

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

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

June 30, 2005

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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, 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 South Clay 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 August 26, 2005, 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, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 33 through 35 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, 2004, (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 26, 2005

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

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$1,512,169 in fiscal 2004 to \$1,518,990 in fiscal 2005, while General Fund expenditures increased from \$1,466,310 in fiscal 2004 to \$1,498,218 in fiscal 2005. The District's General Fund balance increased from \$171,517 in fiscal 2004 to \$192,289 in fiscal 2005, a 12% increase.
- The increase in General Fund revenues was attributable to an increase in state revenue in fiscal 2005. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures.

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 South Clay 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 South Clay 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 South Clay Community School District acts solely as an agent or custodian for the benefit of those outside of County 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. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

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

Figure A-1
South Clay Community School District Annual Financial Report

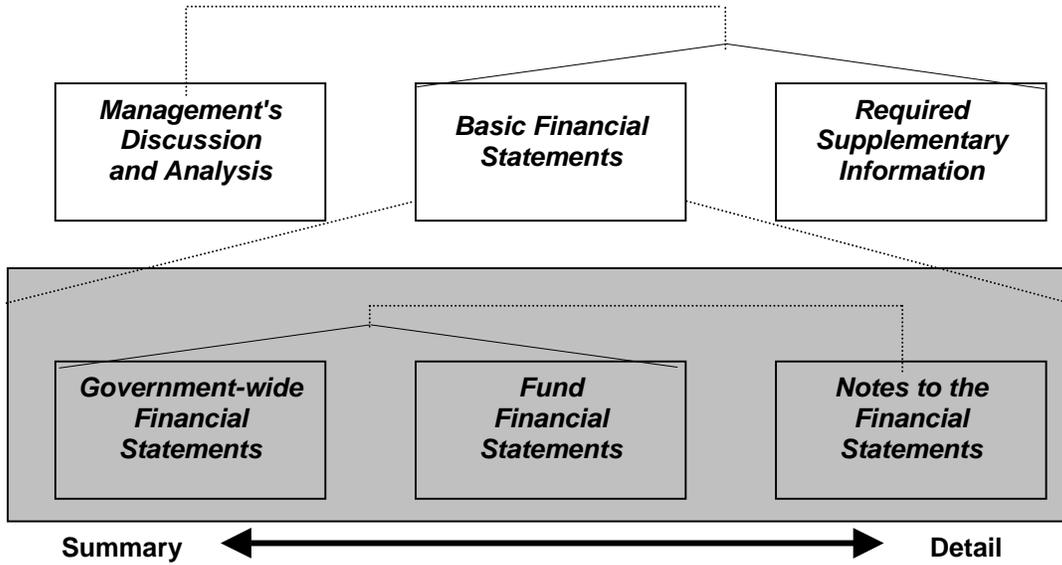


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	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"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<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 resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

The District's governmental funds include the General Fund, 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 District uses *internal service funds*, the other kind of proprietary fund, to report activities that provide supplies and services for its other programs and activities. The District current has one internal service fund used to account for the District's employee cafeteria/flexible benefit plan.

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.

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	1,544,132	1,448,063	(2,482)	2,710	1,541,650	1,450,773	6%
Capital assets	132,401	163,682	-	-	132,401	163,682	-19%
Total assets	1,676,533	1,611,745	(2,482)	2,710	1,674,051	1,614,455	4%
Long-term liabilities	2,544	7,544	-	-	2,544	7,544	-66%
Other liabilities	916,900	927,279	147	381	917,047	927,660	-1%
Total liabilities	919,444	934,823	147	381	919,591	935,204	-2%
Net Assets:							
Invested in capital assets, net of related debt	132,401	163,682	-	-	132,401	163,682	-19%
Restricted	387,935	305,744	-	-	387,935	305,744	27%
Unrestricted	236,753	207,496	(2,629)	2,329	234,124	209,825	12%
TOTAL NET ASSETS	757,089	676,922	(2,629)	2,329	754,460	679,251	11%

The District's combined net assets increased by nearly 11%, or approximately \$75,000, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources 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 \$82,000 or 27% over the prior year. The increase was primarily a result of decreased expenditures in the Physical Plant and Equipment Levy Fund. And increased revenues in the Capital Projects Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$24,000, or 12%.

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	41,554	81,557	16,748	17,001	58,302	98,558	-41%
Operating grants & contributions	165,995	172,542	15,400	15,365	181,395	187,907	-3%
Capital grants & contributions	-	5,473	-	-	-	5,473	-100%
General Revenues:							
Property taxes	746,210	848,447	-	-	746,210	848,447	-12%
Income Surtax	34,706	34,572	-	-	34,706	34,572	0%
Local option sales tax	148,421	67,405	-	-	148,421	67,405	120%
Unrestricted state grants	524,106	448,211	-	-	524,106	448,211	17%
Unrestricted investment earnings	8,837	5,124	5	5	8,842	5,129	72%
Other revenue	-	502	-	-	-	502	-100%
Total Revenues	1,669,829	1,663,833	32,153	32,371	1,701,982	1,696,204	0%
Expenses:							
Instruction	1,131,516	1,023,985	-	-	1,131,516	1,023,985	11%
Support services	370,601	408,295	-	-	370,601	408,295	-9%
Non-instructional programs	5,203	3,964	37,111	35,654	42,314	39,618	7%
Other expenditures	82,342	76,775	-	-	82,342	76,775	7%
Total expenses	1,589,662	1,513,019	37,111	35,654	1,626,773	1,548,673	5%
Change in net assets before transfers	80,167	150,814	(4,958)	(3,283)	75,209	147,531	-49%
Transfers	-	-	-	-	-	-	0%
CHANGE IN NET ASSETS	80,167	150,814	(4,958)	(3,283)	75,209	147,531	-49%
Net assets beginning of year	676,922	526,108	2,329	5,612	679,251	531,720	28%
Net assets end of year	757,089	676,922	(2,629)	2,329	754,460	679,251	11%

Property tax and unrestricted state grants account for 87% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 92% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$1,669,829 and expenses were \$1,589,662. The District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5

Total and Net Cost of Governmental Activities

	Total Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2005	Net Cost of Services 2004
	\$	\$	\$	\$
Instruction	1,131,516	1,023,985	998,481	862,660
Support Services	370,601	408,295	353,426	373,673
Non-instructional Programs	5,203	3,964	5,203	3,964
Other Expenses	82,342	76,775	25,003	13,150
TOTAL	1,589,662	1,513,019	1,382,113	1,253,447

- The cost financed by users of the District’s programs was \$41,554.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$165,995.
- The net cost of governmental activities was financed with \$929,337 in property and other taxes and \$524,106 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$32,148 and expenses were \$37,111. 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, 2004, the District increased meal prices for the first time in three years. This increase resulted in increased revenue to the School Nutrition Fund that the District has obligated for replacement of obsolete kitchen equipment at two elementary buildings in the next fiscal year.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$582,768, well above last year’s ending fund balances of \$477,261.

Governmental Fund Highlights

- The District's General Fund financial position is the result of many factors. Growth during the year in tax and grants resulted in an increase in revenues.
- The General Fund balance increased from \$171,517 to \$192,289, due to maintaining expenditures below revenues.

- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$70,763 in fiscal 2004 to \$38,349 in fiscal 2005. The school board of directors voted not to levy for the fiscal 05 year.
- The Capital Projects Fund balance increased \$149,807. Fiscal 2005 ended with a balance of \$217,212, consisting primarily of unexpended revenues which will be expended in the future.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$2,329 at June 30, 2004 to a \$(2,629) deficit at June 30. For fiscal 2005, the District increased meal prices, resulting in the increase in net assets. The District also added to its school lunch program to provide students with the option of fresh vegetables at lunch with little additional cost to the program. This change resulted in an increase in meals served and a related increase in revenue and net assets.

BUDGETARY HIGHLIGHTS

Over the course of the year, South Clay 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 \$41,648 less than budgeted receipts. The most significant variance resulted from the District receiving less in local and federal funds 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.

In spite of the District’s budgetary practice, the certified budget was exceeded in the instruction, non-instructional and other expenses functional areas due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$132,401, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease from last year. More detailed information about the District’s capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$31,281.

The original cost of the District’s capital assets was \$679,183. Governmental funds account for \$652,230, with the remainder of \$26,953 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred due to depreciation expense of 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	650	650	-	-	650	650	0%
Construction in progress	-	-	-	-	-	-	0%
Buildings	70,608	73,130	-	-	70,608	73,130	-3%

Improvements	-	-	-	-	0%
Equipment & Furniture	61,143	89,902	-	61,143	-32%
TOTAL	132,401	163,682	-	132,401	-19%

Long-Term Debt

At June 30, 2005, the District had \$2,544 Capital Loan Notes.

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

	Total School District		Percentage
	2005	2004	2004-2005
	\$	\$	
Capital Loan Notes	2,544	7,544	-66%
	<u>2,544</u>	<u>7,544</u>	<u>-66%</u>

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:

- Clay County has advised the District that, due to the addition of two new industrial sites and the recent completion of property revaluation assessments, the District’s total taxable valuation will increase 5 percent for property tax collected in fiscal 2006.
- School financing is highly dependent upon student enrollment. The District’s September 2005 enrollment decreased by six students. This drop in enrollment will decrease the District’s funding for fiscal year 2007.
- Although the District has experienced declining enrollment for the past three years, the District has a potential to increase in general funds due to the decreasing amount of open enroll students within the District.
- The District has evaluated the condition of its transportation vehicles and determined, due to safety precautions, one buses must be replaced during fiscal 2006 at a cost of \$61,780. To pay for the bus, the District will use resources from the Capitols Investments fund.
- The District will negotiate a new agreement during fiscal 2005. Settlements in excess of “new money” or allowable growth in state funding will have an adverse effect on the District’s General Fund budget and related fund balance.

CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, 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 Heather Warren, Board Secretary/Treasurer and 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, 2005

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	694,830	572	695,402
Receivables:			
Property tax:			
Delinquent	13,361	-	13,361
Succeeding year	746,694	-	746,694
Accounts	-	154	154
Accrued interest:			
Other	536	-	536
Due from other governments	80,319	-	80,319
Interfund receivable (payable)	5,231	(5,231)	-
Prepaid expenses	3,161	-	3,161
Inventories	-	2,023	2,023
Capital assets, net of accumulated depreciation	132,401	-	132,401
	<u>1,676,533</u>	<u>(2,482)</u>	<u>1,674,051</u>
Liabilities			
Warrants issued in excess of bank balance	146,167	-	146,167
Accounts payable	24,039	-	24,039
Deferred revenue:			
Succeeding year property tax	746,694	-	746,694
Other	-	147	147
Long-term liabilities:			
Portion due within one year:			
Notes payable	2,544	-	2,544
	<u>919,444</u>	<u>147</u>	<u>919,591</u>
Net assets			
Invested in capital assets, net of related debt	132,401	-	132,401
Restricted for:			
Management levy	133,017	-	133,017
Physical plant and equipment levy	38,349	-	38,349
Other special revenue purposes	1,901	-	1,901
Capital projects local option sales tax	217,212	-	217,212
Unrestricted	234,209	(2,629)	231,580
	<u>757,089</u>	<u>(2,629)</u>	<u>754,460</u>

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

Functions/Programs	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues</u>	
			<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
Governmental activities:				
Instruction:				
Regular instruction	856,855	17,246	75,081	-
Special instruction	205,789	-	32,502	-
Other instruction	68,872	8,206	-	-
	<u>1,131,516</u>	<u>25,452</u>	<u>107,583</u>	<u>-</u>
Support services:				
Student services	7,910	-	-	-
Instructional staff services	16,027	-	-	-
Administration services	144,474	-	-	-
Operation and maintenance of plant services	104,601	140	-	-
Transportation services	97,589	15,962	1,073	-
	<u>370,601</u>	<u>16,102</u>	<u>1,073</u>	<u>-</u>
Non-instructional programs	<u>5,203</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	22,481	-	-	-
AEA flowthrough	57,339	-	57,339	-
Depreciation (unallocated)*	2,522	-	-	-
	<u>82,342</u>	<u>-</u>	<u>57,339</u>	<u>-</u>
Total governmental activities	<u>1,589,662</u>	<u>41,554</u>	<u>165,995</u>	<u>-</u>
Business type activities:				
Non-instructional programs:				
Food service operations	<u>37,111</u>	<u>16,748</u>	<u>15,400</u>	<u>-</u>
Total	<u>1,626,773</u>	<u>58,302</u>	<u>181,395</u>	<u>-</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Total general revenues				

Change in net assets

Net assets beginning of year

Net assets end of year

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

SOUTH CLAY 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>
(764,528)	-	(764,528)
(173,287)	-	(173,287)
(60,666)	-	(60,666)
<u>(998,481)</u>	<u>-</u>	<u>(998,481)</u>
(7,910)	-	(7,910)
(16,027)	-	(16,027)
(144,474)	-	(144,474)
(104,461)	-	(104,461)
(80,554)	-	(80,554)
<u>(353,426)</u>	<u>-</u>	<u>(353,426)</u>
(5,203)	-	(5,203)
(22,481)	-	(22,481)
-	-	-
(2,522)	-	(2,522)
<u>(25,003)</u>	<u>-</u>	<u>(25,003)</u>
(1,382,113)	-	(1,382,113)
-	(4,963)	(4,963)
<u>(1,382,113)</u>	<u>(4,963)</u>	<u>(1,387,076)</u>
746,210	-	746,210
34,706	-	34,706
148,421	-	148,421
524,106	-	524,106
8,837	5	8,842
<u>1,462,280</u>	<u>5</u>	<u>1,462,285</u>
80,167	(4,958)	75,209
<u>676,922</u>	<u>2,329</u>	<u>679,251</u>
<u>757,089</u>	<u>(2,629)</u>	<u>754,460</u>

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2005

	General Fund	Local Option Sales Tax	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	327,026	181,964	176,725	685,715
Receivables:				
Property tax:				
Delinquent	13,361	-	-	13,361
Succeeding year	746,694	-	-	746,694
Accrued interest - other	536	-	-	536
Prepaid expenses	3,161	-	-	3,161
Interfund receivable	5,231	-	-	5,231
Due from other governments	45,071	35,248	-	80,319
Total assets	<u>1,141,080</u>	<u>217,212</u>	<u>176,725</u>	<u>1,535,017</u>
Liabilities and Fund Balances				
Liabilities:				
Warrants issued in excess of bank balance	146,167	-	-	146,167
Accounts payable	16,675	-	3,458	20,133
Deferred revenue:				
Succeeding year property tax	746,694	-	-	746,694
Other	39,255	-	-	39,255
Total liabilities	<u>948,791</u>	<u>-</u>	<u>3,458</u>	<u>952,249</u>
Fund balances:				
Unreserved reported in:				
General Fund	192,289	-	-	192,289
Special Revenue Funds	-	-	173,267	173,267
Capital Projects Fund	-	217,212	-	217,212
Total fund balances	<u>192,289</u>	<u>217,212</u>	<u>173,267</u>	<u>582,768</u>
Total liabilities and fund balances	<u>1,141,080</u>	<u>217,212</u>	<u>176,725</u>	<u>1,535,017</u>

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

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

June 30, 2005

	\$
Total fund balances of governmental funds (Exhibit C)	582,768
<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.	132,401
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	39,255
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	5,209
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	<u>(2,544)</u>
Net assets of governmental activities (Exhibit A)	<u><u>757,089</u></u>

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	General Fund	Local Option Sales Tax	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	784,221	148,421	-	932,642
Tuition	10,496	-	-	10,496
Other	34,172	1,386	4,337	39,895
State sources	632,473	-	-	632,473
Federal sources	57,628	-	-	57,628
Total revenues	<u>1,518,990</u>	<u>149,807</u>	<u>4,337</u>	<u>1,673,134</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	844,002	-	-	844,002
Special instruction	205,789	-	-	205,789
Other instruction	66,542	-	2,330	68,872
	<u>1,116,333</u>	<u>-</u>	<u>2,330</u>	<u>1,118,663</u>
Support services:				
Student services	7,910	-	-	7,910
Instructional staff services	20,273	-	-	20,273
Administration services	138,864	-	5,610	144,474
Operation and maintenance of plant services	80,185	-	24,416	104,601
Transportation services	72,111	-	9,572	81,683
	<u>319,343</u>	<u>-</u>	<u>39,598</u>	<u>358,941</u>
Non-instructional programs	<u>5,203</u>	<u>-</u>	<u>-</u>	<u>5,203</u>
Other expenditures:				
Facilities acquisition	-	-	22,481	22,481
Long-term debt:				
Principal	-	-	5,000	5,000
AEA flowthrough	57,339	-	-	57,339
	<u>57,339</u>	<u>-</u>	<u>27,481</u>	<u>84,820</u>
Total expenditures	<u>1,498,218</u>	<u>-</u>	<u>69,409</u>	<u>1,567,627</u>
Excess (deficiency) of revenues over (under) expenditures	<u>20,772</u>	<u>149,807</u>	<u>(65,072)</u>	<u>105,507</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>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>20,772</u>	<u>149,807</u>	<u>(65,072)</u>	<u>105,507</u>
Fund balances beginning of year	<u>171,517</u>	<u>67,405</u>	<u>238,339</u>	<u>477,261</u>
Fund balances end of year	<u><u>192,289</u></u>	<u><u>217,212</u></u>	<u><u>173,267</u></u>	<u><u>582,768</u></u>

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, 2005

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		105,507
<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. Depreciation expense exceeded capital outlay expenditures in the year as follows:		
Expenditures for capital assets	-	
Depreciation expense	<u>(31,281)</u>	(31,281)
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.		
		(3,305)
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>4,246</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>80,167</u></u>

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2005

	Enterprise Fund Nonmajor School Nutrition \$	Governmental Activities - Internal Service Fund \$
Assets		
Cash and cash equivalents	572	9,115
Accounts receivable	154	-
Inventories	2,023	-
Total assets	<u>2,749</u>	<u>9,115</u>
Liabilities		
Accounts payable	-	3,906
Interfund payable	5,231	-
Deferred revenue	147	-
Total liabilities	<u>5,378</u>	<u>3,906</u>
Net assets		
Unrestricted	<u>(2,629)</u>	<u>5,209</u>

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	Enterprise Fund <u>Nonmajor School Nutrition</u> \$	Governmental Activities - Internal Service Fund <u> </u> \$
Operating revenue:		
Local sources:		
Charges for service	16,748	64,955
Operating expenses:		
Non-instructional programs:		
Salaries	18,695	-
Benefits	-	60,684
Supplies	18,416	34
	<u>37,111</u>	<u>60,718</u>
Operating gain (loss)	<u>(20,363)</u>	<u>4,237</u>
Non-operating revenue:		
State sources	525	-
Federal sources	14,875	-
Interest income	5	9
Total non-operating revenue	<u>15,405</u>	<u>9</u>
Change in net assets	(4,958)	4,246
Net assets beginning of year	<u>2,329</u>	<u>963</u>
Net assets end of year	<u><u>(2,629)</u></u>	<u><u>5,209</u></u>

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2005

	Enterprise Fund Nonmajor School Nutrition Nutrition \$	Governmental Activities - Internal Service Fund Service Fund \$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	16,360	-
Cash received from other services	-	64,955
Cash payments to employees for services	(19,407)	(56,812)
Cash payments to suppliers for goods or services	(13,185)	-
Net cash (used by) provided by operating activities	<u>(16,232)</u>	<u>8,143</u>
Cash flows from non-capital financing activities:		
State grants received	525	-
Federal grants received	10,570	-
Net cash provided by non-capital financing activities	<u>11,095</u>	<u>-</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>5</u>	<u>9</u>
Net increase (decrease) in cash and cash equivalents	(5,132)	8,152
Cash and cash equivalents at beginning of year	<u>5,704</u>	<u>963</u>
Cash and cash equivalents at end of year	<u>572</u>	<u>9,115</u>
Reconciliation of operating gain (loss) to net cash used by operating activities:		
Operating gain (loss)	(20,363)	4,237
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	4,305	-
Decrease (increase) in inventories	926	-
Decrease (increase) in accounts receivable	(154)	-
(Decrease) increase in accounts payable	-	3,906
(Decrease) increase in salaries and benefits payable	(712)	-
(Decrease) increase in deferred revenue	(234)	-
Net cash used in operating activities	<u>(16,232)</u>	<u>8,143</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received \$4,305 of federal commodities.

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2005

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 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 Local Option Sales Tax Fund is used to account for all resources used in the acquisition and construction of capital facilities.

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

The District'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, 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	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

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

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 in the instruction, non-instructional programs, and other expenditures functions exceeded the amounts budgeted.

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:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	School Nutrition Fund	5,231

During the year School Nutrition Fund salaries are paid by the General Fund, then reimbursed by the School Nutrition Fund. At June 30, 2005 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, 2005 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, 2005 is as follows:

	Balance Beginning of Year	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
Furniture and equipment	361,281	-	-	361,281
Total capital assets being deprec.	651,580	-	-	651,580
Less accumulated depreciation for:				
Buildings	217,169	2,522	-	219,691
Furniture and equipment	271,379	28,759	-	300,138
Total accumulated depreciation	488,548	31,281	-	519,829
Total capital assets being Depreciated, net	163,032	(31,281)	-	131,751
Governmental activities capital assets, net	163,682	(31,281)	-	132,401
	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	12,853
Support Services:	
Transportation	15,906
	28,759
Unallocated depreciation	2,522
	31,281
Business type activities:	
Food services	-
	-

6. 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
	\$	\$	\$	\$	\$
EPA loan	7,544	-	5,000	2,544	2,544
Total	7,544	-	5,000	2,544	2,544

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, 2005 the District made principal payments totaling \$5,000 under the note agreement. Principal payments are due as follows:

Year Ended June 30,	Principal
	\$
2006	2,544

Bonds Payable

The District had no bonded indebtedness at June 30, 2005.

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, 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 \$30,892, \$32,769, and \$32,182 respectively, equal to the required contributions for each year.

8. Risk Management

The District was a member in the Iowa School Employee Benefits Association (ISEBA), an Iowa Code Chapter 28E organization until June 30, 2004. 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 that terminated from ISEBA on June 30, 2004 received an assessment in December 2004 which is due July 1, 2005. The total assessment for terminated members is approximately \$3.9 million. The District's share of this assessment was \$14,168 which is recorded as a liability as of June 30, 2005.

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.

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 \$57,339 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.

10. Deficit Fund Balances

At June 30, 2005 the District had a \$2,629 deficit balance in the Enterprise School Nutrition Fund.

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, 2005

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Receipts:						
Local sources	946,870	16,365	963,235	988,673	988,673	(25,438)
State sources	632,509	525	633,034	635,017	635,017	(1,983)
Federal sources	51,918	14,875	66,793	81,020	81,020	(14,227)
Total receipts	<u>1,631,297</u>	<u>31,765</u>	<u>1,663,062</u>	<u>1,704,710</u>	<u>1,704,710</u>	<u>(41,648)</u>
Disbursements:						
Instruction	1,084,395	-	1,084,395	1,029,630	1,029,630	(54,765)
Support services	352,351	-	352,351	567,100	567,100	214,749
Non-instructional programs	5,204	36,897	42,101	35,400	35,400	(6,701)
Other expenditures	84,820	-	84,820	67,244	67,244	(17,576)
Total disbursements	<u>1,526,770</u>	<u>36,897</u>	<u>1,563,667</u>	<u>1,699,374</u>	<u>1,699,374</u>	<u>135,707</u>
Excess (deficiency) of receipts over (under) disbursements	104,527	(5,132)	99,395	5,336	5,336	94,059
Other financing sources (uses) net	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,000</u>	<u>5,000</u>	<u>(5,000)</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements	104,527	(5,132)	99,395	10,336	10,336	89,059
Balance beginning of year	<u>435,021</u>	<u>5,704</u>	<u>440,725</u>	<u>412,305</u>	<u>412,305</u>	<u>28,420</u>
Balance end of year	<u><u>539,548</u></u>	<u><u>572</u></u>	<u><u>540,120</u></u>	<u><u>422,641</u></u>	<u><u>422,641</u></u>	<u><u>117,479</u></u>

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2005

	<u>Governmental Funds</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Modified Accrual Basis</u>
	\$	\$	\$
Revenues	1,631,297	41,837	1,673,134
Expenditures	1,526,770	40,857	1,567,627
Net	104,527	980	105,507
Beginning fund balances	435,021	42,240	477,261
Ending fund balances	<u>539,548</u>	<u>43,220</u>	<u>582,768</u>
	<u>Proprietary Fund</u>		
	<u>Enterprise</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
	\$	\$	\$
	Revenues	31,765	388
Expenditures	36,897	214	37,111
Net	(5,132)	174	(4,958)
Beginning fund balances	5,704	(3,375)	2,329
Ending fund balances	<u>572</u>	<u>(3,201)</u>	<u>(2,629)</u>

SOUTH CLAY 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 fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. The District did not amend its budget during the year.

During the year ended June 30, 2005, disbursements in the instruction, non-instructional programs, and other expenditures functions exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2005

	Special Revenue Funds			Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	
Assets	\$	\$	\$	\$
Cash and pooled investments	133,017	1,901	41,807	176,725
Liabilities & Fund Balances				
Liabilities				
Accounts payable	-	-	3,458	3,458
Fund balances:				
Unreserved fund balance reported in:				
Special Revenue Funds	133,017	1,901	38,349	173,267
Total liabilities and fund balances	<u>133,017</u>	<u>1,901</u>	<u>41,807</u>	<u>176,725</u>

SOUTH CLAY 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	Debt	
	Levy	Activity	Plant and	Service	
		Equipment			
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Other	1,421	1,495	1,421	-	4,337
Expenditures:					
Current:					
Instruction:					
Other instruction	-	2,330	-	-	2,330
Support services:					
Administration services	-	-	5,610	-	5,610
Operation and maintenance of plant services	23,672	-	744	-	24,416
Transportation services	9,572	-	-	-	9,572
Other expenditures:					
Facilities acquisition	-	-	22,481	-	22,481
Long-term debt:					
Principal	-	-	-	5,000	5,000
Total expenditures	33,244	2,330	28,835	5,000	69,409
Excess (deficiency) of revenues over (under) expenditures	(31,823)	(835)	(27,414)	(5,000)	(65,072)
Other financing sources (uses):					
Operating transfers in	-	-	-	5,000	5,000
Operating transfers out	-	-	(5,000)	-	(5,000)
Total other financing sources (uses)	-	-	(5,000)	5,000	-
Net change in fund balances	(31,823)	(835)	(32,414)	-	(65,072)
Fund balances beginning of year	164,840	2,736	70,763	-	238,339
Fund balances end of year	133,017	1,901	38,349	-	173,267

SOUTH CLAY 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
	\$	\$	\$	\$
Pop	1,246	1,155	1,181	1,220
T-Shirt fund raiser	1,180	124	724	580
Annual	310	216	412	114
Field trip fund raiser	-	-	13	(13)
Total	<u>2,736</u>	<u>1,495</u>	<u>2,330</u>	<u>1,901</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			
	2005	2004	2003	2002
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	932,642	952,717	815,405	700,021
Tuition	10,496	32,481	41,658	24,240
Other	39,895	54,197	50,220	49,338
State sources	632,473	561,772	649,228	694,093
Federal sources	57,628	64,454	84,340	30,118
Total revenues	<u>1,673,134</u>	<u>1,665,621</u>	<u>1,640,851</u>	<u>1,497,810</u>
Expenditures:				
Instruction:				
Regular instruction	844,002	768,875	836,618	781,802
Special instruction	205,789	276,576	329,226	309,139
Other instruction	68,872	6,839	5,994	4,045
Support services:				
Student services	7,910	10,215	18,329	20,372
Instructional staff services	20,273	35,012	57,010	68,535
Administration services	144,474	152,802	124,671	146,006
Operation and maintenance of plant services	104,601	149,970	74,670	78,000
Transportation services	81,683	97,271	103,113	92,227
Central support services	-	-	5,406	-
Non-instructional programs	5,203	3,964	3,745	3,643
Other expenditures:				
Facilities acquisition	22,481	16,102	32,216	5,438
Long-term debt:				
Principal	5,000	5,000	5,000	5,000
AEA flowthrough	57,339	58,152	62,294	61,792
Total expenditures	<u>1,567,627</u>	<u>1,580,778</u>	<u>1,658,292</u>	<u>1,575,999</u>

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

To the Board of Education of
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 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 August 26, 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 South Clay 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 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 grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part 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 South Clay Community School District and other parties to whom South Clay 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 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 26, 2005

SOUTH CLAY 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.

SOUTH CLAY 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 exceeded during the year ended June 30, 2005.

05-II-B Certified Budget: Disbursements for the year ended June 30, 2005, exceeded the amounts budgeted in the instruction, non-instructional programs, and other expenditures functional areas.

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

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

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.

05-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.

05-II-K Deficit Balances: The District has a \$2,629 deficit fund balance in the Enterprise School Nutrition Fund at June 30, 2005.

Recommendation: The District should continue to monitor this fund and investigate alternatives to eliminate the deficit.

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

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Conclusion: Response accepted.