

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

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

June 30, 2007

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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, 2007, 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, 2007, 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 March 24, 2008, 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 32 through 33 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, 2006, (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

March 24, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

South Clay Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 Financial Highlights

- General Fund revenues increased from \$1,546,038 in fiscal 2006 to \$1,570,817 in fiscal 2007, while General Fund expenditures increased from \$1,471,917 in fiscal 2006 to \$1,481,452 in fiscal 2007. The District's General Fund balance increased from \$246,410 in fiscal 2006 to \$327,844 in fiscal 2007, a 33% increase.

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

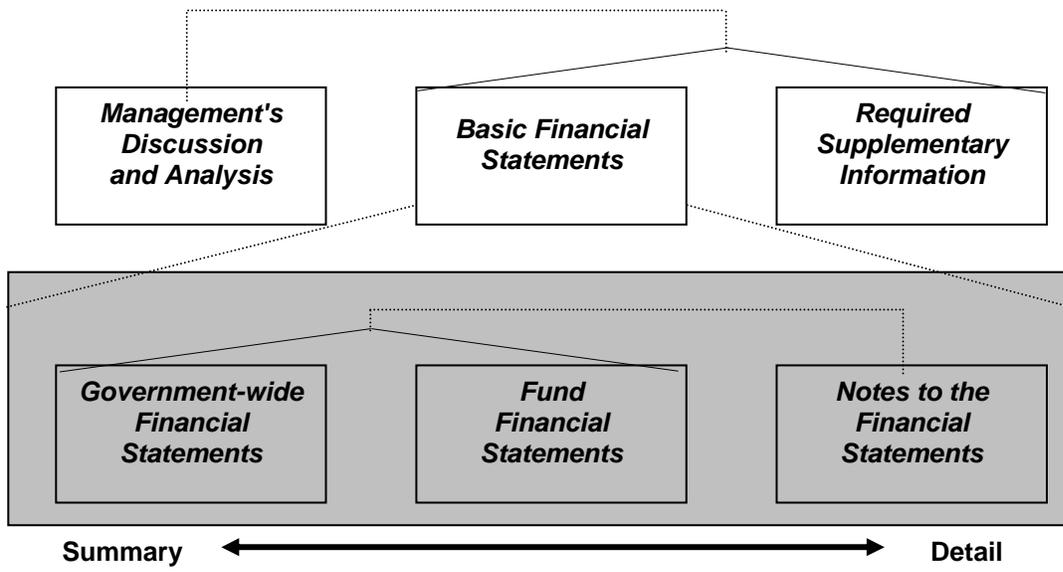


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

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

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund. The District uses *internal service funds*, the other kind of proprietary fund, to report activities that provide supplies and services for its other programs and activities. The District current has one internal service fund used to account for the District's employee 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, 2007 compared to June 30, 2006.

Figure A-3

Condensed Statement of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Percentage Change
	2006	2007	2006	2007	2006	2007	2006-2007
	\$	\$	\$		\$	\$	
Current and other assets	1,598,746	1,625,379	6,732	8,188	1,605,478	1,633,567	2%
Capital assets	155,664	198,180	-	-	155,664	198,180	27%
Total assets	1,754,410	1,823,559	6,732	8,188	1,761,142	1,831,747	4%
Long-term liabilities	-	-	-	-	-	-	0%
Other liabilities	942,572	898,487	143	613	942,715	899,100	-5%
Total liabilities	942,572	898,487	143	613	942,715	899,100	-5%
Net Assets:							
Invested in capital assets, net of related debt	155,664	198,180	-	-	155,664	198,180	27%
Restricted	367,160	359,633	-	-	367,160	359,633	-2%
Unrestricted	289,014	367,259	6,589	7,575	295,603	374,834	27%
TOTAL NET ASSETS	811,838	925,072	6,589	7,575	818,427	932,647	14%

The District's combined net assets increased by nearly 14%, or approximately \$114,220, 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 \$7,527 or -2% 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 – increased approximately \$79,231, or 27%.

Figure A-4 shows the change in net assets for the years ended June 30, 2007 and 2006.

Figure A-4

	Change in Net Assets						Percentage Change 2006-2007
	Governmental Activities		Business-type Activities		Total School District		
	2006	2007	2006	2007	2006	2007	
	\$	\$	\$	\$	\$	\$	
Revenues							
Program Revenues:							
Charges for services	75,476	52,942	13,744	16,993	89,220	69,935	-22%
Operating grants & contributions	170,051	177,430	15,079	15,885	185,130	193,315	4%
Capital grants & contributions	-	22,400	-	-	-	22,400	100%
General Revenues:							
Property taxes	746,186	822,134	-	-	746,186	822,134	10%
Income Surtax	42,653	37,811	-	-	42,653	37,811	-11%
Local option sales tax	92,018	129,521	-	-	92,018	129,521	41%
Unrestricted state grants	509,753	478,981	-	-	509,753	478,981	-6%
Unrestricted investment earnings	23,693	28,432	90	217	23,783	28,649	20%
Other revenue	-	-	-	-	-	-	0%
Total Revenues	1,659,830	1,749,651	28,913	33,095	1,688,743	1,782,746	6%
Expenses:							
Instruction	1,086,754	1,146,955	-	-	1,086,754	1,146,955	6%
Support services	417,971	398,593	-	-	417,971	398,593	-5%
Non-instructional programs	-	-	39,695	40,040	39,695	40,040	1%
Other expenditures	62,778	82,938	-	-	62,778	82,938	32%
Total expenses	1,567,503	1,628,486	39,695	40,040	1,607,198	1,668,526	4%
Change in net assets before transfers	92,327	121,165	-10,782	-6,945	81,545	114,220	40%
Transfers	-20,000	-7,931	20,000	7,931	-	-	0%
CHANGE IN NET ASSETS	72,327	113,234	9,218	986	81,545	114,220	40%
Net assets beginning of year	739,511	811,838	-2,629	6,589	736,882	818,427	11%
Net assets end of year	811,838	925,072	6,589	7,575	818,427	932,647	14%

Property tax and unrestricted state grants account for 73% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 93% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$1,749,651 and expenses were \$1,628,486. 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	Total Cost of Services	Net Cost of Services	Net Cost of Services
	2006	2007	2006	2007
	\$	\$	\$	\$
Instruction	1,086,754	1,146,955	944,064	985,853
Support Services	417,971	398,593	372,438	388,381
Non-instructional Programs	-	-	-	-
Other Expenses	62,778	82,938	5,474	1,480
TOTAL	1,567,503	1,628,486	1,321,976	1,375,714

- The cost financed by users of the 2006 District's programs was \$75,476 and for 2007 the total was \$52,942. This was charges for services.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$199,380.
- The net cost of governmental activities was financed with \$989,466 in property and other taxes and \$478,981 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$33,095 and expenses were \$40,040. 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 \$687,477 well above last year's ending fund balances of \$613,570.

Governmental Fund Highlights

- The General Fund balance increased from \$246,410 to \$327,844, due to maintaining expenditures below revenues.
- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$23,993 in fiscal 2006 to \$23,954 in fiscal 2007.
- The Capital Projects, Local Option Sales Tax Fund balance increased \$24,291. Fiscal 2007 ended with a balance of \$258,978 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 \$6,589 at June 30, 2006 to \$7,575 at June 30 2007.

BUDGETARY HIGHLIGHTS

The District's receipts were \$1,112 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, 2007, the District had invested \$198,180, 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 4 to the financial statements. Depreciation expense for the year was \$50,692.

During the year the District purchased a bus telephone system and a security system for a total of \$88,028.

Figure A-6

Capital Assets (net of depreciation)

	Governmental		Business type		Total		Percentage Change 2006-2007
	Activities		Activities		School District		
	2006	2007	2006	2007	2006	2007	
	\$	\$	\$	\$	\$	\$	
Land	650	650	-	-	650	650	0%
Buildings	70,608	65,534	-	-	70,608	65,534	-7%
Equipment & Furniture	61,143	131,996	-	-	61,143	131,996	116%
TOTAL	132,401	198,180	-	-	132,401	198,180	50%

Long-Term Debt

The District had no long-term debt at June 30, 2007.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of 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, 2007

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents:			
Other	679,835	6,662	686,497
Receivables:			
Property tax:			
Delinquent	13,834	-	13,834
Succeeding year	851,290	-	851,290
Transfer from/to General Fund	-	182	182
Due from other governments	80,420	-	80,420
Inventories	-	1,344	1,344
Capital assets, net of accumulated depreciation	198,180	-	198,180
	<u>1,823,559</u>	<u>8,188</u>	<u>1,831,747</u>
Liabilities			
Accounts payable	47,197	-	47,197
Deferred revenue:			
Succeeding year property tax	851,290	-	851,290
Other	-	613	613
	<u>898,487</u>	<u>613</u>	<u>899,100</u>
Net assets			
Invested in capital assets, net of related debt	198,180	-	198,180
Restricted for:			
Management levy	73,216	-	73,216
Physical plant and equipment levy	23,954	-	23,954
Other special revenue purposes	3,485	-	3,485
Capital projects local option sales tax	258,978	-	258,978
Unrestricted	367,259	7,575	374,834
	<u>925,072</u>	<u>7,575</u>	<u>932,647</u>

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2007

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular	870,816	36,467	79,193	-
Special	220,363	5,795	8,757	-
Other	55,776	9,976	20,914	-
	1,146,955	52,238	108,864	-
Support services:				
Student	737	-	-	-
Instructional staff	27,209	-	6,676	-
Administration	135,743	-	-	-
Operation and maintenance of plant	128,592	-	-	-
Transportation	106,312	704	2,832	-
	398,593	704	9,508	-
Other expenditures:				
Facilities acquisition	21,328	-	-	22,400
AEA flowthrough	59,058	-	59,058	-
Depreciation (unallocated)*	2,552	-	-	-
	82,938	-	59,058	22,400
Total governmental activities	1,628,486	52,942	177,430	22,400
Business type activities:				
Non-instructional programs:				
Food service operations	40,040	16,993	15,885	-
Total	1,668,526	69,935	193,315	22,400

General Revenues:

Property taxes levied for:
 General purposes
 Income surtax
 Local option sales and services tax
 Unrestricted state grants
 Unrestricted investment earnings

 Total general revenues

Transfers

 Total general revenues and transfers

Change in net assets

Net assets beginning of year

Net assets end of year

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

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
\$	\$	\$
(755,156)	-	(755,156)
(205,811)	-	(205,811)
<u>(24,886)</u>	<u>-</u>	<u>(24,886)</u>
<u>(985,853)</u>	<u>-</u>	<u>(985,853)</u>
(737)	-	(737)
(20,533)	-	(20,533)
(135,743)	-	(135,743)
(128,592)	-	(128,592)
<u>(102,776)</u>	<u>-</u>	<u>(102,776)</u>
<u>(388,381)</u>	<u>-</u>	<u>(388,381)</u>
1,072	-	1,072
-	-	-
<u>(2,552)</u>	<u>-</u>	<u>(2,552)</u>
<u>(1,480)</u>	<u>-</u>	<u>(1,480)</u>
(1,375,714)	-	(1,375,714)
-	(7,162)	(7,162)
<u>(1,375,714)</u>	<u>(7,162)</u>	<u>(1,382,876)</u>
822,134	-	822,134
37,811	-	37,811
129,521	-	129,521
478,981	-	478,981
<u>28,432</u>	<u>217</u>	<u>28,649</u>
1,496,879	217	1,497,096
<u>(7,931)</u>	<u>7,931</u>	<u>-</u>
<u>1,488,948</u>	<u>8,148</u>	<u>1,497,096</u>
113,234	986	114,220
<u>811,838</u>	<u>6,589</u>	<u>818,427</u>
<u>925,072</u>	<u>7,575</u>	<u>932,647</u>

See notes to financial statements.

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2007

	General Fund	Local Option Sales Tax	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	349,009	226,051	100,753	675,813
Receivables:				
Property tax:				
Delinquent	13,834	-	-	13,834
Succeeding year	811,290	-	40,000	851,290
Due from other governments	47,493	32,927	-	80,420
	<u>1,221,626</u>	<u>258,978</u>	<u>140,753</u>	<u>1,621,357</u>
Total assets				
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	44,681	-	98	44,779
Deferred revenue:				
Succeeding year property tax	811,290	-	40,000	851,290
Other	37,811	-	-	37,811
Total liabilities	<u>893,782</u>	<u>-</u>	<u>40,098</u>	<u>933,880</u>
Fund balances:				
Unreserved reported in:				
General Fund	327,844	-	-	327,844
Special Revenue Funds	-	-	100,655	100,655
Capital Projects Fund	-	258,978	-	258,978
Total fund balances	<u>327,844</u>	<u>258,978</u>	<u>100,655</u>	<u>687,477</u>
	<u>1,221,626</u>	<u>258,978</u>	<u>140,753</u>	<u>1,621,357</u>
Total liabilities and fund balances				

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

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

June 30, 2007

	\$
Total fund balances of governmental funds (Exhibit C)	687,477
<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.	198,180
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	37,811
An Internal Service Fund is used by the District's management to charge the costs of the employee flexible benefit program to the individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities.	<u>1,604</u>
Net assets of governmental activities (Exhibit A)	<u><u>925,072</u></u>

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	General Fund	Local Option Sales Tax	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	858,879	129,521	-	988,400
Tuition	19,020	-	-	19,020
Other	36,507	5,270	20,577	62,354
State sources	604,911	-	-	604,911
Federal sources	51,500	22,400	-	73,900
Total revenues	<u>1,570,817</u>	<u>157,191</u>	<u>20,577</u>	<u>1,748,585</u>
Expenditures:				
Current:				
Instruction:				
Regular	817,363	36,345	-	853,708
Special	220,363	-	-	220,363
Other	42,903	-	12,873	55,776
	<u>1,080,629</u>	<u>36,345</u>	<u>12,873</u>	<u>1,129,847</u>
Support services:				
Student	737	-	-	737
Instructional staff	27,209	-	-	27,209
Administration	151,143	-	-	151,143
Operation and maintenance of plant	93,486	8,527	30,779	132,792
Transportation	69,190	65,628	4,635	139,453
	<u>341,765</u>	<u>74,155</u>	<u>35,414</u>	<u>451,334</u>
Other expenditures:				
Facilities acquisition	-	22,400	4,108	26,508
Long-term debt:				
AEA flowthrough	59,058	-	-	59,058
	<u>59,058</u>	<u>22,400</u>	<u>4,108</u>	<u>85,566</u>
Total expenditures	<u>1,481,452</u>	<u>132,900</u>	<u>52,395</u>	<u>1,666,747</u>
Excess (deficiency) of revenues over (under) expenditures	<u>89,365</u>	<u>24,291</u>	<u>(31,818)</u>	<u>81,838</u>
Other financing sources (uses):				
Operating transfers out	<u>(7,931)</u>	<u>-</u>	<u>-</u>	<u>(7,931)</u>
Net change in fund balances	81,434	24,291	(31,818)	73,907
Fund balances beginning of year	<u>246,410</u>	<u>234,687</u>	<u>132,473</u>	<u>613,570</u>
Fund balances end of year	<u><u>327,844</u></u>	<u><u>258,978</u></u>	<u><u>100,655</u></u>	<u><u>687,477</u></u>

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		73,907
<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 Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:		
Expenditures for capital assets	93,208	
Depreciation expense	<u>(50,692)</u>	42,516
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.		
		1,066
An Internal Service Fund is used by the District's management to charge the costs of the employee flexible benefit program to the individual funds. The net revenue (expense) of the Internal Service Fund is reported with governmental activities.		
		<u>(4,255)</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>113,234</u></u>

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2007

	Enterprise Fund	Governmental Activities - Internal Service Fund
	Nonmajor School Nutrition	Service Fund
	\$	\$
Assets		
Cash and cash equivalents	6,662	4,022
Accounts receivable	182	-
Inventories	1,344	-
	<u>8,188</u>	<u>4,022</u>
Total assets		
Liabilities		
Accounts payable	-	2,418
Deferred revenue	613	-
	<u>613</u>	<u>2,418</u>
Total liabilities		
Net assets		
Unrestricted	<u>7,575</u>	<u>1,604</u>

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	Enterprise Fund Nonmajor School Nutrition <u> </u> \$	Governmental Activities - Internal Service Fund <u> </u> \$
Operating revenues:		
Local sources:		
Charges for service	16,993	54,546
Operating expenses:		
Non-instructional programs:		
Salaries	19,425	-
Benefits	4,921	58,932
Supplies	14,224	25
Other	1,470	-
	<u>40,040</u>	<u>58,957</u>
Operating gain (loss)	<u>(23,047)</u>	<u>(4,411)</u>
Non-operating revenues:		
State sources	475	-
Federal sources	15,410	-
Interest income	217	156
Total non-operating revenues	<u>16,102</u>	<u>156</u>
Gain (loss) before transfers	(6,945)	(4,255)
Transfers in	<u>7,931</u>	<u>-</u>
Change in net assets	986	(4,255)
Net assets beginning of year	<u>6,589</u>	<u>5,859</u>
Net assets end of year	<u><u>7,575</u></u>	<u><u>1,604</u></u>

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2007

	Enterprise Fund	Governmental Activities - Internal Service Fund
	Nonmajor School Nutrition	Service Fund
	\$	\$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	17,529	-
Cash received from other services	-	54,547
Cash payments to employees for services	(24,347)	(55,720)
Cash payments to suppliers for goods or services	(11,679)	(820)
Net cash (used by) provided by operating activities	<u>(18,497)</u>	<u>(1,993)</u>
Cash flows from non-capital financing activities:		
Transfer from/to General Fund	(809)	-
Loan from General Fund	-	(12,000)
State grants received	475	-
Federal grants received	12,643	-
Net cash provided by non-capital financing activities	<u>12,309</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>217</u>	<u>156</u>
Net increase (decrease) in cash and cash equivalents	(5,971)	(13,837)
Cash and cash equivalents at beginning of year	<u>12,633</u>	<u>17,859</u>
Cash and cash equivalents at end of year	<u>6,662</u>	<u>4,022</u>
Reconciliation of operating gain (loss) to net cash used by operating activities:		
Operating gain (loss)	(23,047)	(4,411)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	3,835	-
Decrease (increase) in inventories	179	-
Decrease (increase) in accounts receivable	66	-
(Decrease) increase in accounts payable	-	2,418
(Decrease) increase in deferred revenue	470	-
Net cash used in operating activities	<u>(18,497)</u>	<u>(1,993)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2007, the District received \$3,835 of federal commodities.

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2007

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 not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which 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 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 non-operating 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 non-operating 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 financial statements:

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, 2007.

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, 2005 assessed property valuations; is for the tax accrual period July 1, 2006, through June 30, 2007, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

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 not available for appropriation or 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 are 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, 2007, expenditures in the non-instructional programs function exceeded the amount budgeted. The District also exceeded its spending authority in the General Fund.

2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2007 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 Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer To	Transfer From	Amount
		\$
Nonmajor School Nutrition Fund	General Fund	7,931

4. Capital Assets

Capital assets activity for the year ended June 30, 2007 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	650	-	-	650
Capital assets being depreciated:				
Buildings	290,299	-	-	290,299
Furniture and equipment	393,856	88,028	96,940	384,944
Total capital assets being deprec.	<u>684,155</u>	<u>88,028</u>	<u>96,940</u>	<u>675,243</u>
Less accumulated depreciation for:				
Buildings	222,243	2,552	30	224,765
Furniture and equipment	306,898	48,140	102,090	252,948
Total accumulated depreciation	<u>529,141</u>	<u>50,692</u>	<u>102,120</u>	<u>477,713</u>
Total capital assets being depreciated, net	<u>155,014</u>	<u>37,336</u>	<u>(5,180)</u>	<u>197,530</u>
Governmental activities capital assets, net	<u>155,014</u>	<u>37,336</u>	<u>(5,180)</u>	<u>198,180</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	26,953	-	-	26,953
Less accumulated depreciation	<u>26,953</u>	<u>-</u>	<u>-</u>	<u>26,953</u>
Business type activities capital assets, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	12,853
Support Services:	
Administration	2,200
Operation and maintenance	600
Transportation	<u>32,487</u>
Unallocated depreciation	<u>2,552</u>
Total depreciation expense – governmental activities	<u>50,692</u>
Business type activities:	
Food services	<u>-</u>

5. Long-Term Liabilities

Bonds Payable

The District had no bonded indebtedness at June 30, 2007.

6. 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, 2007, 2006 and 2005. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$32,410, \$32,465, and \$30,892 respectively, equal to the required contributions for each year.

7. 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.

8. 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 \$59,058 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

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, 2007

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	1,069,774	17,210	1,086,984	1,087,703	1,087,703	(719)
State sources	604,911	475	605,386	621,854	621,854	(16,468)
Federal sources	73,900	15,410	89,310	73,235	73,235	16,075
Total revenues	<u>1,748,585</u>	<u>33,095</u>	<u>1,781,680</u>	<u>1,782,792</u>	<u>1,782,792</u>	<u>(1,112)</u>
Expenditures:						
Instruction	1,129,847	-	1,129,847	1,257,308	1,257,308	127,461
Support services	451,334	-	451,334	499,000	499,000	47,666
Non-instructional programs	-	40,040	40,040	37,000	37,000	(3,040)
Other expenditures	85,566	-	85,566	87,417	87,417	1,851
Total expenditures	<u>1,666,747</u>	<u>40,040</u>	<u>1,706,787</u>	<u>1,880,725</u>	<u>1,880,725</u>	<u>173,938</u>
Excess (deficiency) of revenues over (under) expenditures	81,838	(6,945)	74,893	(97,933)	(97,933)	172,826
Other financing sources (uses) net	<u>(7,931)</u>	<u>7,931</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	73,907	986	74,893	(97,933)	(97,933)	172,826
Balance beginning of year	<u>613,570</u>	<u>6,589</u>	<u>620,159</u>	<u>595,473</u>	<u>595,473</u>	<u>24,686</u>
Balance end of year	<u><u>687,477</u></u>	<u><u>7,575</u></u>	<u><u>695,052</u></u>	<u><u>497,540</u></u>	<u><u>497,540</u></u>	<u><u>197,512</u></u>

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2007

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 function level, not by fund. The Code of Iowa also provides 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, 2007, expenditures in the non-instructional programs function exceeded the amount budgeted. Also the District exceeded its General Fund spending authority.

OTHER SUPPLEMENTARY INFORMATION

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2007

Assets	Special Revenue Funds			Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	
	\$	\$	\$	
Cash and pooled investments	73,216	3,583	23,954	100,753
Receivables:				
Property tax:				
Succeeding year	40,000	-	-	40,000
Total assets	113,216	3,583	23,954	140,753
Liabilities & Fund Balances				
Liabilities				
Accounts payable	-	98	-	98
Deferred revenue:				
Succeeding year property tax	40,000	-	-	40,000
Total liabilities	40,000	98	-	40,098
Fund balances:				
Unreserved fund balance reported in:				
Special Revenue Funds	73,216	3,485	23,954	100,655
Total liabilities and fund balances	113,216	3,583	23,954	140,753

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	Special Revenue Funds			Total
	Management	Student	Physical	
	Levy	Activity	Plant and	
	\$	\$	\$	\$
Revenues:				
Local sources:				
Other	5,270	10,037	5,270	20,577
Expenditures:				
Current:				
Instruction:				
Other	-	12,873	-	12,873
Support services:				
Operation and maintenance of plant	29,578	-	1,201	30,779
Transportation	4,635	-	-	4,635
Other expenditures:				
Facilities acquisition	-	-	4,108	4,108
Total expenditures	34,213	12,873	5,309	52,395
Excess (deficiency) of revenues over (under) expenditures	(28,943)	(2,836)	(39)	(31,818)
Fund balances beginning of year	102,159	6,321	23,993	132,473
Fund balances end of year	73,216	3,485	23,954	100,655

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2007

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
	\$	\$	\$	\$	\$
Pop	8,031	346	5,388	(100)	2,889
T-Shirt fund raiser/field trip fund raiser	(1,612)	21	6,285	544	(7,332)
Annual	(98)	9,670	1,200	(444)	7,928
Total	<u>6,321</u>	<u>10,037</u>	<u>12,873</u>	<u>-</u>	<u>3,485</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			
	2007	2006	2005	2004
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	988,400	883,367	932,642	952,717
Tuition	19,020	8,155	10,496	32,481
Other	62,354	91,014	39,895	54,197
State sources	604,911	624,060	632,473	561,772
Federal sources	73,900	55,744	57,628	64,454
Total revenues	<u>1,748,585</u>	<u>1,662,340</u>	<u>1,673,134</u>	<u>1,665,621</u>
Expenditures:				
Instruction:				
Regular	853,708	857,146	844,002	768,875
Special	220,363	161,487	205,789	276,576
Other	55,776	55,918	68,872	6,839
Support services:				
Student	737	1,176	7,910	10,215
Instructional staff	27,209	26,116	20,273	35,012
Administration	151,143	158,257	144,474	152,802
Operation and maintenance of plant	132,792	134,460	104,601	149,970
Transportation	139,453	136,630	81,683	97,271
Non-instructional programs	-	-	5,203	3,964
Other expenditures:				
Facilities acquisition	26,508	2,922	22,481	16,102
Long-term debt:				
Principal	-	2,544	5,000	5,000
AEA flowthrough	59,058	57,304	57,339	58,152
Total expenditures	<u>1,666,747</u>	<u>1,593,960</u>	<u>1,567,627</u>	<u>1,580,778</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
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, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 24, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of South Clay Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of South Clay Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects South Clay Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of South Clay Community School District's financial statements that is more than inconsequential will not be prevented or detected by South Clay Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by South Clay Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items 07-I-A, 07-I-B and 07-I-C 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 and Responses.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 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.

South Clay Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit South Clay Community School District's responses and, accordingly, we express no opinion on them.

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

March 24, 2008

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2007

Part I: Findings related to the Financial Statements:

Significant deficiencies:

07-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, preparing and posting general journal entries, 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.

07-I-B Financial Statement Preparation: Financial statement preparation is the responsibility of the District. At the present time District personnel do not have the skills necessary to be able to write the District's financial statements and the related note disclosures. This is not an unusual situation for small governmental entities.

Recommendation: District personnel should attend any governmental accounting and reporting training sessions that may be offered by the Iowa Department of Education, State Auditor's Office or Iowa Association of School Business Officials. The school business office should also have governmental accounting and reporting reference materials.

District Response: As a school we certainly understand the need for continuing education classes for all of our staff. However, we have a limited budget and must continually prioritize needs. At this point in time it is not cost effective to train our staff to the level necessary that would enable them to write the financial statements, nor is it feasible to hire additional employees that already possess the skills.

Conclusion: Response accepted.

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2007

Part I: Findings related to the Financial Statements (continued):

07-I-C Signature Stamp: We noted that a stamp bearing the signatures of the Board President and Board Secretary is used to sign checks. The Board Secretary prints the checks and uses the stamp to sign the checks.

Recommendation: This practice negates the control established by requiring two signatures on the checks. The board secretary should not have access to or use a stamp with the Board President's signature.

District Response: We will review methods to limit access to the signature stamp.

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2007

Part II: Other Findings Related to Statutory Reporting:

07-II-A Certified Budget: Expenditures for the year ended June 30, 2007, exceeded the amount budgeted in the non-instructional programs functional area. Also the District exceeded its spending authority in the General Fund.

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.

07-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.

07-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.

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

07-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.

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

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

07-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.

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

07-II-J Financial Condition: The Activity Fund has one account with a deficit balance at June 30, 2007.

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

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

Conclusion: Response accepted.