

SOUTH CLAY 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  
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, 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 South Clay 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 August 24, 2006, 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 34 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, 2005, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary 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 24, 2006

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 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 \$1,518,990 in fiscal 2005 to \$1,546,038 in fiscal 2006, while General Fund expenditures decreased from \$1,498,218 in fiscal 2005 to \$1,471,917 in fiscal 2006. The District's General Fund balance increased from \$192,289 in fiscal 2005 to \$246,410 in fiscal 2006, a 28% increase.
- The increase in General Fund revenues was attributable to an increase in local revenue in fiscal 2006. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures along with a 4% allowable growth for the school district.

### 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.

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**

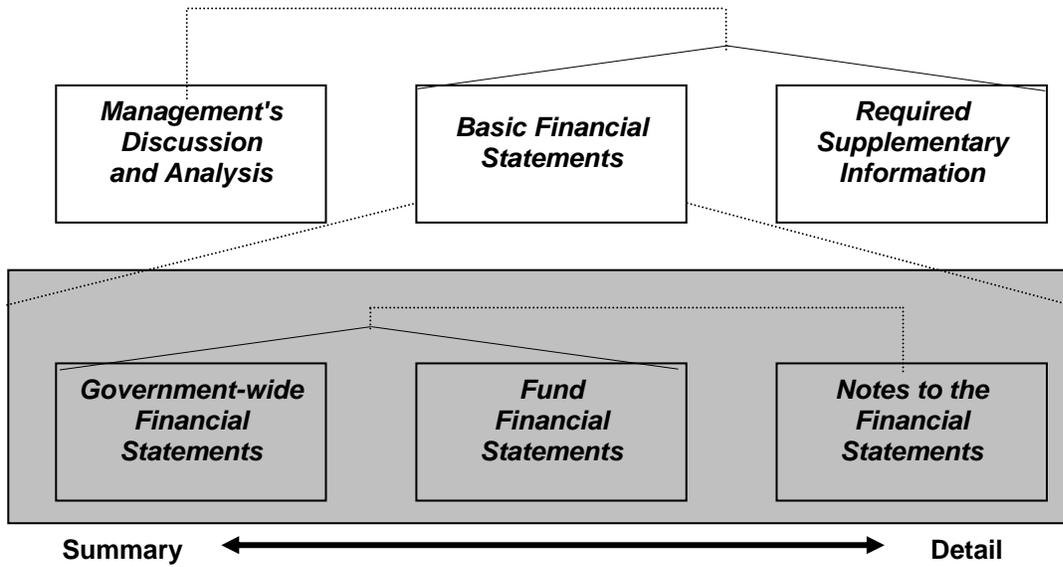


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

## REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

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

The two government-wide financial statements report the District’s net assets and how they have changed. Net assets – the difference between the District’s assets and liabilities – are one way to measure the District’s financial health or financial position. Over time, increases or decreases in the District’s net assets are an indicator of whether 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 flexible benefit plan.

The required financial statements for proprietary funds include a statement of net assets, 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, 2006 compared to June 30, 2005.

**Figure A-3**

<b>Condensed Statement of Net Assets</b>							
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total School District</b>		<b>Percentage Change</b>
	<b>2006</b>	<b>2005</b>	<b>2005</b>		<b>2006</b>	<b>2005</b>	<b>2005-2006</b>
	\$	\$	\$		\$	\$	
Current and other assets	1,598,746	1,544,132	6,732	-2,482	1,605,478	1,541,650	4%
Capital assets	155,664	132,401	0	0	155,664	132,401	18%
<b>Total assets</b>	<b>1,754,410</b>	<b>1,676,533</b>	<b>6,732</b>	<b>-2,482</b>	<b>1,761,142</b>	<b>1,674,051</b>	<b>5%</b>
Long-term liabilities	0	2,544	0	-	0	2,544	-100%
Other liabilities	942,572	916,900	143	147	942,715	917,047	3%
<b>Total liabilities</b>	<b>942,572</b>	<b>919,444</b>	<b>143</b>	<b>147</b>	<b>942,715</b>	<b>919,591</b>	<b>3%</b>
Net Assets:							
Invested in capital assets, net of related debt	155,664	132,401	-	-	155,664	132,401	18%
Restricted	367,160	390,479	-	-	367,160	390,479	-6%
Unrestricted	289,014	234,209	6,589	-2,629	295,603	231,580	28%
<b>TOTAL NET ASSETS</b>	<b>811,838</b>	<b>757,089</b>	<b>6,589</b>	<b>-2,629</b>	<b>818,427</b>	<b>754,460</b>	<b>8%</b>

The District's combined net assets increased by nearly 8%, or approximately \$63,967, over the prior year.

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 \$23,319 or -6% over the prior year. The reduction in restricted net assets was caused by a reduction in the management property tax levy. The District had accumulated a large carryover balance for the management levy and is intentionally eliminated the levy to use up the carryover balance.

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 \$64,023, or 28%.

Figure A-4 shows the change in net assets for the years ended June 30, 2006 and 2005.

**Figure A-4**

	Change in Net Assets						Percentage Change 2005-2006
	Governmental Activities		Business-type Activities		Total School District		
	2006	2005	2006	2005	2006	2005	
	\$	\$	\$	\$	\$	\$	
Revenues							
Program Revenues:							
Charges for services	75,476	41,554	13,744	16,748	89,220	58,302	53%
Operating grants & contributions	170,051	165,995	15,079	15,400	185,130	181,395	2%
Capital grants & contributions	-	-	-	-	-	-	
General Revenues:							
Property taxes	746,186	746,210	-	-	746,186	746,210	0%
Income Surtax	42,653	34,706	-	-	42,653	34,706	23%
Local option sales tax	92,018	148,421	-	-	92,018	148,421	-38%
Unrestricted state grants	509,753	524,106	-	-	509,753	524,106	-3%
Unrestricted investment earnings	23,693	8,837	90	5	23,783	8,842	169%
Other revenue	-	-	-	-	-	-	
<b>Total Revenues</b>	<b>1,659,830</b>	<b>1,669,829</b>	<b>28,913</b>	<b>32,153</b>	<b>1,688,743</b>	<b>1,701,982</b>	<b>-1%</b>
Expenses:							
Instruction	1,086,754	1,131,516	-	-	1,086,754	1,131,516	-4%
Support services	417,971	370,601	-	-	417,971	370,601	12%
Non-instructional programs	-	5,203	39,695	37,111	39,695	42,314	-6%
Other expenditures	62,778	82,342	-	-	62,778	82,342	-24%
<b>Total expenses</b>	<b>1,567,503</b>	<b>1,589,662</b>	<b>39,695</b>	<b>37,111</b>	<b>1,607,198</b>	<b>1,626,773</b>	<b>-1%</b>
<b>Change in net assets before transfers</b>	<b>92,327</b>	<b>80,167</b>	<b>-10,782</b>	<b>-4,958</b>	<b>81,547</b>	<b>75,209</b>	<b>8%</b>
Transfers	-20,000	-	20,000	-	-	-	
<b>CHANGE IN NET ASSETS</b>	<b>72,327</b>	<b>80,167</b>	<b>9,218</b>	<b>-4,958</b>	<b>81,545</b>	<b>75,209</b>	<b>8%</b>
Net assets beginning of year	739,511	676,922	-2,629	2,329	736,882	679,251	
Net assets end of year	811,838	757,089	6,589	-2,629	818,427	754,460	

As explained in note 10 to the financial statements the 2006 beginning balance for the governmental activities was restated.

Property tax and unrestricted state grants account for 74% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 94% of the total expenses. Interest rates increased provided an increase of 14,856 from fiscal year 2005 to fiscal year 2006.

## Governmental Activities

Revenues for governmental activities were \$1,659,830 and expenses were \$1,567,503. 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 2006 \$	Total Cost of Services 2005 \$	Net Cost of Services 2006 \$	Net Cost of Services 2005 \$
Instruction	1,086,754	1,131,516	944,064	998,481
Support Services	417,971	370,601	372,438	353,426
Non-instructional Programs	0	5,203	0	5,203
Other Expenses	62,778	82,342	5,474	25,003
<b>TOTAL</b>	<b>1,567,603</b>	<b>1,589,662</b>	<b>1,321,976</b>	<b>1,382,113</b>

- The cost financed by users of the 2005 District's programs was \$41,554 and for 2006 the total was \$75,476. This was changes for services.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$170,051.
- The net cost of governmental activities was financed with \$880,857 in property and other taxes and \$509,753 in unrestricted state grants.

## Business Type Activities

Revenues for business type activities were \$28,823 and expenses were \$39,695. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## INDIVIDUAL FUND ANALYSIS

As previously noted, 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 \$613,570 well above last year's ending fund balances of \$565,190.

## 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 \$192,289 to \$246,410, due to maintaining expenditures below revenues.

- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$38,349 in fiscal 2005 to \$23,993 in fiscal 2006.
- The Capital Projects, Local Option Sales Tax Fund balance increased \$35,053. Fiscal 2006 ended with a balance of \$234,687 consisting primarily of unexpended revenues which will be expended in the future for equipment and capital improvements.

### Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$(2,629) at June 30, 2005 to \$6,589 at June 30. For fiscal 2006, the District increased meal prices, resulting in the increase in net assets. The District transferred \$20,000 from the general fund to bring the school nutrition fund to a positive balance. The district will look to increase the process of the meals in hope of running a self supportive school lunch program.

### BUDGETARY HIGHLIGHTS

The District's receipts were \$59,463 less than budgeted receipts. The most significant variance resulted from the District receiving less in local and state 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 non-instructional programs function due to the timing of expenditures at year-end without sufficient time to amend the budget.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

At June 30, 2006, the District had invested \$155,664, 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 \$38,517.

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 2005-2006
	2006	2005	2006	2005	2006	2005	
	\$	\$	\$	\$	\$	\$	
Land	650	650	0	-	650	650	0%
Buildings	68056	70,608	0	-	68056	70,608	-3%
Equipment & Furniture	86,958	61,143	0	-	86,958	61,143	42%
<b>TOTAL</b>	<u>155,664</u>	<u>132,401</u>	<u>0</u>	<u>-</u>	<u>155,664</u>	<u>132,401</u>	<u>18%</u>

## Long-Term Debt

At June 30, 2006, the District had paid off the remaining \$2,544 of their Capital Loan Note.

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

	<u>Total School District</u>		<u>Percentage</u>
	<u>2006</u>	<u>2005</u>	<u>Change</u>
	\$	\$	2005-2006
Capital Loan Notes	0	2,544	-100%

## 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 ten students. This drop in enrollment will decrease the District's funding for fiscal year 2008.

## 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, District Secretary/Treasurer and Business Manager, South Clay Community School District, 300 Railway St., PO Box 68, Gillett Grove, Iowa, 51341.

## BASIC FINANCIAL STATEMENTS

## SOUTH CLAY COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and cash equivalents	701,000	12,633	713,633
Receivables:			
Property tax:			
Delinquent	14,130	-	14,130
Succeeding year	813,567	-	813,567
Accounts	-	248	248
Accrued interest:			
Other	270	-	270
Due from other governments	61,039	1,068	62,107
Interfund receivable (payable)	8,740	(8,740)	-
Inventories	-	1,523	1,523
Capital assets, net of accumulated depreciation	155,664	-	155,664
	<u>1,754,410</u>	<u>6,732</u>	<u>1,761,142</u>
<b>Liabilities</b>			
Warrants issued in excess of bank balance	126,418	-	126,418
Salaries and benefits payable	2,587	-	2,587
Deferred revenue:			
Succeeding year property tax	813,567	-	813,567
Other	-	143	143
	<u>942,572</u>	<u>143</u>	<u>942,715</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	155,664	-	155,664
Restricted for:			
Management levy	102,159	-	102,159
Physical plant and equipment levy	23,993	-	23,993
Other special revenue purposes	6,321	-	6,321
Capital projects local option sales tax	234,687	-	234,687
Unrestricted	289,014	6,589	295,603
	<u>811,838</u>	<u>6,589</u>	<u>818,427</u>

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

<b>Functions/Programs</b>	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular instruction	869,349	13,178	88,341	-
Special instruction	161,487	8,155	-	-
Other instruction	55,918	9,781	23,235	-
	1,086,754	31,114	111,576	-
Support services:				
Student services	1,176	-	-	-
Instructional staff services	26,116	-	-	-
Administration services	158,257	-	-	-
Operation and maintenance of plant services	134,460	-	-	-
Transportation services	97,962	44,362	1,171	-
	417,971	44,362	1,171	-
Other expenditures:				
Facilities acquisition	2,922	-	-	-
AEA flowthrough	57,304	-	57,304	-
Depreciation (unallocated)*	2,552	-	-	-
	62,778	-	57,304	-
Total governmental activities	1,567,503	75,476	170,051	-
Business type activities:				
Non-instructional programs:				
Food service operations	39,695	13,744	15,079	-
Total	1,607,198	89,220	185,130	-
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Total general revenues				
Transfers				
Total general revenues and transfers				

**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.

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
\$	\$	\$
(767,830)	-	(767,830)
(153,332)	-	(153,332)
(22,902)	-	(22,902)
<u>(944,064)</u>	<u>-</u>	<u>(944,064)</u>
(1,176)	-	(1,176)
(26,116)	-	(26,116)
(158,257)	-	(158,257)
(134,460)	-	(134,460)
(52,429)	-	(52,429)
<u>(372,438)</u>	<u>-</u>	<u>(372,438)</u>
(2,922)	-	(2,922)
-	-	-
(2,552)	-	(2,552)
<u>(5,474)</u>	<u>-</u>	<u>(5,474)</u>
(1,321,976)	-	(1,321,976)
-	(10,872)	(10,872)
<u>(1,321,976)</u>	<u>(10,872)</u>	<u>(1,332,848)</u>
746,186	-	746,186
42,653	-	42,653
92,018	-	92,018
509,753	-	509,753
23,693	90	23,783
1,414,303	90	1,414,393
<u>(20,000)</u>	<u>20,000</u>	<u>-</u>
<u>1,394,303</u>	<u>20,090</u>	<u>1,414,393</u>
72,327	9,218	81,545
739,511	(2,629)	736,882
<u>811,838</u>	<u>6,589</u>	<u>818,427</u>

## SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2006

	General Fund	Local Option Sales Tax	Nonmajor Governmenta l Funds	Total
	\$	\$	\$	\$
<b>Assets</b>				
Cash and pooled investments	335,009	216,203	131,929	683,141
Receivables:				
Property tax:				
Delinquent	14,130	-	-	14,130
Succeeding year	813,567	-	-	813,567
Accrued interest - other	270	-	-	270
Interfund receivable	20,740	-	544	21,284
Due from other governments	42,555	18,484	-	61,039
<b>Total assets</b>	<u>1,226,271</u>	<u>234,687</u>	<u>132,473</u>	<u>1,593,431</u>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Warrants issued in excess of bank balance	126,418	-	-	126,418
Salaries and benefits payable	2,587	-	-	2,587
Interfund payable	544	-	-	544
Deferred revenue:				
Succeeding year property tax	813,567	-	-	813,567
Other	36,745	-	-	36,745
Total liabilities	<u>979,861</u>	<u>-</u>	<u>-</u>	<u>979,861</u>
Fund balances:				
Unreserved reported in:				
General Fund	246,410	-	-	246,410
Special Revenue Funds	-	-	132,473	132,473
Capital Projects Fund	-	234,687	-	234,687
Total fund balances	<u>246,410</u>	<u>234,687</u>	<u>132,473</u>	<u>613,570</u>
<b>Total liabilities and fund balances</b>	<u>1,226,271</u>	<u>234,687</u>	<u>132,473</u>	<u>1,593,431</u>

## SOUTH CLAY COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

	\$
<b>Total fund balances of governmental funds (Exhibit C)</b>	613,570
<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.	155,664
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	36,745
costs of the employee flexible benefit program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	<u>5,859</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>811,838</u></u>

## SOUTH CLAY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	General Fund	Local Option Sales Tax	Nonmajor Governmenta l Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	791,349	92,018	-	883,367
Tuition	8,155	-	-	8,155
Other	66,730	4,815	19,469	91,014
State sources	624,060	-	-	624,060
Federal sources	55,744	-	-	55,744
Total revenues	<u>1,546,038</u>	<u>96,833</u>	<u>19,469</u>	<u>1,662,340</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	857,146	-	-	857,146
Special instruction	161,487	-	-	161,487
Other instruction	50,501	-	5,417	55,918
	<u>1,069,134</u>	<u>-</u>	<u>5,417</u>	<u>1,074,551</u>
Support services:				
Student services	1,176	-	-	1,176
Instructional staff services	26,116	-	-	26,116
Administration services	158,257	-	-	158,257
Operation and maintenance of plant services	90,793	-	43,667	134,460
Transportation services	69,137	61,780	5,713	136,630
	<u>345,479</u>	<u>61,780</u>	<u>49,380</u>	<u>456,639</u>
Other expenditures:				
Facilities acquisition	-	-	2,922	2,922
Long-term debt:				
Principal	-	-	2,544	2,544
AEA flowthrough	57,304	-	-	57,304
	<u>57,304</u>	<u>-</u>	<u>5,466</u>	<u>62,770</u>
Total expenditures	<u>1,471,917</u>	<u>61,780</u>	<u>60,263</u>	<u>1,593,960</u>
Excess (deficiency) of revenues over (under) expenditures	<u>74,121</u>	<u>35,053</u>	<u>(40,794)</u>	<u>68,380</u>
Other financing sources (uses):				
Operating transfers in	-	-	2,544	2,544
Operating transfers out	(20,000)	-	(2,544)	(22,544)
Total other financing sources (uses)	<u>(20,000)</u>	<u>-</u>	<u>-</u>	<u>(20,000)</u>
Net change in fund balances	54,121	35,053	(40,794)	48,380
Fund balances beginning of year, as restated	<u>192,289</u>	<u>199,634</u>	<u>173,267</u>	<u>565,190</u>
Fund balances end of year	<u>246,410</u>	<u>234,687</u>	<u>132,473</u>	<u>613,570</u>

See notes to financial statements.

## SOUTH CLAY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		48,380
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the year as follows:		
Expenditures for capital assets	61,780	
Depreciation expense	<u>(38,517)</u>	23,263
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.		(2,510)
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.		2,544
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>650</u>
<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>72,327</u></u>

## SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Funds

June 30, 2006

	Enterprise Fund Nonmajor School Nutrition \$	Governmental Activities - Internal Service Fund \$
<b>Assets</b>		
Cash and cash equivalents	12,633	17,859
Accounts receivable	248	-
Due from other governments	1,068	-
Inventories	1,523	-
<b>Total assets</b>	<u>15,472</u>	<u>17,859</u>
<b>Liabilities</b>		
Interfund payable	8,740	12,000
Deferred revenue	143	-
<b>Total liabilities</b>	<u>8,883</u>	<u>12,000</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	-	-
Unrestricted	6,589	5,859
<b>Total net assets</b>	<u><u>6,589</u></u>	<u><u>5,859</u></u>

## SOUTH CLAY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Enterprise Fund Nonmajor School Nutrition \$	Governmental Activities - Internal Service Fund \$
Operating revenue:		
Local sources:		
Charges for service	13,744	53,119
Operating expenses:		
Non-instructional programs:		
Salaries	18,707	-
Benefits	4,921	52,030
Purchased services	-	577
Supplies	16,067	86
	<u>39,695</u>	<u>52,693</u>
Operating gain (loss)	<u>(25,951)</u>	<u>426</u>
Non-operating revenue:		
State sources	448	-
Federal sources	14,631	-
Interest income	90	223
Total non-operating revenue	<u>15,169</u>	<u>223</u>
Gain (loss) before contributions and transfers	(10,782)	649
Transfers in	<u>20,000</u>	<u>-</u>
Change in net assets	9,218	649
Net assets beginning of year	<u>(2,629)</u>	<u>5,210</u>
Net assets end of year	<u><u>6,589</u></u>	<u><u>5,859</u></u>

## SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2006

	Enterprise Fund	Governmental
	Nonmajor School Nutrition	Activities - Internal Service Fund
	\$	\$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	13,646	-
Cash received from other services	-	53,119
Cash payments to employees for services	(20,119)	(56,598)
Cash payments to suppliers for goods or services	(11,824)	-
Net cash (used by) provided by operating activities	<u>(18,297)</u>	<u>(3,479)</u>
Cash flows from non-capital financing activities:		
Transfer from General Fund	20,000	-
Loan from General Fund	-	12,000
State grants received	448	-
Federal grants received	9,820	-
Net cash provided by non-capital financing activities	<u>30,268</u>	<u>12,000</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>90</u>	<u>223</u>
Net increase (decrease) in cash and cash equivalents	12,061	8,744
Cash and cash equivalents at beginning of year	<u>572</u>	<u>9,115</u>
Cash and cash equivalents at end of year	<u><u>12,633</u></u>	<u><u>17,859</u></u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>		
Operating gain (loss)	(25,951)	426
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	3,745	-
Decrease (increase) in inventories	500	-
Decrease (increase) in accounts receivable	(94)	-
(Decrease) increase in accounts payable	-	(3,905)
(Decrease) increase in salaries and benefits payable	3,507	-
(Decrease) increase in deferred revenue	(4)	-
Net cash used in operating activities	<u>(18,297)</u>	<u>(3,479)</u>

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

During the year ended June 30, 2006, the District received \$3,745 of federal commodities.

# SOUTH CLAY COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2006

### 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, 2006.

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	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, 2006, expenditures in the non-instructional programs function exceeded the amount budgeted.

**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:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
		\$
General Fund	Nonmajor School Nutrition Fund	8,740
General Fund	Internal Service Fund	12,000
General Fund	Nonmajor Student Activity Fund	544

During the year School Nutrition Fund salaries are paid by the General Fund, then reimbursed by the School Nutrition Fund. At June 30, 2006 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, 2006 is as follows:

Transfer to	Transfer from	Amount
		\$
Nonmajor Debt Service Fund	Nonmajor Physical Plant and Equipment Levy Fund	2,544
Nonmajor School Nutrition Fund	General Fund	20,000

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, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	650	-	-	650
Capital assets being depreciated:				
Buildings	290,299	-	-	290,299
Furniture and equipment	361,281	61,780	29,205	393,856
Total capital assets being deprec.	651,580	61,780	29,205	684,155
Less accumulated depreciation for:				
Buildings	219,691	2,552	-	222,243
Furniture and equipment	300,138	35,965	29,205	306,898
Total accumulated depreciation	519,829	38,517	29,205	529,141
Total capital assets being depreciated, net	131,751	23,263	-	155,014
Governmental activities capital assets, net	132,401	23,263	-	155,664
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Business type activities:</b>				
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	23,112
	35,965
Unallocated depreciation	2,552
	38,517
Business type activities:	
Food services	-

## 6. 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
	\$	\$	\$	\$	\$
EPA loan	2,544	-	2,544	-	-
Total	2,544	-	2,544	-	-

### Bonds Payable

The District had no bonded indebtedness at June 30, 2006.

## 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, 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 \$32,465, \$30,892, and \$32,769 respectively, equal to the required contributions for each year.

## 8. 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.

## **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 \$57,304 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.

## **10. Restatement of Beginning Balances**

The beginning net assets for the governmental activities and the beginning fund balance for the Local Option Sales Tax Capital Projects Fund were decreased by \$17,578 because prior year receivables were overstated.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH CLAY 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	
	\$	\$	\$	\$	\$	\$
<b>Revenues:</b>						
Local sources	982,536	13,834	996,370	1,048,639	1,048,639	(52,269)
State sources	624,060	448	624,508	650,777	650,777	(26,269)
Federal sources	55,744	14,631	70,375	51,300	51,300	19,075
Total revenues	<u>1,662,340</u>	<u>28,913</u>	<u>1,691,253</u>	<u>1,750,716</u>	<u>1,750,716</u>	<u>(59,463)</u>
<b>Expenditures:</b>						
Instruction	1,074,551	-	1,074,551	1,186,461	1,186,461	111,910
Support services	456,639	-	456,639	494,400	494,400	37,761
Non-instructional programs	-	39,695	39,695	28,061	28,061	(11,634)
Other expenditures	62,770	-	62,770	212,209	212,209	149,439
Total expenditures	<u>1,593,960</u>	<u>39,695</u>	<u>1,633,655</u>	<u>1,921,131</u>	<u>1,921,131</u>	<u>287,476</u>
Excess (deficiency) of revenues over (under) expenditures	68,380	(10,782)	57,598	(170,415)	(170,415)	228,013
Other financing sources (uses) net	<u>(20,000)</u>	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	48,380	9,218	57,598	(170,415)	(170,415)	228,013
Balance beginning of year	<u>565,190</u>	<u>(2,629)</u>	<u>562,561</u>	<u>581,054</u>	<u>581,054</u>	<u>(18,493)</u>
Balance end of year	<u><u>613,570</u></u>	<u><u>6,589</u></u>	<u><u>620,159</u></u>	<u><u>410,639</u></u>	<u><u>410,639</u></u>	<u><u>209,520</u></u>

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2006

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 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. The District did not amend its budget during the year.

During the year ended June 30, 2006, expenditures in the non-instructional programs function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

## SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2006

	Special Revenue Funds			Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	
<b>Assets</b>	\$	\$	\$	\$
Cash and pooled investments	102,159	5,777	23,993	131,929
Interfund receivable	-	544	-	544
<b>Total assets</b>	<u>102,159</u>	<u>6,321</u>	<u>23,993</u>	<u>132,473</u>
<b>Liabilities &amp; Fund Balances</b>				
Liabilities	-	-	-	-
Fund balances:				
Unreserved fund balance reported in:				
Special Revenue Funds	<u>102,159</u>	<u>6,321</u>	<u>23,993</u>	<u>132,473</u>
<b>Total liabilities and fund balances</b>	<u>102,159</u>	<u>6,321</u>	<u>23,993</u>	<u>132,473</u>

## SOUTH CLAY 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	Student	Physical	Debt	
	Levy	Activity	Plant and	Service	
		Equipment			
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Other	4,816	9,837	4,816	-	19,469
Expenditures:					
Current:					
Instruction:					
Other instruction	-	5,417	-	-	5,417
Support services:					
Operation and maintenance of					
plant services	30,639	-	13,028	-	43,667
Transportation services	5,035	-	678	-	5,713
Other expenditures:					
Facilities acquisition	-	-	2,922	-	2,922
Long-term debt:					
Principal	-	-	-	2,544	2,544
Total expenditures	35,674	5,417	16,628	2,544	60,263
Excess (deficiency) of revenues over (under) expenditures	(30,858)	4,420	(11,812)	(2,544)	(40,794)
Other financing sources (uses):					
Operating transfers in	-	-	-	2,544	2,544
Operating transfers out	-	-	(2,544)	-	(2,544)
Total other financing sources (uses)	-	-	(2,544)	2,544	-
Net change in fund balances	(30,858)	4,420	(14,356)	-	(40,794)
Fund balances beginning of year	133,017	1,901	38,349	-	173,267
Fund balances end of year	102,159	6,321	23,993	-	132,473

## SOUTH CLAY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Pop	1,220	9,799	2,988	8,031
T-Shirt fund raiser/field trip fund raiser	567	20	2,199	(1,612)
Annual	114	18	230	(98)
Total	<u>1,901</u>	<u>9,837</u>	<u>5,417</u>	<u>6,321</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			
	2006	2005	2004	2003
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	883,367	932,642	952,717	815,405
Tuition	8,155	10,496	32,481	41,658
Other	91,014	39,895	54,197	50,220
State sources	624,060	632,473	561,772	649,228
Federal sources	55,744	57,628	64,454	84,340
Total revenues	<u>1,662,340</u>	<u>1,673,134</u>	<u>1,665,621</u>	<u>1,640,851</u>
Expenditures:				
Instruction:				
Regular instruction	857,146	844,002	768,875	836,618
Special instruction	161,487	205,789	276,576	329,226
Other instruction	55,918	68,872	6,839	5,994
Support services:				
Student services	1,176	7,910	10,215	18,329
Instructional staff services	26,116	20,273	35,012	57,010
Administration services	158,257	144,474	152,802	124,671
Operation and maintenance of plant services	134,460	104,601	149,970	74,670
Transportation services	136,630	81,683	97,271	103,113
Central support services	-	-	-	5,406
Non-instructional programs	-	5,203	3,964	3,745
Other expenditures:				
Facilities acquisition	2,922	22,481	16,102	32,216
Long-term debt:				
Principal	2,544	5,000	5,000	5,000
AEA flowthrough	57,304	57,339	58,152	62,294
Total expenditures	<u>1,593,960</u>	<u>1,567,627</u>	<u>1,580,778</u>	<u>1,658,292</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, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 24, 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 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 items 06-I-A and 06-I-B are material weaknesses.

### 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, 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 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 24, 2006

SOUTH CLAY 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.

06-I-B Expenditure procedures: During our testing of District expenditures, we noted five expenditures totaling \$607 that were not on the lists of bills approved by the board and that were missing supporting documentation.

Recommendation: District expenditures should be approved by the board prior to payment, items paid prior to a board meeting in accordance with District policy should be approved at the next board meeting. Also the District should have invoices, receipts, contracts or other supporting documentation for all expenditures.

District Response: We will improve our procedures.

Conclusion: Response accepted.

SOUTH CLAY 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 amount budgeted in the non-instructional programs functional area.

Recommendation: The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures 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.

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: Except as discussed in comment 06-I-B we noted no transactions requiring Board approval that had not been approved by the Board. The Code of Iowa requires that all minutes of board meetings and that a list of all bills approved for payment be published. We noted that the minutes from eight meetings were not published and that the approved bills for nine months were not published. We also noted that the minutes were not signed.

Recommendation: The District should implement procedures to ensure that all minutes and approved bills are published timely and to ensure that all minutes are signed by the board secretary and board president.

District Response: We are now publishing the minutes and approved bills timely and all minutes are being signed monthly.

Conclusion: Response accepted.

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: The audit was completed before the CAR due date.