

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL
DISTRICT

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

June 30, 2006

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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, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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 at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 13, 2006, 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 41 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, 2005, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary 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 13, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2006 Financial Highlights

- General Fund revenues increased from \$3,569,109 in fiscal 2005 to \$4,102,560 in fiscal 2006, while General Fund expenditures increased from \$3,967,115 in fiscal 2005 to \$4,147,315 in fiscal 2006. The District's General Fund balance decreased from \$(816,948) in fiscal 2005 to \$(882,955) in fiscal 2006.
- The increase in General Fund revenues and expenditures is largely attributable to the switch from a cash reporting basis to a GAAP reporting basis.
- The decrease in fund balance is mostly due to increased cost of special education programs. Increased negotiated salary expenses, utility and fuel costs were also contributing factors in our balance decrease.

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 - Everly 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/Everly 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 - Everly 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.

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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.

- 1) *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.
- 2) 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 purchases of pop and related 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-1 below provides a summary of the District’s net assets at June 30, 2006 compared to June 30, 2005.

Figure A-1

	Condensed Statement of Net Assets						Percentage Change 2005-2006
	Governmental Activities		Business-type Activities		Total School District		
	2006	2005	2006	2005	2006	2005	
	\$	\$	\$	\$	\$	\$	
Current and other assets	3,258,933	2,654,286	6,172	(6,550)	3,265,105	2,647,736	23%
Capital assets	1,165,562	1,186,138	6,449	7,333	1,172,011	1,193,471	-2%
Total assets	4,424,495	3,840,424	12,621	783	4,437,116	3,841,207	15%
Long-term liabilities	53,384	90,612	-	-	53,384	90,612	-41%
Other liabilities	4,023,400	3,233,973	14,827	11,142	4,038,227	3,245,115	24%
Total liabilities	4,076,784	3,324,585	14,827	11,142	4,091,611	3,335,727	23%
Net Assets:							
Invested in capital assets, net of related debt	1,126,654	1,129,249	6,449	7,333	1,133,103	1,136,582	-1%
Restricted	95,680	146,311	-	-	95,680	146,311	-35%
Unrestricted	(874,623)	(759,721)	(8,655)	(17,692)	(883,278)	(777,413)	-14%
TOTAL NET ASSETS	347,711	515,839	(2,206)	(10,359)	345,505	505,480	-32%

The District’s combined net assets decreased by nearly 32%, or approximately \$159,975, 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 decreased approximately \$50,631 or 35% 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 \$105,865, or 14%.

Figure A-2 shows the change in net assets for the years ended June 30, 2006 and 2005.

Figure A-2

	Change in Net Assets						Percentage Change 2004-2005
	Governmental Activities		Business-type Activities		Total School District		
	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	
Revenues							
Program Revenues:							
Charges for services	413,473	328,913	98,781	88,552	512,254	417,465	23%
Operating grants & contributions	544,734	446,982	79,254	73,120	623,988	520,102	20%
Capital grants & contributions	-	-	-	-	-	-	
General Revenues:							
Property taxes	1,875,941	1,554,417	-	-	1,875,941	1,554,417	21%
Income Surtax	-	63,948	-	-	-	63,948	-100%
Local option sales tax	260,031	367,053	-	-	260,031	367,053	-29%
Unrestricted state grants	1,467,331	1,335,579	-	-	1,467,331	1,335,579	10%
Unrestricted investment earnings	15,790	15,869	34	74	15,824	15,943	-7%
Other revenue	-	(39,682)	-	-	-	(39,682)	
Total Revenues	4,577,300	4,073,079	178,069	161,746	4,755,369	4,234,825	12%
Expenses:							
Instruction	2,789,510	2,819,763	-	-	2,789,510	2,819,763	-1%
Support services	1,471,944	1,398,876	-	-	1,471,944	1,398,876	5%
Non-instructional programs	1,700	14,329	169,916	165,468	171,616	179,797	-5%
Other expenditures	482,274	313,164	-	-	482,274	313,164	54%
Total expenses	4,745,428	4,546,132	169,916	165,468	4,915,344	4,711,600	
Change in net assets before transfers	(168,128)	(473,053)	8,153	(3,722)	(159,975)	(476,775)	
Transfers	-	-	-	-	-	-	
CHANGE IN NET ASSETS	(168,128)	(473,053)	8,153	(3,722)	(159,975)	(476,775)	
Net assets beginning of year, as restated	515,839	988,892	(10,359)	(6,637)	505,480	982,255	
Net assets end of year	347,711	515,839	(2,206)	(10,359)	345,505	505,480	-32%

Property tax and unrestricted state grants account for 76% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 87% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$4,577,300 and expenses were \$4,745,428.

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-3

Total and Net Cost of Governmental Activities

	Total Cost of Services 2006	Total Cost of Services 2005	Net Cost Of Services 2006	Net Cost of Services 2005
	\$	\$	\$	\$
Instruction	2,789,510	2,819,763	2,279,354	2,185,046
Support Services	1,471,944	1,398,876	1,169,496	1,397,156
Non-instructional Programs	1,700	14,329	1,700	14,329
Other Expenses	482,274	313,164	336,671	173,706
TOTAL	4,745,428	4,546,132	3,787,221	3,770,237

- The cost financed by users of the District’s programs was \$413,473.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$544,734.
- The net cost of governmental activities was financed with \$2,135,972 in property and other taxes and \$1,467,331 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$178,069 and expenses were \$169,916. 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, 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 \$819,198.

Governmental Fund Highlights

- The District’s deteriorating General Fund financial position is the result of many factors. During the year tax, grants and other revenues resulted in an decrease in revenues while the General fund expenditures increased over the prior year.
- The General Fund balance decreased from \$(816,948) to \$(882,955), 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 increased from \$(10,359) at June 30, 2005 to \$(2,206) at June 30, 2006.

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 \$331,639 less than budgeted receipts. The most significant variance resulted from the District receiving less in local sources and state aid than originally anticipated.

Total expenditures were less than the amended budget, 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, 2006, the District had invested \$1.17 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-4) More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$119,025.

The original cost of the District's capital assets was \$4.68 million. Governmental funds account for \$4.65 million, with the remainder of \$.03 million accounted for in the Proprietary, School Nutrition Fund.

Figure A-4
Capital Assets (net of depreciation)

	Governme ntal		Business type		Total School District		Percenta ge		2005- 2006
	Activities		Activities		Change				
	2006	2005	2006	2005	2006	2005			
		\$		\$		\$			
Land	9,589	9,589	-	-	9,589	9,589		-	
Construction in progress	-	-	-	-	-	-		-	
Buildings	1,027,615	1,056,764	-	-	1,027,615	1,056,764		-3%	
Improvements	15,110	42,519	-	-	15,110	42,519		-64%	
Equipment & Furniture	113,248	77,266	6,449	7,333	119,697	84,599		41%	
TOTAL	1,165,562	1,186,138	6,449	7,333	1,172,011	1,193,471		-2%	

Long-Term Debt

At June 30, 2006, the District had \$ 53,384 in other long-term debt outstanding. (See Figure A-5) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

**Figure A-5
Outstanding Long-Term Obligations**

	Total School District		Percentage
	2006	2005	Change
			2005-2006
	\$	\$	
Capital Loan Notes	38,908	56,889	-32%
Early Retirement	14,476	33,723	-57%
	<u>53,384</u>	<u>90,612</u>	<u>-41%</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:

- School financing is highly dependent upon student enrollment. The District's September 2006 enrollment decreased by thirty students. This drop in enrollment will decrease the District's funding for fiscal year 2008.
- 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 Donna Ott, District Secretary/Treasurer and Business Manager, Clay Central/Everyly School District, 301 Church St, PO Box 110, Royal, Iowa, 51357.

BASIC FINANCIAL STATEMENTS

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents:			
ISCAP	679,070	-	679,070
Other	153,103	8,578	161,681
Receivables:			
Property tax:			
Delinquent	23,098	-	23,098
Succeeding year	2,129,628	-	2,129,628
Accounts	2,379	288	2,667
Accrued interest:			
ISCAP	624	-	624
Due from other governments	195,623	4,925	200,548
Inventories	-	10,339	10,339
Prepaid Insurance	57,450	-	57,450
Interfund receivable/(payable)	17,958	(17,958)	-
Capital assets, net of accumulated depreciation	1,165,562	6,449	1,172,011
	<u>4,424,495</u>	<u>12,621</u>	<u>4,437,116</u>
Liabilities			
Accounts payable	39,834	419	40,253
Salaries and benefits payable	449,766	12,662	462,428
Accrued interest payable	186	-	186
Deferred revenue:			
Succeeding year property tax	2,129,628	-	2,129,628
Other	-	1,746	1,746
ISCAP warrants payable	942,000	-	942,000
ISCAP accrued interest payable	5,175	-	5,175
ISCAP premium	6,811	-	6,811
Notes Payable-Banks	450,000	-	450,000
Long-term liabilities:			
Portion due within one year:			
Energy notes payable	19,042	-	19,042
Early retirement	9,000	-	9,000
Portion due after one year:			
Energy notes payable	19,866	-	19,866
Early retirement	5,476	-	5,476
	<u>4,076,784</u>	<u>14,827</u>	<u>4,091,611</u>

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Net assets			
Invested in capital assets, net of related debt	1,126,654	6,449	1,133,103
Restricted for:			
Management levy	56,261	-	56,261
Other special revenue purposes	39,419	-	39,419
Unrestricted	<u>(874,623)</u>	<u>(8,655)</u>	<u>(883,278)</u>
Total net assets	<u><u>347,711</u></u>	<u><u>(2,206)</u></u>	<u><u>345,505</u></u>

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular instruction	1,692,150	179,444	136,055	-
Special instruction	605,403	71,453	111,412	-
Other instruction	491,957	-	11,792	-
	<u>2,789,510</u>	<u>250,897</u>	<u>259,259</u>	<u>-</u>
Support services:				
Student services	130,823	91,558	11,837	-
Instructional staff services	130,474	6,869	125,020	-
Administration services	590,632	64,149	-	-
Operation and maintenance of plant services	359,353	-	1,623	-
Transportation services	260,662	-	1,392	-
	<u>1,471,944</u>	<u>162,576</u>	<u>139,872</u>	<u>-</u>
Non-instructional programs	<u>1,700</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	272,539	-	-	-
Long-term debt interest	3,184	-	-	-
AEA flowthrough	145,603	-	145,603	-
Depreciation (unallocated)*	60,948	-	-	-
	<u>482,274</u>	<u>-</u>	<u>145,603</u>	<u>-</u>
Total governmental activities	4,745,428	413,473	544,734	-
Business type activities:				
Non-instructional programs:				
Food service operations	169,916	98,781	79,254	-
Total	<u>4,915,344</u>	<u>512,254</u>	<u>623,988</u>	<u>-</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Total general revenues				

Change in net assets

Net assets beginning of year, as restated

Net assets end of year

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

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
Governmental Activities	Business Type Activities	Total
\$	\$	\$
(1,376,651)	-	(1,376,651)
(422,538)	-	(422,538)
(480,165)	-	(480,165)
<u>(2,279,354)</u>	<u>-</u>	<u>(2,279,354)</u>
(27,428)	-	(27,428)
1,415	-	1,415
(526,483)	-	(526,483)
(357,730)	-	(357,730)
(259,270)	-	(259,270)
<u>(1,169,496)</u>	<u>-</u>	<u>(1,169,496)</u>
<u>(1,700)</u>	<u>-</u>	<u>(1,700)</u>
(272,539)	-	(272,539)
(3,184)	-	(3,184)
-	-	-
<u>(60,948)</u>	<u>-</u>	<u>(60,948)</u>
<u>(336,671)</u>	<u>-</u>	<u>(336,671)</u>
(3,787,221)	-	(3,787,221)
<u>-</u>	<u>8,119</u>	<u>8,119</u>
<u>(3,787,221)</u>	<u>8,119</u>	<u>(3,779,102)</u>
1,875,941	-	1,875,941
260,031	-	260,031
1,467,331	-	1,467,331
15,790	34	15,824
<u>3,619,093</u>	<u>34</u>	<u>3,619,127</u>
(168,128)	8,153	(159,975)
<u>515,839</u>	<u>(10,359)</u>	<u>505,480</u>
<u>347,711</u>	<u>(2,206)</u>	<u>345,505</u>

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2006

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Assets			
Cash and pooled investments:			
ISCAP	679,070	-	679,070
Other	94,128	58,975	153,103
Receivables:			
Property tax:			
Delinquent	22,485	613	23,098
Succeeding year	2,054,628	75,000	2,129,628
Accounts	1,783	596	2,379
Accrued interest - ISCAP	624	-	624
Prepaid expenses	-	57,450	57,450
Interfund receivable/payable	72,405	36,286	108,691
Due from other governments	147,915	47,708	195,623
Total assets	<u>3,073,038</u>	<u>276,628</u>	<u>3,349,666</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	34,368	5,466	39,834
Salaries and benefits payable	449,766	-	449,766
Interfund payable	38,328	52,405	90,733
ISCAP warrants payable	942,000	-	942,000
ISCAP accrued interest payable	5,175	-	5,175
ISCAP premium	6,811	-	6,811
Deferred revenue:			
Succeeding year property tax	2,054,628	75,000	2,129,628
Other	54,917	-	54,917
Long term liabilities:			
Notes payable	370,000	80,000	450,000
Total liabilities	<u>3,955,993</u>	<u>212,871</u>	<u>4,168,864</u>
Fund balances:			
Reserved for:			
Prepaid expenses	-	57,450	57,450
Unreserved, reported in:			
General fund	(882,955)	-	(882,955)
Special Revenue funds	-	52,706	52,706
Capital Project funds	-	(46,399)	(46,399)
Total fund balances	<u>(882,955)</u>	<u>63,757</u>	<u>(819,198)</u>
Total liabilities and fund balances	<u>3,073,038</u>	<u>276,628</u>	<u>3,349,666</u>

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

	\$
Total fund balances of governmental funds (Exhibit C)	(819,198)
<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.	1,165,562
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	54,917
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.	(186)
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>(53,384)</u>
Net assets of governmental activities (Exhibit A)	<u><u>347,711</u></u>

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	1,828,603	309,952	2,138,555
Tuition	233,651	-	233,651
Other	54,062	153,387	207,449
State sources	1,837,713	31	1,837,744
Federal sources	148,531	13,953	162,484
Total revenues	<u>4,102,560</u>	<u>477,323</u>	<u>4,579,883</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	1,649,837	35,057	1,684,894
Special instruction	605,403	-	605,403
Other instruction	403,513	88,444	491,957
	<u>2,658,753</u>	<u>123,501</u>	<u>2,782,254</u>
Support services:			
Student services	134,694	725	135,419
Instructional staff services	131,263	711	131,974
Administration services	585,164	10,668	595,832
Operation and maintenance of plant services	318,109	42,817	360,926
Transportation services	173,729	87,890	261,619
	<u>1,342,959</u>	<u>142,811</u>	<u>1,485,770</u>
Non-instructional programs	-	1,700	1,700
Other expenditures:			
Facilities acquisition	-	325,588	325,588
Long-term debt:			
Principal	-	17,981	17,981
Interest and fiscal charges	-	3,271	3,271
AEA flowthrough	145,603	-	145,603
	<u>145,603</u>	<u>346,840</u>	<u>492,443</u>
Total expenditures	<u>4,147,315</u>	<u>614,852</u>	<u>4,762,167</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(44,755)</u>	<u>(137,529)</u>	<u>(182,284)</u>

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Other financing sources (uses):			
Operating transfers in	-	21,252	21,252
Operating transfers out	(21,252)	-	(21,252)
Total other financing sources (uses)	<u>(21,252)</u>	<u>21,252</u>	<u>-</u>
Net change in fund balances	(66,007)	(116,277)	(182,284)
Fund balances beginning of year	<u>(816,948)</u>	<u>180,034</u>	<u>(636,914)</u>
Fund balances end of year	<u><u>(882,955)</u></u>	<u><u>63,757</u></u>	<u><u>(819,198)</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, 2006

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		(182,284)
<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	96,130	
Depreciation expense	<u>(116,706)</u>	(20,576)
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.		(2,583)
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.		17,981
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.		87
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>19,247</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>(168,128)</u></u>

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2006

	Nonmajor School Nutrition
	<u>\$</u>
Assets	
Cash and cash equivalents	8,578
Accounts receivable	288
Due from other governments	4,925
Interfund loan receivable	2,042
Inventories	10,339
Capital assets, net of accumulated depreciation	<u>6,449</u>
Total assets	<u>32,621</u>
Liabilities	
Accounts payable	419
Interfund loan payable	20,000
Salaries and benefits payable	12,662
Deferred revenue	<u>1,746</u>
Total liabilities	<u>34,827</u>
Net assets	
Invested in capital assets, net of related debt	6,449
Unrestricted	<u>(8,655)</u>
Total net assets	<u><u>(2,206)</u></u>

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Nonmajor School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>98,781</u>
Operating expenses:	
Non-instructional programs:	
Salaries	52,782
Benefits	21,085
Purchased services	203
Supplies	93,527
Depreciation	<u>2,319</u>
	<u>169,916</u>
Operating gain (loss)	<u>(71,135)</u>
Non-operating revenue:	
State sources	2,428
Federal sources	76,826
Interest income	34
Total non-operating revenue	<u>79,288</u>
Change in net assets	8,153
Net assets beginning of year	<u>(10,359)</u>
Net assets end of year	<u><u>(2,206)</u></u>

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2006

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	93,945
Cash payments to employees for services	(70,781)
Cash payments to suppliers for goods or services	<u>(81,715)</u>
Net cash used by operating activities	<u>(58,551)</u>
Cash flows from non-capital financing activities:	
State grants received	2,428
Federal grants received	<u>62,412</u>
Net cash provided by non-capital financing activities	<u>64,840</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(1,435)</u>
Cash flows from investing activities:	
Interest on investments	<u>34</u>
Net increase (decrease) in cash and cash equivalents	4,888
Cash and cash equivalents at beginning of year	<u>3,690</u>
Cash and cash equivalents at end of year	<u><u>8,578</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(71,135)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	14,413
Depreciation	2,319
Decrease (increase) in inventories	(2,816)
Decrease (increase) in accounts receivable	(5,017)
(Decrease) increase in accounts payable	419
(Decrease) increase in salaries and benefits payable	3,085
(Decrease) increase in deferred revenue	<u>181</u>
Net cash used in operating activities	<u><u>(58,551)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received \$14,413 of federal commodities.

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2006

	Private Purpose Trust Scholarship <u> </u> \$	Agency <u> </u> \$
Assets		
Cash and pooled investments	10,698	2,355
Accrued interest receivable	71	-
	<u> </u>	<u> </u>
Total assets	10,769	2,355
Liabilities		
Other payables	<u> </u>	<u> </u>
	-	2,355
Net assets		
Reserved for scholarships	<u> </u>	<u> </u>
	10,769	-

CLAY CENTRAL-EVERLY COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2006

	Private Purpose Trust Scholarship <u> </u> \$
Additions:	
Local sources:	
Gifts and contributions	26,888
Interest	<u>7,160</u>
Total additions	34,048
Deductions:	
Support services:	
Scholarships awarded	<u>33,580</u>
Change in net assets	468
Net assets beginning of year	<u>10,301</u>
Net assets end of year	<u><u>10,769</u></u>

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

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, 2004 assessed property valuations; is for the tax accrual period July 1, 2005, through June 30, 2006, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

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

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

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

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	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, 2006, expenditures exceeded the amount of the amended budget in the instructional function.

2. **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3 as amended by Statement No. 40.

3. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2006 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, 2006 is as follows:

Transfer to	Transfer from	Amount
		\$
Debt Service Fund	General Fund	21,252

These transfers reflect debt service payments from the General Fund.

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, 2006, is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
			\$	\$	\$	\$
2005-06B	1/26/06	1/26/07	15	413	262,000	5,007
2006-07A	6/28/06	6/28/07	679,055	211	680,000	168
Total			679,070	624	942,000	5,175

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

Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
\$	\$	\$	\$
<u>525,000</u>	<u>262,900</u>	<u>525,000</u>	<u>262,900</u>

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

Series	Interest Rates on Warrants	Interest Rates on Investments
	%	%
2005-06A	4.00	3.903
2005-06B	4.50	4.772
2006-07A	4.50	5.676

6. Capital Assets

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

	Balance Beginning of Year as Restated	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	9,589	-	-	9,589
Capital assets being depreciated:				
Buildings	2,803,223	2,218	-	2,805,441
Improvements other than buildings	340,461	2,172	-	342,633
Furniture and equipment	1,471,926	91,740	73,095	1,490,571
Total capital assets being deprec.	<u>4,615,610</u>	<u>96,130</u>	<u>73,095</u>	<u>4,638,645</u>
Less accumulated depreciation for:				
Buildings	1,746,459	31,367		1,777,826
Improvements other than buildings	297,942	29,581		327,523
Furniture and equipment	1,394,660	55,758	73,095	1,377,323
Total accumulated depreciation	<u>3,439,061</u>	<u>116,706</u>	<u>73,095</u>	<u>3,482,672</u>
Total capital assets being depreciated, net	<u>1,176,549</u>	<u>(20,576)</u>	-	<u>1,155,973</u>
Governmental activities capital assets, net	<u>1,186,138</u>	<u>(20,576)</u>	-	<u>1,165,562</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	34,994	1,435	-	36,429
Less accumulated depreciation	<u>27,661</u>	<u>2,319</u>	-	<u>29,980</u>
Business type activities capital assets, net	<u>7,333</u>	<u>(884)</u>	-	<u>6,449</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	26,503
Support Services:	
Operation and maintenance of plant services	7,012
Transportation	<u>22,243</u>
	55,758
Unallocated depreciation	<u>60,948</u>
Total depreciation expense – governmental activities	<u><u>116,706</u></u>
Business type activities:	
Food services	<u><u>2,319</u></u>

7. Notes Payable

The District has two short term notes totaling \$450,000 to two local banks which are due June 30, 2006 as follows:

Home Sate Bank \$80,000 5.40% Interest due semi-annually matures June 30, 2006

State Bank-Everly \$370,000 5.75% Interest due semi-annually matures June 30, 2006

8. Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Energy loan notes	56,889	-	17,981	38,908	19,042
Termination benefits	<u>33,723</u>	-	<u>19,247</u>	<u>14,476</u>	<u>9,000</u>
Total	<u><u>90,612</u></u>	<u>-</u>	<u><u>37,228</u></u>	<u><u>53,384</u></u>	<u><u>28,042</u></u>

Termination Benefits

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least fifteen years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education

At June 30, 2006, the District has obligations to three participants with a total liability of \$14,476. Actual early retirement expenditures for the year ended June 30, 2006 totaled \$19,247.

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:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	\$	\$	\$
2007	19,042	2,237	21,279
2008	19,866	1,142	21,008
	<u>38,908</u>	<u>3,379</u>	<u>42,287</u>

9. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$137,239, \$129,330 and \$129,544 respectively, equal to the required contributions for each year.

10. Risk Management

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.

11. 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 \$145,603 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

12. Financial Condition

The General Fund has a deficit unreserved fund balance of \$882,955, the Capital Projects Fund has a deficit balance of 46,399 and the School Nutrition Fund has negative net assets of \$2,206 at June 30, 2006.

13. Restatement of Beginning Net Assets-Statement of Activities

The beginning balances of the capital assets net of accumulated depreciation were adjusted \$213,024 on the Statement of Net Assets to correct balances on the depreciation schedule and for changes due to capitalization.

REQUIRED SUPPLEMENTARY INFORMATION

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures, and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2006

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	2,579,655	98,815	2,678,470	2,464,423	2,464,423	214,047
State sources	1,837,744	2,428	1,840,172	2,185,668	2,185,668	(345,496)
Federal sources	162,484	76,826	239,310	239,500	239,500	(190)
Total revenues	<u>4,579,883</u>	<u>178,069</u>	<u>4,757,952</u>	<u>4,889,591</u>	<u>4,889,591</u>	<u>(131,639)</u>
Expenditures:						
Instruction	2,782,254	-	2,782,254	2,710,000	2,710,000	(72,254)
Support services	1,485,770	-	1,485,770	1,345,000	2,100,000	614,230
Non-instructional programs	1,700	169,916	171,616	240,000	240,000	68,384
Other expenditures	492,443	-	492,443	507,538	657,538	165,095
Total expenditures	<u>4,762,167</u>	<u>169,916</u>	<u>4,932,083</u>	<u>4,802,538</u>	<u>5,707,538</u>	<u>775,455</u>
Excess (deficiency) of revenues over (under) expenditures	(182,284)	8,153	(174,131)	87,053	(817,947)	643,816
Balance beginning of year	<u>(636,914)</u>	<u>(10,359)</u>	<u>(647,273)</u>	<u>(58,030)</u>	<u>(58,030)</u>	<u>(589,243)</u>
Balance end of year	<u><u>(819,198)</u></u>	<u><u>(2,206)</u></u>	<u><u>(821,404)</u></u>	<u><u>29,023</u></u>	<u><u>(875,977)</u></u>	<u><u>54,573</u></u>

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2006

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 a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$905,000.

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

OTHER SUPPLEMENTARY INFORMATION

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2006

Assets	Special Revenue Fund			Total
	Management	Student	Capital	
	Levy	Activity	Projects	
	\$	\$	\$	\$
Cash and pooled investments	12,674	44,289	2,012	58,975
Receivables:				
Property tax:				
Delinquent	613	-	-	613
Succeeding year	75,000	-	-	75,000
Accounts	-	596	-	596
Interfund receivable	-	-	36,286	36,286
Due from other governments	-	-	47,708	47,708
Prepaid expenses	57,450	-	-	57,450
Total assets	<u>145,737</u>	<u>44,885</u>	<u>86,006</u>	<u>276,628</u>
Liabilities & Fund Balances				
Liabilities:				
Accounts payable	-	5,466	-	5,466
Interfund payables	-	-	52,405	52,405
Deferred revenue:				
Succeeding year property tax	75,000	-	-	75,000
Long term liabilities:				
Notes payable	-	-	80,000	80,000
Total liabilities	<u>75,000</u>	<u>5,466</u>	<u>132,405</u>	<u>212,871</u>
Fund balances:				
Reserved for prepaid expenses	57,450	-	-	57,450
Unreserved fund balance:				
Special revenue funds	13,287	39,419	-	52,706
Capital project funds	-	-	(46,399)	(46,399)
Total fund balances	<u>70,737</u>	<u>39,419</u>	<u>(46,399)</u>	<u>63,757</u>
Total liabilities and fund balances	<u>145,737</u>	<u>44,885</u>	<u>86,006</u>	<u>276,628</u>

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Special Revenue Funds					Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	Capital Projects	Debt Service	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	49,921	-	-	260,031	-	309,952
Other	62,598	88,748	-	2,041	-	153,387
State sources	31	-	-	-	-	31
Federal sources	-	-	-	13,953	-	13,953
Total revenues	<u>112,550</u>	<u>88,748</u>	<u>-</u>	<u>276,025</u>	<u>-</u>	<u>477,323</u>
Expenditures:						
Current:						
Instruction:						
Regular instruction	35,057	-	-	-	-	35,057
Other instruction	-	88,444	-	-	-	88,444
Support services:						
Student services	660	-	65	-	-	725
Instructional staff services	711	-	-	-	-	711
Administration services	4,000	-	-	6,668	-	10,668
Operation and maintenance of plant services	42,817	-	-	-	-	42,817
Transportation services	1,108	-	-	86,782	-	87,890
Non-instructional programs	1,700	-	-	-	-	1,700
Other expenditures:						
Facilities acquisition	-	-	-	325,588	-	325,588
Long-term debt:						
Principal	-	-	-	-	17,981	17,981
Interest and fiscal charges	-	-	-	-	3,271	3,271
Total expenditures	<u>86,053</u>	<u>88,444</u>	<u>65</u>	<u>419,038</u>	<u>21,252</u>	<u>614,852</u>
Excess (deficiency) of revenues over (under) expenditures	26,497	304	(65)	(143,013)	(21,252)	(137,529)
Other financing sources (uses):						
Operating transfers in	-	-	-	-	21,252	21,252
Net change in fund balances:	26,497	304	(65)	(143,013)	-	(116,277)
Fund balances beginning of year	<u>44,240</u>	<u>39,115</u>	<u>65</u>	<u>96,614</u>	<u>-</u>	<u>180,034</u>
Fund balances end of year	<u>70,737</u>	<u>39,419</u>	<u>-</u>	<u>(46,399)</u>	<u>-</u>	<u>63,757</u>

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
RIF	1,210	380	766	824
Science fair	753	541	882	412
Musical/play	3,720	3,266	1,936	5,050
Foreign student club	754	(754)	-	-
Athletics	312	31,372	30,050	1,634
Fish fry-fund raiser	3,323	9,833	6,853	6,303
FFA	8,700	15,321	15,522	8,499
Class of 2005	194	(84)	110	-
Class of 2006	1,863	26	1,844	45
Class of 2007	3,307	5,518	5,964	2,861
Class of 2008	2,485	1,186	-	3,671
Class of 2009	1,941	-	40	1,901
Class of 2010	1,439	-	-	1,439
Class of 2011	1,778	138	-	1,916
Class of 2012	-	2,524	1,471	1,053
HS student council	128	1,054	1,132	50
MS student council	224	147	199	172
Dance team	1,667	1,028	2,348	347
Interest	1,058	1,292	2,237	113
HS student pop	1,380	1,373	1,354	1,399
Concessions	537	5,077	5,489	125
Cheerleaders/drill team	893	1,565	1,735	723
Yearbook	2,560	5,778	3,782	4,556
MS yearbook	655	1,215	1,080	790
Everly elem. pop	136	266	330	72
Royal elem. pop	406	350	422	334
Beginning accruals	(2,308)	(260)	(2,568)	-
Ending accruals	-	596	5,466	(4,870)
	<u>39,115</u>	<u>88,748</u>	<u>88,444</u>	<u>39,419</u>
Total	<u>39,115</u>	<u>88,748</u>	<u>88,444</u>	<u>39,419</u>

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund

Year ended June 30, 2006

	<u>Wellness</u>	<u>Staff</u> <u>Collections</u>	<u>Total</u>
	\$	\$	\$
Balance beginning of year	2,347	647	2,994
Additions:			
Collections	-	388	388
Deductions:			
Miscellaneous	<u>586</u>	<u>441</u>	<u>1,027</u>
Balance end of year	<u><u>1,761</u></u>	<u><u>594</u></u>	<u><u>2,355</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			
	2006	2005	2004	2003
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,138,555	1,985,339	2,294,713	2,114,667
Tuition	233,651	169,629	104,886	101,317
Other	207,449	175,153	168,973	141,161
State sources	1,837,744	1,627,999	1,495,353	1,520,066
Federal sources	162,484	154,562	159,525	222,017
Total revenues	<u>4,579,883</u>	<u>4,112,682</u>	<u>4,223,450</u>	<u>4,099,228</u>
Expenditures:				
Instruction:				
Regular instruction	1,684,894	1,755,841	1,813,721	1,753,511
Special instruction	605,403	559,174	451,164	420,423
Other instruction	491,957	513,517	349,733	343,268
Support services:				
Student services	135,419	103,446	182,842	93,739
Instructional staff services	131,974	141,061	160,140	155,959
Administration services	595,832	489,617	533,061	408,504
Operation and maintenance of plant services	360,926	321,960	280,957	285,313
Transportation services	261,619	146,576	179,973	125,737
Non-instructional programs	1,700	14,329	-	1,747
Other expenditures:				
Facilities acquisition	325,588	401,264	195,588	289,112
Long-term debt:				
Principal	17,981	16,978	16,032	15,138
Interest and other charges	3,271	4,247	5,169	6,040
AEA flowthrough	145,603	138,798	141,419	150,436
Total expenditures	<u>4,762,167</u>	<u>4,606,808</u>	<u>4,309,799</u>	<u>4,048,927</u>

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/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 as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated November 13, 2006. 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/Everyly 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 06-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, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of 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 13, 2006

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

06-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, 2006

Part II: Other Findings Related to Statutory Reporting:

06-II-A Certified Budget: Expenditures for the year ended June 30, 2006 exceeded the amended budget in the instruction function.

Recommendation: The District amended its budget but not in the instructional function.

District Response: We will try to amend the budget for all functional areas in the future.

Conclusion: Response accepted.

06-II-B 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.

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

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

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

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

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

06-II-H 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.

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

06-II-J Financial Condition: The District has unreserved deficit fund balances in the General Fund of \$882,955, the Capital Projects Fund of \$46,399 and the School Nutrition Fund of \$2,206 at June 30, 2006.

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.

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

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

06-II-K 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.