180,034</u></u>	<u><u>(636,914)</u></u>

## CLAY CENTRAL/EVERLY 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, 2005

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		(490,763)
<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	423,918	
Loss on disposal of equipment	(43,045)	
Depreciation expense	<u>(189,503)</u>	191,370
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.		79
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		16,978
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.		81
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		<u>22,226</u>
<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>(260,029)</u></u>

## CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Funds

June 30, 2005

	Nonmajor School Nutrition
	<u>\$</u>
<b>Assets</b>	
Cash and cash equivalents	3,690
Accounts receivable	195
Interfund loan receivable	2,042
Inventories	7,523
Capital assets, net of accumulated depreciation	<u>7,333</u>
<b>Total assets</b>	<u>20,783</u>
<b>Liabilities</b>	
Interfund loan payable	20,000
Salaries and benefits payable	9,577
Deferred revenue	<u>1,565</u>
<b>Total liabilities</b>	<u>31,142</u>
<b>Net assets</b>	
Invested in capital assets, net of related debt	7,333
Unrestricted	<u>(17,692)</u>
<b>Total net assets</b>	<u><u>(10,359)</u></u>

## CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	Nonmajor School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>88,552</u>
Operating expenses:	
Non-instructional programs:	
Salaries	58,128
Benefits	15,652
Purchased services	1,805
Supplies	88,266
Depreciation	<u>1,617</u>
	<u>165,468</u>
Operating gain (loss)	<u>(76,916)</u>
Non-operating revenue:	
State sources	2,697
Federal sources	70,423
Interest income	74
Total non-operating revenue	<u>73,194</u>
Change in net assets	(3,722)
Net assets beginning of year	<u>(6,637)</u>
Net assets end of year	<u><u>(10,359)</u></u>

## CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2005

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	90,038
Cash payments to employees for services	(77,227)
Cash payments to suppliers for goods or services	(74,499)
Net cash used by operating activities	<u>(61,688)</u>
Cash flows from non-capital financing activities:	
Interfund loan	17,958
State grants received	2,697
Federal grants received	56,471
Net cash provided by non-capital financing activities	<u>77,126</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities:	
Interest on investments	<u>74</u>
Net increase (decrease) in cash and cash equivalents	15,512
Cash and cash equivalents at beginning of year	<u>(11,822)</u>
Cash and cash equivalents at end of year	<u><u>3,690</u></u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>	
Operating gain (loss)	(76,916)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	13,952
Depreciation	1,617
Decrease (increase) in inventories	1,981
Decrease (increase) in accounts receivable	1,149
(Decrease) increase in accounts payable	(361)
(Decrease) increase in salaries and benefits payable	(3,447)
(Decrease) increase in deferred revenue	337
Net cash used in operating activities	<u><u>(61,688)</u></u>

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

During the year ended June 30, 2005, the District received \$13,952 of federal commodities.

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Funds

June 30, 2005

	Private Purpose Trust Scholarship	Agency
	<u>\$</u>	<u>\$</u>
<b>Assets</b>		
Cash and pooled investments	10,301	2,994
<b>Liabilities</b>		
Other payables	<u>-</u>	<u>2,994</u>
<b>Net assets</b>		
Reserved for scholarships	<u><u>10,301</u></u>	<u><u>-</u></u>

## CLAY CENTRAL-EVERLY COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2005

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	12,486
Interest	<u>115</u>
Total additions	12,601
Deductions:	
Support services:	
Scholarships awarded	<u>2,300</u>
Change in net assets	10,301
Net assets beginning of year	<u>-</u>
Net assets end of year	<u><u>10,301</u></u>

# CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2005

### 1. Summary of Significant Accounting Policies

Clay Central/Everly 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 Royal and Everly, Iowa and the predominately agricultural territory in a portion of Clay, Dickinson and O'Brien 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, Clay Central/Everly 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 Clay Central/Everly 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, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

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

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

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

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

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations, and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

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

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

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

Property tax, intergovernmental revenues (shared revenues, grants, and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be

susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

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

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

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

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

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

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

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year

becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004, through June 30, 2005, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

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

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

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

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	500
Buildings	500
Improvements other than buildings	1,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	1,000

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	5-25 years
Furniture and equipment	3-15 years

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

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements 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, 2005, disbursements did not exceed the amounts budgeted, but the District did exceed its General Fund unspent authorized budget.

## 2. **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 40.

### 3. Interfund Receivables and Payables

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

Receivable Fund	Payable Fund	Amount
		\$
General Fund	Capital Projects Fund	52,405
General Fund	Nutrition Fund	20,000
Capital Projects Fund	General Fund	36,286
Nutrition Fund	General Fund	2,042

These interfund balances represent interfund loans which will be repaid during the next fiscal year.

### 4. Interfund Transfers

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

Transfer to	Transfer from	Amount
		\$
Debt Service Fund	General Fund	21,225
	Special Revenue	
Capital Projects Fund	Physical Plant and Equipment Levy	39,655

These transfers reflect debt service payments from the General Fund and reimbursements paid from one fund to the fund actually making the expenditure.

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

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2005, is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
			\$	\$	\$	\$
2004-05B	1/28/05	1/27/06	513	1,262	524,000	7,687
2005-06A	6/30/05	6/30/06	358,582	77	357,000	68
Total			359,095	1,339	881,000	7,755

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2005, is as follows:

Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
\$	\$	\$	\$
-	1,100,000	575,000	525,000

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

Series	Interest Rates on Warrants %	Interest Rates on Investments %
2004-05B	3.500	2.280
2005-06A	4.000	3.903

## 6. Capital Assets

Capital assets activity for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	9,589	-	-	9,589
Capital assets being depreciated:				
Buildings	2,526,239	276,984	-	2,803,223
Improvements other than buildings	312,440	28,021	-	340,461
Furniture and equipment	1,653,993	118,913	181,234	1,591,672
Total capital assets being deprec.	4,492,672	423,918	181,234	4,735,356
Less accumulated depreciation for:				
Buildings	1,682,440	64,019	-	1,746,459
Improvements other than buildings	288,020	9,922	-	297,942
Furniture and equipment	1,324,009	115,562	138,189	1,301,382
Total accumulated depreciation	3,294,469	189,503	138,189	3,345,783
Total capital assets being depreciated, net	1,198,203	234,415	43,045	1,389,573
Governmental activities capital assets, net	1,207,792	234,415	43,045	1,399,162

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Business type activities:</b>				
Furniture and equipment	34,994	-	-	34,994
Less accumulated depreciation	<u>26,044</u>	<u>1,617</u>	<u>-</u>	<u>27,661</u>
Business type activities capital assets, net	<u>8,950</u>	<u>(1,617)</u>	<u>-</u>	<u>7,333</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	58,794
Support Services:	
Administration services	19,504
Operation and maintenance of plant services	7,211
Transportation	<u>30,053</u>
	115,562
Unallocated depreciation	<u>73,941</u>
Total depreciation expense – governmental activities	<u>189,503</u>
Business type activities:	
Food services	<u>1,617</u>

## 7. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2005, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Energy loan notes	73,867	-	16,978	56,889	17,981
Early retirement	<u>55,949</u>	<u>-</u>	<u>22,226</u>	<u>33,723</u>	<u>18,086</u>
Total	<u>129,816</u>	<u>-</u>	<u>39,204</u>	<u>90,612</u>	<u>36,067</u>

### Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed fifteen years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives are based on salary in effect in year of application.

### Energy Loan Notes

The District has issued Energy Management Improvement Capital Loan Notes in the aggregate amount of \$180,000 to be used to pay a portion of the costs to implement the energy conservation and energy management measures program. The note is due on June 1, 2008, with interest at 5.75% due annually each June 1st. The maturities are as follows:

Year Ended June 30,	Principal	Interest	Total
	\$	\$	\$
2006	17,981	3,271	21,252
2007	19,042	2,237	21,279
2008	19,866	1,142	21,008
	<u>56,889</u>	<u>6,650</u>	<u>63,539</u>

## 8. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$129,330, \$129,544, and \$128,003 respectively, equal to the required contributions for each year.

## 9. Risk Management

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

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members continuing membership in the Association had their deficit recovery assessment included in their annual premium for the 2004-2005 and 2005-2006 plan years. The deficit recovery is equal to 2% of the annual premium. The total amount of the deficit recoveries of current members is estimated to be \$2.2 million. The District's share of this assessment was \$19,992, of which \$9,996 was paid with the 2004-2005 premiums and \$9,996 is a liability as of June 30, 2005 and will be paid with the 2005-2006 premiums. Since the program is now fully insured, there will be no additional assessments due to claims exceeding premiums charged to members.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2005 were \$355,650.

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.

The 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 \$138,798 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

#### **11. Financial Condition**

The General Fund has a deficit unreserved fund balance of \$ 816,948 and the School Nutrition Fund has negative net assets of \$10,359 at June 30, 2005.

#### **12. Prior Period Adjustment**

The beginning balances of the General Fund and the Special Revenue, Physical Plant and Equipment Levy Fund were adjusted by \$77,676 to correct for funds deposited in the wrong fund in the prior year.

REQUIRED SUPPLEMENTARY INFORMATION

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
<b>Receipts:</b>						
Local sources	2,347,949	90,112	2,438,061	2,261,942	2,261,942	176,119
State sources	1,639,935	2,697	1,642,632	1,817,246	1,817,246	(174,614)
Federal sources	153,021	70,423	223,444	326,000	326,000	(102,556)
Total receipts	<u>4,140,905</u>	<u>163,232</u>	<u>4,304,137</u>	<u>4,405,188</u>	<u>4,405,188</u>	<u>(101,051)</u>
<b>Disbursements:</b>						
Instruction	2,788,021	-	2,788,021	2,905,000	2,905,000	116,979
Support services	1,249,789	-	1,249,789	1,107,000	1,800,000	550,211
Non-instructional programs	14,329	165,678	180,007	345,000	345,000	164,993
Other expenditures	577,894	-	577,894	520,733	700,000	122,106
Total disbursements	<u>4,630,033</u>	<u>165,678</u>	<u>4,795,711</u>	<u>4,877,733</u>	<u>5,750,000</u>	<u>954,289</u>
Excess (deficiency) of receipts over (under) disbursements	(489,128)	(2,446)	(491,574)	(472,545)	(1,344,812)	853,238
Other financing sources (uses) net	<u>510,397</u>	<u>17,958</u>	<u>528,355</u>	<u>206,000</u>	<u>206,000</u>	<u>322,355</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements	21,269	15,512	36,781	(266,545)	(1,138,812)	1,175,593
Balance beginning of year	<u>173,597</u>	<u>(11,822)</u>	<u>161,775</u>	<u>323,469</u>	<u>323,469</u>	<u>(161,694)</u>
Balance end of year	<u><u>194,866</u></u>	<u><u>3,690</u></u>	<u><u>198,556</u></u>	<u><u>56,924</u></u>	<u><u>(815,343)</u></u>	<u><u>1,013,899</u></u>

See accompanying independent auditor's report.

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
	\$	\$	\$
Revenues	4,140,905	(28,223)	4,112,682
Expenditures	4,630,033	(23,225)	4,606,808
Net	(489,128)	(4,998)	(494,126)
Other financing sources (uses) net	510,397	(507,034)	3,363
Beginning fund balances	173,597	(319,748)	(146,151)
Ending fund balances	194,866	(831,780)	(636,914)

	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
\$	\$	\$	
Revenues	163,232	(1,486)	161,746
Expenditures	165,678	(210)	165,468
Net	(2,446)	(1,276)	(3,722)
Other financing sources (uses) net	17,958	(17,958)	-
Beginning fund balances	(11,822)	5,185	(6,637)
Ending fund balances	3,690	(14,049)	(10,359)

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2005

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

In accordance with the Code of Iowa, 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 the 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, the District adopted one budget amendment increasing budgeted disbursements by \$872,267.

During the year ended June 30, 2005, the District exceeded its General Fund unspent authorized budget.

OTHER SUPPLEMENTARY INFORMATION

## CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2005

Assets	Special Revenue Funds			Total
	Management Levy	Student Activity Fund	Capital Projects	
	\$	\$	\$	\$
Cash and pooled investments	43,526	41,423	39,606	124,555
Receivables:				
Property tax:				
Delinquent	714	-	-	714
Succeeding year	50,000	-	-	50,000
Accounts	-	260	-	260
Interfund receivable	-	-	36,286	36,286
Due from other governments	-	-	86,316	86,316
<b>Total assets</b>	<b>94,240</b>	<b>41,683</b>	<b>162,208</b>	<b>298,131</b>
<b>Liabilities &amp; Fund Balances</b>				
Liabilities:				
Accounts payable	-	2,568	13,124	15,692
Interfund payables	-	-	52,405	52,405
Deferred revenue:				
Succeeding year property tax	50,000	-	-	50,000
Total liabilities	50,000	2,568	65,529	118,097
Fund balances:				
Unreserved fund balance:				
Special revenue funds	44,240	39,115	-	83,355
Capital project funds	-	-	96,679	96,679
Total fund balances	44,240	39,115	96,679	180,034
<b>Total liabilities and fund balances</b>	<b>94,240</b>	<b>41,683</b>	<b>162,208</b>	<b>298,131</b>

## CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	Special Revenue Funds					Total
	Management	Student	Physical	Capital	Debt	
	Levy	Activity	Plant and	Projects	Service	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	45,013	-	-	367,053	-	412,066
Other	1,395	129,839	-	241	-	131,475
State sources	32	-	-	-	-	32
Total revenues	<u>46,440</u>	<u>129,839</u>	<u>-</u>	<u>367,294</u>	<u>-</u>	<u>543,573</u>
Expenditures:						
Current:						
Instruction:						
Regular instruction	59,509	-	-	-	-	59,509
Other instruction	-	132,554	-	-	-	132,554
Support services:						
Student services	1,586	-	2,657	-	-	4,243
Instructional staff services	2,079	-	-	-	-	2,079
Administration services	6,757	-	6,542	-	-	13,299
Operation and maintenance of plant services	2,827	-	-	-	-	2,827
Transportation services	1,471	-	-	-	-	1,471
Non-instructional programs	1,222	-	-	-	-	1,222
Other expenditures:						
Facilities acquisition	-	-	45,541	355,723	-	401,264
Long-term debt:						
Principal	-	-	-	-	16,978	16,978
Interest and fiscal charges	-	-	-	-	4,247	4,247
Total expenditures	<u>75,451</u>	<u>132,554</u>	<u>54,740</u>	<u>355,723</u>	<u>21,225</u>	<u>639,693</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(29,011)</u>	<u>(2,715)</u>	<u>(54,740)</u>	<u>11,571</u>	<u>(21,225)</u>	<u>(96,120)</u>
Other financing sources (uses):						
Operating transfers in	-	-	-	39,655	21,225	60,880
Operating transfers out	-	-	(39,655)	-	-	(39,655)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(39,655)</u>	<u>39,655</u>	<u>21,225</u>	<u>21,225</u>
Net change in fund balances	(29,011)	(2,715)	(94,395)	51,226	-	(74,895)
Fund balances beginning of year	73,251	41,830	16,719	45,453	-	177,253
Prior year adjustment	-	-	77,676	-	-	77,676
Fund balances end of year	<u>44,240</u>	<u>39,115</u>	<u>-</u>	<u>96,679</u>	<u>-</u>	<u>180,034</u>

## CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
RIF	877	1,005	672	1,210
Science fair	1,135	514	896	753
Musical/play	3,574	3,253	3,107	3,720
Foreign student club	754	-	-	754
Athletics	1,398	36,850	37,936	312
Fish fry-fund raiser	7,396	10,061	14,134	3,323
FFA	3,091	20,618	15,009	8,700
Class of 2003	-	(6)	(6)	-
Class of 2004	466	(289)	177	-
Class of 2005	974	382	1,162	194
Class of 2006	2,834	3,555	4,526	1,863
Class of 2007	2,278	1,029	-	3,307
Class of 2008	2,510	-	25	2,485
Class of 2009	1,941	-	-	1,941
Class of 2010	1,439	-	-	1,439
Class of 2011	-	4,419	2,641	1,778
HS student council	6	467	345	128
MS student council	318	85	179	224
Dance team	442	1,456	231	1,667
Interest	932	30,126	30,000	1,058
MS pop machine	321	(37)	284	-
HS student pop	1,436	1,969	2,025	1,380
Concessions	1,112	4,379	4,954	537
Cheerleaders/drill team	222	897	226	893
Yearbook	185	7,807	5,432	2,560
MS yearbook	795	915	1,055	655
Everly elem. pop	251	106	221	136
Royal elem. pop	321	95	10	406
Edith Sackett scholarship	2,330	-	2,330	-
Vestergaard scholarship	1,250	-	1,250	-
H.C. Blair scholarship	3,417	-	3,417	-
Al Larsen scholarship	250	-	250	-
Albert Larsen memorial scholarship	500	-	500	-
Beginning accruals	(2,925)	(77)	(3,002)	-
Ending accruals	-	260	2,568	(2,308)
<b>Total</b>	<b>41,830</b>	<b>129,839</b>	<b>132,554</b>	<b>39,115</b>

## CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Fund

Year ended June 30, 2005

	<u>Wellness</u>	<u>Staff</u> <u>Collections</u>	<u>MS</u> <u>Resale</u>	<u>Total</u>
	\$	\$	\$	\$
Balance beginning of year	2,919	234	247	3,400
Additions:				
Collections	100	711	-	811
Deductions:				
Miscellaneous	<u>672</u>	<u>298</u>	<u>247</u>	<u>1,217</u>
Balance end of year	<u><u>2,347</u></u>	<u><u>647</u></u>	<u><u>-</u></u>	<u><u>2,994</u></u>

## CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2005	2004	2003	2002
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,985,339	2,294,713	2,114,667	1,740,546
Tuition	169,629	104,886	101,317	92,934
Other	175,153	168,973	141,161	195,973
State sources	1,627,999	1,495,353	1,520,066	1,714,754
Federal sources	154,562	159,525	222,017	214,970
Total revenues	<u>4,112,682</u>	<u>4,223,450</u>	<u>4,099,228</u>	<u>3,959,177</u>
Expenditures:				
Instruction:				
Regular instruction	1,755,841	1,813,721	1,753,511	1,945,961
Special instruction	559,174	451,164	420,423	310,806
Other instruction	513,517	349,733	343,268	337,511
Support services:				
Student services	103,446	182,842	93,739	91,688
Instructional staff services	141,061	160,140	155,959	133,378
Administration services	489,617	533,061	408,504	404,648
Operation and maintenance of plant services	321,960	280,957	285,313	271,028
Transportation services	146,576	179,973	125,737	159,510
Non-instructional programs	14,329	-	1,747	4,609
Other expenditures:				
Facilities acquisition	401,264	195,588	289,112	245,044
Long-term debt:				
Principal	16,978	16,032	15,138	14,294
Interest and other charges	4,247	5,169	6,040	6,862
AEA flowthrough	138,798	141,419	150,436	152,467
Total expenditures	<u>4,606,808</u>	<u>4,309,799</u>	<u>4,048,927</u>	<u>4,077,806</u>

Gary E. Horton CPA

PO Box 384  
Clarion, IA 50525-0384  
(515)532-6681 Phone  
(515) 532-2405 Fax

[BETCO@mchsi.com](mailto:BETCO@mchsi.com) E-mail

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  
Clay Central/Every 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 Clay Central/Every Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated November 10, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 05-I-A is a material weakness.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clay Central/Everyly 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. We noted certain immaterial instances of non-compliance or other matters 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, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Clay Central/Everyly Community School District and other parties to whom Clay Central/Everyly Community School 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 Clay Central/Everyly 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

November 10, 2005

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

05-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.

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting:

05-II-A Official Depositories: Official depositories have been approved by the District. The maximum deposit amounts approved were not recorded in the minutes during the year ended June 30, 2005.

Recommendation: The District should record the official depository amounts in minutes each year.

District Response: We will record the amount of our depository resolutions in the minutes in the future.

Conclusion: Response accepted.

05-II-B Certified Budget: Disbursements for the year ended June 30, 2005 did not exceed the certified amounts. However, General Fund spending exceeded the authorized budget for the year ended June 30, 2005 by approximately \$311,000.

Recommendation: The District should contact the Iowa Department of Education and the School Budget Review committee to resolve the unspent authorized budget issue.

District Response: We will contact the Iowa Department of Education and the School Budget Review Committee to resolve the issue regarding the unspent authorized budget.

Conclusion: Response accepted.

05-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.

05-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.

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

05-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.

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

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

05-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.

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting (continued):

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

05-II-K Financial Condition: The District has an unreserved deficit fund balance in the General Fund of \$816,948 and the School Nutrition Fund has a deficit of \$10,359 at June 30, 2005.

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

District Response: We are working on ways to eliminate the deficits.

Conclusion: Response accepted.

05-II-L Physical Plant and Equipment Levy Fund: We noted that expenditures from this fund included some purchases for individual items of equipment with a cost of less than \$500.

Recommendation: The District should be aware of the limitation on types of expenditures allowed from this fund.

District Response: We will monitor receipts and expenditures from this fund.

Conclusion: Response accepted.

05-II-M Old Outstanding Checks: We noted that the District's bank reconciliations included a few old outstanding checks. Iowa Code Section 566 specifies that holders unclaimed property, which includes outstanding checks, must file a report with and send the unclaimed property to the Treasurer of Iowa.

Recommendation: The District should investigate the status of all old outstanding checks. Checks that were issued in error or in duplicate should be voided and removed from the list of outstanding checks. The District should search for the owners of all other outstanding checks, then reissue new checks if the owners are found. If the owners can not be found, the District must file an unclaimed property report with and send the money to the Treasurer State of Iowa.

Response: We will begin investigating the status of old outstanding checks and we will file an unclaimed property report with the Treasurer of Iowa if necessary.

Conclusion: Response accepted.