

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL  
DISTRICT

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

June 30, 2010

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Independent Auditor's Report

To the Board of Education of  
Clay Central/Every Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Clay Central/Every Community School District, Royal, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Clay Central/Every Community School District at June 30, 2011, 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 7, 2011, on our consideration of Clay Central/Every 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, Budgetary Comparison Information, and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 10 and 36 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Clay Central/Everyly Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2009, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BURTON E. TRACY & CO., P.C.  
Certified Public Accountants

March 7, 2011

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Clay Central/Everyly Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2010 Financial Highlights

- General Fund revenues decreased from \$4,284,781 in fiscal 2009 to \$4,162,072 in fiscal 2010, while General Fund expenditures decreased from \$4,549,332 in fiscal 2009 to \$4,307,862 in fiscal 2010. The District's General Fund balance decreased from \$(927,951) in fiscal 2009 to \$(1,073,741) in fiscal 2010.
- The decrease in fund balance was due to a decrease in revenue and increased costs in the special education program. General fund expenditures were not decreased as they should have been.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Clay Central - Everyly Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Clay Central/Everyly Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Clay Central/Everyly Community School District acts solely as an agent or custodian for the benefit of those outside of 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 non-major funds.

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

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

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

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

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

### *Fund Financial Statements*

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-1 below provides a summary of the District’s net assets at June 30, 2010 compared to June 30, 2009.

Figure A-1

	Condensed Statement of Net Assets						Percentage Change 2009-2010
	Governmental Activities		Business-type Activities		Total School District		
	2010	2009	2010	2009	2010	2009	
	\$	\$	\$	\$	\$	\$	
Current and other assets	2,968,570	3,939,678	(48,216)	(42,600)	2,920,354	3,897,078	-25%
Capital assets	1,121,296	1,141,074	31,614	22,666	1,152,910	1,163,740	-1%
<b>Total assets</b>	<b>4,089,866</b>	<b>5,080,752</b>	<b>(16,602)</b>	<b>(19,934)</b>	<b>4,073,264</b>	<b>5,060,818</b>	<b>-20%</b>
Long-term liabilities	101,376	30,330	877	-	102,253	30,330	237%
Other liabilities	3,579,440	4,636,379	18,160	12,593	3,597,600	4,648,972	-23%
<b>Total liabilities</b>	<b>3,680,816</b>	<b>4,666,709</b>	<b>19,037</b>	<b>12,593</b>	<b>3,699,853</b>	<b>4,679,302</b>	<b>-21%</b>
Net Assets:							
Invested in capital assets, net of related debt	1,121,296	1,141,074	31,614	22,666	1,152,910	1,163,740	-1%
Restricted	305,074	132,586	-	-	305,074	132,586	130%
Unrestricted	(1,017,320)	(859,617)	(67,253)	(55,193)	(1,084,573)	(914,810)	-19%
<b>TOTAL NET ASSETS</b>	<b>409,050</b>	<b>414,043</b>	<b>(35,639)</b>	<b>(32,527)</b>	<b>373,411</b>	<b>381,516</b>	<b>-2%</b>

The District’s combined net assets decreased by nearly 2%, or approximately \$8,105, over the prior year. The largest portion of the District’s net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District’s restricted net assets increased approximately \$172,488 or 130% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$169,763, or 19%.

Figure A-2 shows the change in net assets for the years ended June 30, 2010 and 2009.

Figure A-2

	Change in Net Assets						Percentage Change 2009-2010
	Governmental Activities		Business-type Activities		Total School District		
	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	
Revenues							
Program Revenues:							
Charges for services	369,762	426,436	101,018	99,907	470,780	526,343	-11%
Operating grants & contributions	796,355	587,918	93,391	83,291	889,746	671,209	32%
Capital grants & contributions	-	-	-	-	-	-	-
General Revenues:							
Property taxes	2,230,750	2,127,722	-	-	2,230,750	2,127,722	5%
Income Surtax	105,051	87,190	-	-	105,051	87,190	20%
Statewide sales & services tax	318,672	330,854	-	-	318,672	330,854	-4%
Unrestricted state grants	884,495	1,266,492	-	-	884,495	1,266,492	-30%
Unrestricted investment earnings	28,656	29,064	54	79	28,710	29,143	-1%
Other revenue	8,006	-	-	-	8,006	-	100%
<b>Total Revenues</b>	<b>4,741,747</b>	<b>4,855,676</b>	<b>194,463</b>	<b>183,277</b>	<b>4,936,210</b>	<b>5,038,953</b>	<b>-2%</b>
Expenses:							
Instruction	2,944,392	2,994,545	-	-	2,944,392	2,994,545	-2%
Support services	1,422,317	1,696,380	-	-	1,422,317	1,696,380	-16%
Non-instructional programs	125	386	208,242	226,449	208,367	226,835	-8%
Other expenditures	358,266	375,262	-	-	358,266	375,262	-5%
<b>Total expenses</b>	<b>4,725,100</b>	<b>5,066,573</b>	<b>208,242</b>	<b>226,449</b>	<b>4,933,342</b>	<b>5,293,022</b>	<b>-7%</b>
<b>Change in net assets before Transfers &amp; loss on</b>	<b>16,647</b>	<b>(210,897)</b>	<b>(13,779)</b>	<b>(43,172)</b>	<b>2,868</b>	<b>(254,069)</b>	<b>101%</b>
Loss on disposal of assets	(10,973)	-	-	-	(10,973)	-	-100%
Transfer	(10,667)	(6,239)	10,667	6,239	-	-	
<b>CHANGE IN NET ASSETS</b>	<b>(4,993)</b>	<b>(217,136)</b>	<b>(3,112)</b>	<b>(36,933)</b>	<b>(8,105)</b>	<b>(254,069)</b>	<b>103%</b>
Net assets beginning of year, as restated	414,043	631,179	(32,527)	4,406	381,516	635,585	-40%
Net assets end of year	409,050	414,043	(35,639)	(32,527)	373,411	381,516	-2%

Property tax and unrestricted state grants account for 63% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 89% of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$4,741,747 and expenses were \$4,725,100.

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

Figure A-3

**Total and Net Cost of Governmental Activities**

	<b>Total Cost of Services 2010 \$</b>	<b>Total Cost of Services 2009 \$</b>	<b>Net Cost Of Services 2010 \$</b>	<b>Net Cost of Services 2009 \$</b>
Instruction	2,944,392	2,994,545	1,955,356	2,140,380
Support Services	1,422,317	1,696,380	1,419,446	1,691,230
Non-instructional Programs	125	386	(6,171)	386
Other Expenses	358,266	375,262	190,352	220,223
<b>TOTAL</b>	<u>4,725,100</u>	<u>5,066,573</u>	<u>3,558,983</u>	<u>4,052,219</u>

- The cost financed by users of the District's programs was \$369,762.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$796,355.
- The net cost of governmental activities was financed with \$2,654,473 in property and other taxes and \$884,495 in unrestricted state grants.

**Business Type Activities**

Revenues for business type activities were \$194,463 and expenses were \$208,242. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2011, the District's will significantly increase meal costs to reflect labor and food costs.

**INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund deficit balance of \$691,414.

**Governmental Fund Highlights**

- The District needs to decrease all expenditures in the General Fund to maintain solvency.
- The General Fund balance decreased from \$(927,951) to \$(1,073,741), due to increased expenses and decreased revenues.

## Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$(32,527) at June 30, 2009 to \$(35,639) at June 30, 2010. The District will need to increase cost of meals to reflect the cost of preparing them. The snack program will need to be examined to make sure there is enough funds to continue.

## BUDGETARY HIGHLIGHTS

Over the course of the year, Clay Central/Everyly Community School District amended its annual budget one time to reflect additional expenditures associated with instruction, non-instructional programs and other expenditures.

The District's receipts were \$277,993 less than budgeted receipts. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

Total expenditures were less than the amended budget, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year. The District will continue this budget practice and will amend when necessary.

During the year ended June 30, 2010, expenditures did not exceed the amount of the amended budget. The District did exceed its General Fund spending authority.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2010, the District had invested \$1,152,910, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-4) More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$170,424.

**Figure A-4**  
**Capital Assets (net of depreciation)**

	Governmental Activities		Business Type Activities		Total School District		Percentage Change 2009-2010
	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	
Land	9,589	9,589	-	-	9,589	9,589	0%
Buildings	841,228	870,479	-	-	841,228	870,479	-3%
Improvements	162,080	134,484	-	-	162,080	134,484	21%
Equipment & Furniture	108,399	126,522	31,614	22,666	140,013	149,188	-6%
<b>TOTAL</b>	<b>1,121,296</b>	<b>1,141,074</b>	<b>31,614</b>	<b>22,666</b>	<b>1,152,910</b>	<b>1,163,740</b>	<b>-1%</b>

## Long-Term Debt

At June 30, 2010, the District had \$ 101,376 in other long-term debt outstanding. (See Figure A-5) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

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

	<b>Total School District</b>		<b>Percentage</b>
	<b>2010</b>	<b>2009</b>	<b>Change</b>
			<b>2009-2010</b>
	\$	\$	
Termination benefits	77,253	30,330	155%
Net OPEB liability	24,123	-	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:

- The District did not make the reductions necessary in 2010. Some reductions will come in the 2010-2011 school year but, will not be enough. Substantial reductions will have to be made in 2011-2012 to maintain viability.

## 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 Diane White, District Secretary/Treasurer and Business Manager, Clay Central/Everly School District, 401 Church St, PO Box 110, Royal, Iowa, 51357.

## BASIC FINANCIAL STATEMENTS

## CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2010

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and cash equivalents	296,654	9,373	306,027
Receivables:			
Property tax:			
Delinquent	30,446	-	30,446
Succeeding year	2,325,195	-	2,325,195
Accounts	15,108	4,545	19,653
Interest receivable	-	15	15
Due from other governments	229,021	-	229,021
Inventories	-	9,997	9,997
Internal balances	72,146	(72,146)	-
Capital assets, net of accumulated depreciation	1,121,296	31,614	1,152,910
	<u>4,089,866</u>	<u>(16,602)</u>	<u>4,073,264</u>
<b>Liabilities</b>			
Accounts payable	615,540	4,037	619,577
Salaries and benefits payable	362,373	12,567	374,940
Deferred revenue:			
Succeeding year property tax	2,325,195	-	2,325,195
Other	83,332	1,556	84,888
Notes payable-banks	193,000	-	193,000
Long-term liabilities:			
Portion due within one year:			
Termination benefits	38,990	-	38,990
Portion due after one year:			
Termination benefits	38,263	-	38,263
Net OPEB liability	24,123	877	25,000
	<u>3,680,816</u>	<u>19,037</u>	<u>3,699,853</u>
<b>Net assets</b>			
Invested in capital assets	1,121,296	31,614	1,152,910
Restricted for:			
Management levy	33,526	-	33,526
Capital outlay	238,973	-	238,973
Other special revenue purposes	32,575	-	32,575
Unrestricted	(1,017,320)	(67,253)	(1,084,573)
	<u>409,050</u>	<u>(35,639)</u>	<u>373,411</u>

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year Ended June 30, 2010

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>		
		<b>Charges for Services</b>	<b>Grants, Contributions and Restricted Interest</b>	<b>Capital Grants, Contributions and Restricted Interest</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Governmental activities:</b>				
<b>Instruction:</b>				
Regular	1,784,896	280,057	507,718	-
Special	530,108	-	42,994	-
Other	629,388	83,409	74,858	-
	<u>2,944,392</u>	<u>363,466</u>	<u>625,570</u>	<u>-</u>
<b>Support services:</b>				
Student	116,315	-	-	-
Instructional staff	139,770	-	-	-
Administration	535,806	-	-	-
Operation and maintenance of plant	411,860	-	-	-
Transportation	218,566	-	2,871	-
	<u>1,422,317</u>	<u>-</u>	<u>2,871</u>	<u>-</u>
<b>Non-instructional programs</b>	<u>125</u>	<u>6,296</u>	<u>-</u>	<u>-</u>
<b>Other expenditures:</b>				
Facilities acquisition	122,872	-	-	-
AEA flowthrough	167,914	-	167,914	-
Depreciation (unallocated)*	67,480	-	-	-
	<u>358,266</u>	<u>-</u>	<u>167,914</u>	<u>-</u>
<b>Total governmental activities</b>	<u>4,725,100</u>	<u>369,762</u>	<u>796,355</u>	<u>-</u>
<b>Business type activities:</b>				
<b>Non-instructional programs:</b>				
Food service operations	208,242	101,018	93,391	-
<b>Total</b>	<u>4,933,342</u>	<u>470,780</u>	<u>889,746</u>	<u>-</u>
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Statewide sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Loss on disposal assets				
<b>Total general revenues</b>				
<b>Transfers</b>				
<b>Total general revenues and transfers</b>				

**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.

Net (Expense) Revenue and Changes in Net

Governmental Activities	Business Type Activities	Total
\$	\$	\$
(997,121)	-	(997,121)
(487,114)	-	(487,114)
(471,121)	-	(471,121)
<u>(1,955,356)</u>	<u>-</u>	<u>(1,955,356)</u>
(116,315)	-	(116,315)
(139,770)	-	(139,770)
(535,806)	-	(535,806)
(411,860)	-	(411,860)
(215,695)	-	(215,695)
<u>(1,419,446)</u>	<u>-</u>	<u>(1,419,446)</u>
<u>6,171</u>	<u>-</u>	<u>6,171</u>
(122,872)	-	(122,872)
-	-	-
(67,480)	-	(67,480)
<u>(190,352)</u>	<u>-</u>	<u>(190,352)</u>
(3,558,983)	-	(3,558,983)
<u>-</u>	<u>(13,833)</u>	<u>(13,833)</u>
<u>(3,558,983)</u>	<u>(13,833)</u>	<u>(3,572,816)</u>
1,871,345	-	1,871,345
359,405	-	359,405
105,051	-	105,051
318,672	-	318,672
884,495	-	884,495
28,656	54	28,710
8,006	-	8,006
(10,973)	-	(10,973)
<u>3,564,657</u>	<u>54</u>	<u>3,564,711</u>
<u>(10,667)</u>	<u>10,667</u>	<u>-</u>
<u>3,553,990</u>	<u>10,721</u>	<u>3,564,711</u>
(4,993)	(3,112)	(8,105)
<u>414,043</u>	<u>(32,527)</u>	<u>381,516</u>
<u>409,050</u>	<u>(35,639)</u>	<u>373,411</u>

## CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2010

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
<b>Assets</b>			
Cash and pooled investments	250	296,404	296,654
Receivables:			
Property tax:			
Delinquent	28,402	2,044	30,446
Succeeding year	2,205,195	120,000	2,325,195
Accounts	12,742	2,366	15,108
Interfund receivable	77,532	88,006	165,538
Due from other governments	178,176	50,845	229,021
<b>Total assets</b>	<u>2,502,297</u>	<u>559,665</u>	<u>3,061,962</u>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	563,587	51,953	615,540
Salaries and benefits payable	362,373	-	362,373
Notes payable	193,000	-	193,000
Interfund payable	88,007	5,385	93,392
Deferred revenue:			
Succeeding year property tax	2,205,195	120,000	2,325,195
Income surtax	80,544	-	80,544
Other	83,332	-	83,332
<b>Total liabilities</b>	<u>3,576,038</u>	<u>177,338</u>	<u>3,753,376</u>
Fund balances:			
Unreserved, reported in:			
General fund	(1,073,741)	-	(1,073,741)
Special Revenue funds	-	187,181	187,181
Capital Project funds	-	195,146	195,146
<b>Total fund balances</b>	<u>(1,073,741)</u>	<u>382,327</u>	<u>(691,414)</u>
<b>Total liabilities and fund balances</b>	<u>2,502,297</u>	<u>559,665</u>	<u>3,061,962</u>

## CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

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

June 30, 2010

	\$
<b>Total fund balances of governmental funds (Exhibit C)</b>	(691,414)
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,121,296
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	80,544
Long-term liabilities, including termination benefits and other post employment benefits are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(101,376)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>409,050</u></u>

## CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	2,183,492	465,407	2,648,899
Tuition	102,324	-	102,324
Other	197,406	108,694	306,100
State sources	1,341,003	-	1,341,003
Federal sources	337,847	-	337,847
Total revenues	<u>4,162,072</u>	<u>574,101</u>	<u>4,736,173</u>
Expenditures:			
Current:			
Instruction:			
Regular	1,689,170	28,766	1,717,936
Special	526,161	-	526,161
Other	543,395	84,239	627,634
	<u>2,758,726</u>	<u>113,005</u>	<u>2,871,731</u>
Support services:			
Student	115,259	179	115,438
Instructional staff	139,613	157	139,770
Administration	528,435	5,617	534,052
Operation and maintenance of plant	417,385	82	417,467
Transportation	180,530	39,632	220,162
	<u>1,381,222</u>	<u>45,667</u>	<u>1,426,889</u>
Non-instructional programs	-	125	125
Other expenditures:			
Facilities acquisition	-	189,257	189,257
AEA flowthrough	167,914	-	167,914
	<u>167,914</u>	<u>189,257</u>	<u>357,171</u>
Total expenditures	<u>4,307,862</u>	<u>348,054</u>	<u>4,655,916</u>
Net change in fund balances	(145,790)	226,047	80,257
Fund balances beginning of year	<u>(927,951)</u>	<u>156,280</u>	<u>(771,671)</u>
Fund balances end of year	<u>(1,073,741)</u>	<u>382,327</u>	<u>(691,414)</u>

## CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		80,257
<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. Depreciation expense exceeded capital outlay expenditures in the current year as follows:		
Expenditures for capital assets	159,032	
Loss on disposal of equipment	(10,973)	
Depreciation expense	<u>(167,837)</u>	(19,778)
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.		
		5,574
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Termination benefits	(46,923)	
Other postemployment benefits	<u>(24,123)</u>	<u>(71,046)</u>
<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>(4,993)</u></u>

## CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Funds

June 30, 2010

	Nonmajor School Nutrition
	<u>\$</u>
<b>Assets</b>	
Cash and cash equivalents	9,373
Interest receivable	15
Accounts receivable	4,545
Inventories	9,997
Capital assets, net of accumulated depreciation	<u>31,614</u>
<b>Total assets</b>	<u>55,544</u>
<b>Liabilities</b>	
Accounts payable	4,037
Interfund loan payable	72,146
Salaries and benefits payable	12,567
Deferred revenue	1,556
Net OPEB liability	<u>877</u>
<b>Total liabilities</b>	<u>91,183</u>
<b>Net assets</b>	
Invested in capital assets	31,614
Unrestricted	<u>(67,253)</u>
<b>Total net assets</b>	<u><u>(35,639)</u></u>

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Proprietary Funds

Year ended June 30, 2010

	Nonmajor School Nutrition <u>          </u> \$
Operating revenues:	
Local sources:	
Charges for service	<u>101,018</u>
Operating expenses:	
Non-instructional programs:	
Salaries	67,183
Benefits	26,856
Purchased services	525
Supplies	110,691
Depreciation	<u>2,987</u>
Total operating expenses	<u>208,242</u>
Operating gain (loss)	<u>(107,224)</u>
Non-operating revenues:	
State sources	1,912
Federal sources	91,479
Interest income	<u>54</u>
Total non-operating revenues	<u>93,445</u>
Gain (loss) before contributed capital	(13,779)
Contributed capital	<u>10,667</u>
Change in net assets	(3,112)
Net assets beginning of year	<u>(32,527)</u>
Net assets end of year	<u><u>(35,639)</u></u>

## CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2010

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	97,723
Cash payments to employees for services	(92,028)
Cash payments to suppliers for goods or services	(103,267)
Net cash used by operating activities	<u>(97,572)</u>
Cash flows from non-capital financing activities:	
State grants received	1,912
Federal grants received	83,595
Net cash provided by non-capital financing activities	<u>85,507</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	<u>(1,267)</u>
Cash flows from investing activities:	
Interest on investments	<u>39</u>
Net increase (decrease) in cash and cash equivalents	(13,293)
Cash and cash equivalents at beginning of year	<u>22,666</u>
Cash and cash equivalents at end of year	<u><u>9,373</u></u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>	
Operating gain (loss)	(107,224)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	7,884
Depreciation	2,987
Decrease (increase) in inventories	(3,972)
Decrease (increase) in accounts receivable	(3,691)
(Decrease) increase in accounts payable	4,037
(Decrease) increase in salaries and benefits payable	1,135
(Decrease) increase in deferred revenue	395
(Decrease) increase in other postemployment benefits	877
Net cash used by operating activities	<u><u>(97,572)</u></u>

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

During the year ended June 30, 2010, the District received \$7,884 of federal commodities.

During the year ended June 30, 2010, the School Nutrition Fund received \$10,667 of equipment that was purchased by other funds.

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Funds

June 30, 2010

	Private Purpose Trust Scholarship <u>          </u> \$	Agency <u>          </u> \$
<b>Assets</b>		
Cash and pooled investments	8,961	496
Accrued interest receivable	90	-
Due from other governments	<u>          -</u>	<u>          10</u>
<b>Total assets</b>	9,051	506
<b>Liabilities</b>		
Other payables	<u>          -</u>	<u>          506</u>
<b>Net assets</b>		
Reserved for scholarships	<u>          9,051</u>	<u>          -</u>

## CLAY CENTRAL-EVERLY COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2010

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	1,690
Interest	<u>120</u>
Total additions	1,810
Deductions:	
Support services:	
Scholarships awarded	<u>1,840</u>
Change in net assets	(30)
Net assets beginning of year	<u>9,081</u>
Net assets end of year	<u><u>9,051</u></u>

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2010

**1. Summary of Significant Accounting Policies**

Clay Central/Everly Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Royal and Everly, Iowa and the predominately agricultural territory in a portion of Clay, Dickinson and O'Brien Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Clay Central/Everly Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The Clay Central/Everly Community School District has no component units that meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the County Assessor's Conference Board.

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable 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, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental fund:

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

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

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

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

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

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the 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.

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, 2008 assessed property valuations; is for the tax accrual period July 1, 2009, through June 30, 2010, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2009.

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

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	500
Buildings	500
Improvements other than buildings	1,000
Intangibles	5,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	1,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	5-25 years
Intangibles	3-10 Years
Furniture and equipment	3-15 years

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

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds, amounts received in advance for meal sales and succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Employees are not paid for unused vacation and sick leave benefits when employment with the District ends.

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts 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, 2010, the District did not exceed the amount of the amended budget. The District did exceed its General Fund spending authority.

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

The District's deposits in banks at June 30, 2010 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.

At June 30, 2010, the District had investments in the Iowa Schools Joint Investment Trust as follows:

Diversified Portfolio

Amortized Cost  
\$  
301,011

The investment is valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk: The investment in the Iowa Schools Joint Investment Trust is rated Aaa by Moody's Investors Service.

**3. Interfund Receivables and Payables**

The detail of interfund receivables and payables at June 30, 2010 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
		\$
General Fund	Activity Fund	5,385
General Fund	Nutrition Fund	72,146
Management	General Fund	8,006
Capital Projects	General Fund	80,000
		<u>165,537</u>

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

**4. Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Bankers Trust Co. N.A. is the trustee for the program.

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. The District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate on the Series 2009-10A warrants was 2.50%. The interest rate on the Series 2009-10B warrants is a variable rate, calculated daily based upon the Bankers Trust Co., NA prime rate plus 50 basis points with a minimum interest rate of 4.50% A summary of the District's ISCAP activity for the year ended June 30, 2010, is as follows:

Series	Warrant Date	Final Warrant Maturity Date	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
			\$	\$	\$	\$
2008-09B	1/21/09	1/21/10	500,000	-	500,000	-
2009-10A	6/25/09	6/23/10	-	1,085,000	1,085,000	-
2009-10B	2/1/10	1/21/11	-	550,000	550,000	-
			<u>500,000</u>	<u>1,635,000</u>	<u>2,135,000</u>	<u>-</u>

During the year ended June 30, 2010, the District paid \$17,353 of interest on the ISCAP warrants.

## 5. Capital Assets

Capital assets activity for the year ended June 30, 2010 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	9,589	-	-	9,589
Capital assets being depreciated:				
Buildings	2,805,441	-	-	2,805,441
Improvements other than buildings	498,097	65,825	-	563,922
Furniture and equipment	1,807,339	93,207	48,737	1,851,809
Total capital assets being deprec.	<u>5,110,877</u>	<u>159,032</u>	<u>48,737</u>	<u>5,221,172</u>
Less accumulated depreciation for:				
Buildings	1,934,962	29,251	-	1,964,213
Improvements other than buildings	363,613	38,229	-	401,842
Furniture and equipment	1,680,817	100,357	37,764	1,743,410
Total accumulated depreciation	<u>3,979,392</u>	<u>167,837</u>	<u>37,764</u>	<u>4,109,465</u>
Total capital assets being depreciated, net	<u>1,131,485</u>	<u>(8,805)</u>	<u>10,973</u>	<u>1,111,707</u>
Governmental activities capital assets, net	<u>1,141,074</u>	<u>(8,805)</u>	<u>10,973</u>	<u>1,121,296</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Business type activities:</b>				
Furniture and equipment	117,594	10,107	-	127,701
Less accumulated depreciation	<u>94,928</u>	<u>2,587</u>	-	<u>96,087</u>
Business type activities capital assets, net	<u>22,666</u>	<u>7,520</u>	-	<u>31,614</u>
Depreciation expense was charged to the following functions:				
				\$
Governmental activities:				
Instruction:				
Regular				62,453
Support services:				
Operation and maintenance of plant services				1,000
Transportation				36,904
				<u>100,357</u>
Unallocated depreciation				<u>67,480</u>
Total depreciation expense – governmental activities				<u>167,837</u>
Business type activities:				
Food services				<u>2,587</u>

## 6. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2010, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Governmental activities:					
Termination benefits	30,330	69,648	22,725	77,253	38,990
Net OPEB liability	-	24,123	-	24,123	-
<b>Total</b>	<b>30,330</b>	<b>93,771</b>	<b>22,725</b>	<b>101,376</b>	<b>38,990</b>
	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Business type activities:					
Net OPEB liability	-	877	-	877	-

### Termination Benefits

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

At June 30, 2010, the District has obligations to eight participants with a total liability of \$77,253. Actual early retirement expenditures for the year ended June 30, 2010 totaled \$22,725.

## 7. Bank Line of Credit

Clay Central/Every Community School District has a \$500,000 line of credit with a local bank. Any balance on the note is due in full on November 9, 2010. Balances due accrue interest at 4.250%. Note activity for the year is as follows.

Balance owed Beginning of Year	Advances	Repayments	Balance Owed End of Year
\$	\$	\$	\$
70,000	592,000	469,000	193,000

## 8. Pension and Retirement Benefits

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

Plan members are required to contribute 4.30% of their annual covered salary and the District is required to contribute 6.65% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$169,679, \$164,800 and \$154,588 respectively, equal to the required contributions for each year.

**9. Other Postemployment Benefits (OPEB)**

The District implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions during the year ended June 30, 2010.

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 50 active and 7 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

	\$
Annual required contribution	65,000
Contributions made	<u>40,000</u>
Increase in net OPEB obligation	25,000
Net OPEB obligation beginning of year	<u>-</u>
 Net OPEB obligation end of year	 <u><u>25,000</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the District contributed \$40,000 to the medical plan.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u> \$	<u>Percentage of Annual OPEB Cost Contributed</u> %	<u>Net OPEB Obligation</u> \$
June 30, 2010	65,000	61.54	25,000

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$643,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$643,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,950,000, and the ratio of the UAAL to covered payroll was 33.0%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the unit alternative measurement method was used. The actuarial assumptions includes a 4.50% discount rate based on the District's funding policy. The projected annual medical trend rate is 11.00%. The ultimate medical trend rate is 5.0%. The medical trend rate is reduced 0.5% each year until reaching the 5.0% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

Projected claim costs of the medical plan are \$445 per month for retirees less than age 65 and \$445 per month for retirees who have attained age 65. The salary increase rate was assumed to be 3.5% per year. The UAAL is being amortized over 30 years.

## 10. Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## **11. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$167,914 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

## **12. Financial Condition**

The General Fund has a deficit unreserved fund balance of \$1,073,741 and the School Nutrition Fund had a deficit net assets of \$35,639 at June 30, 2010.

REQUIRED SUPPLEMENTARY INFORMATION

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2010

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	3,057,323	101,072	3,158,395	3,110,728	3,110,728	47,667
State sources	1,341,003	1,912	1,342,915	1,919,901	1,919,901	(576,986)
Federal sources	337,847	91,479	429,326	178,000	178,000	251,326
Total revenues	<u>4,736,173</u>	<u>194,463</u>	<u>4,930,636</u>	<u>5,208,629</u>	<u>5,208,629</u>	<u>(277,993)</u>
Expenditures/Expenses:						
Instruction	2,871,731	-	2,871,731	3,120,000	3,550,000	678,269
Support services	1,426,889	-	1,426,889	1,874,700	1,874,700	447,811
Non-instructional programs	125	208,242	208,367	207,500	307,500	99,133
Other expenditures	357,171	-	357,171	171,582	432,000	74,829
Total expenditures/expenses	<u>4,655,916</u>	<u>208,242</u>	<u>4,864,158</u>	<u>5,373,782</u>	<u>6,164,200</u>	<u>1,300,042</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	80,257	(13,779)	66,478	(165,153)	(955,571)	1,022,049
Other financing sources (uses) net	-	10,667	10,667	-	-	10,667
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expense:	80,257	(3,112)	77,145	(165,153)	(955,571)	1,032,716
Balance beginning of year as adjusted	<u>(771,671)</u>	<u>(32,527)</u>	<u>(804,198)</u>	<u>(224,026)</u>	<u>(224,026)</u>	<u>(580,172)</u>
Balance end of year	<u>(691,414)</u>	<u>(35,639)</u>	<u>(727,053)</u>	<u>(389,179)</u>	<u>(1,179,597)</u>	<u>452,544</u>

See accompanying independent auditor's report.

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2010

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards 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 that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$790,418.

During the year ended June 30, 2010, expenditures did not exceed the amended budget. The District did exceed its General Fund spending authority.

CLAY CENTRAL-EVERLY COMMUNITY SCHOOL DISTRICT

Schedule of Funding Progress for the Retiree Health Plan

Required Supplementary Information

Actuarial Valuation Date	Actuarial Value of Assets ( a ) \$	Actuarial Accrued Liability (AAL) ( b ) \$	Unfunded AAL (UAAL) ( b-a ) \$	Funded Ratio ( a/b ) %	Covered Payroll ( c ) \$	UAAL as a Percentage of Covered Payroll ( (b-a)/c ) %
July 1, 2009	-	643,000	643,000	-	1,950,000	33.0%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

## CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2010

Assets	Special Revenue Funds				Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment	Capital Projects	
	\$	\$	\$	\$	\$
Cash and pooled investments	102,459	43,180	43,282	107,483	296,404
Receivables:					
Property tax:					
Delinquent	1,499	-	545	-	2,044
Succeeding year	120,000	-	-	-	120,000
Accounts	1,091	1,242	-	33	2,366
Interfund receivable	8,006	-	-	80,000	88,006
Due from other governments	-	-	-	50,845	50,845
<b>Total assets</b>	<b>233,055</b>	<b>44,422</b>	<b>43,827</b>	<b>238,361</b>	<b>559,665</b>
<b>Liabilities &amp; Fund Balances</b>					
Liabilities:					
Accounts payable	2,276	6,462	-	43,215	51,953
Interfund payables	-	5,385	-	-	5,385
Deferred revenue:					
Succeeding year property tax	120,000	-	-	-	120,000
Total liabilities	122,276	11,847	-	43,215	177,338
Fund balances:					
Unreserved fund balance reported in:					
Special revenue funds	110,779	32,575	43,827	-	187,181
Capital project funds	-	-	-	195,146	195,146
Total fund balances	110,779	32,575	43,827	195,146	382,327
<b>Total liabilities and fund balances</b>	<b>233,055</b>	<b>44,422</b>	<b>43,827</b>	<b>238,361</b>	<b>559,665</b>

## CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	Special Revenue Funds				Total
	Management	Student	Physical	Capital	
	Levy	Activity	Plant and	Projects	
		Equipment			
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	111,576	-	40,733	313,098	465,407
Other	8,148	94,522	-	6,024	108,694
Total revenues	<u>119,724</u>	<u>94,522</u>	<u>40,733</u>	<u>319,122</u>	<u>574,101</u>
Expenditures:					
Current:					
Instruction:					
Regular	28,766	-	-	-	28,766
Other	-	84,239	-	-	84,239
Support services:					
Student	179	-	-	-	179
Instructional staff	157	-	-	-	157
Administration	3,029	-	2,527	61	5,617
Operation and maintenance of plant	82	-	-	-	82
Transportation	301	-	39,331	-	39,632
Non-instructional programs	125	-	-	-	125
Other expenditures:					
Facilities acquisition	-	-	-	189,257	189,257
Total expenditures	<u>32,639</u>	<u>84,239</u>	<u>41,858</u>	<u>189,318</u>	<u>348,054</u>
Net change in fund balances	87,085	10,283	(1,125)	129,804	226,047
Fund balances beginning of year	<u>23,694</u>	<u>22,292</u>	<u>44,952</u>	<u>65,342</u>	<u>156,280</u>
Fund balances end of year	<u><u>110,779</u></u>	<u><u>32,575</u></u>	<u><u>43,827</u></u>	<u><u>195,146</u></u>	<u><u>382,327</u></u>

## CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
RIF	1,558	650	1,045	1,163
Science fair	497	212	356	353
Musical/play	4,557	2,750	4,290	3,017
Athletics	8,448	33,960	32,629	9,779
Fish fry-fund raiser	(1,357)	-	-	(1,357)
FFA	219	19,924	16,451	3,692
Class of 2009	(2,194)	-	2,867	(5,061)
Class of 2010	2,353	30	26	2,357
Class of 2011	2,380	4,854	2,630	4,604
Class of 2012	1,176	585	-	1,761
Class of 2013	1,040	-	-	1,040
Class of 2014	2,496	-	-	2,496
Class of 2015	1,476	-	-	1,476
Class of 2016	-	3,472	2,098	1,374
HS student council	-	1,644	1,644	-
Dance team	465	120	-	585
Interest	61	123	7	177
HS student pop	608	7,894	2,720	5,782
Concessions	298	10,848	10,768	378
Cheerleaders/drill team	170	355	525	-
Yearbook	2,739	3,984	4,088	2,635
MS yearbook	853	1,340	452	1,741
Everly elem. pop	(128)	267	238	(99)
Royal elem. pop	(128)	268	238	(98)
Beginning accruals	(5,295)	-	(5,295)	-
Ending accruals	-	1,242	6,462	(5,220)
Total	22,292	94,522	84,239	32,575

## CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Fund

Year ended June 30, 2010

	<u>Wellness</u>	<u>Staff</u> <u>Collections</u>	<u>Total</u>
	\$	\$	\$
Balance beginning of year	128	164	292
Additions:			
Collections	630	-	630
Deductions:			
Miscellaneous	<u>416</u>	<u>-</u>	<u>416</u>
Balance end of year	<u><u>342</u></u>	<u><u>164</u></u>	<u><u>506</u></u>

## CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

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

For the Last Seven Years

	Modified Accrual Basis						
	2010	2009	2008	2007	2006	2005	2004
	\$	\$	\$	\$	\$	\$	\$
Revenues:							
Local sources:							
Local tax	2,648,899	2,539,371	2,538,939	2,531,092	2,138,555	1,985,339	2,294,713
Tuition	102,324	170,661	226,676	249,008	233,651	169,629	104,886
Other	306,100	257,235	299,665	159,848	207,449	175,153	168,973
State sources	1,341,003	1,757,501	1,779,013	1,878,327	1,837,744	1,627,999	1,495,353
Federal sources	337,847	124,514	164,603	103,202	162,484	154,562	159,525
Total revenues	<u>4,736,173</u>	<u>4,849,282</u>	<u>5,008,896</u>	<u>4,921,477</u>	<u>4,579,883</u>	<u>4,112,682</u>	<u>4,223,450</u>
Expenditures:							
Instruction:							
Regular	1,717,936	1,764,952	1,767,584	1,763,287	1,684,894	1,755,841	1,813,721
Special	526,161	652,872	602,549	626,457	605,403	559,174	451,164
Other	627,634	606,864	436,170	443,668	491,957	513,517	349,733
Support services:							
Student	115,438	234,640	168,211	194,405	135,419	103,446	182,842
Instructional staff	139,770	129,757	130,107	123,788	131,974	141,061	160,140
Administration	534,052	663,956	783,644	647,765	595,832	489,617	533,061
Operation and maintenance	417,467	410,501	395,673	337,531	360,926	321,960	280,957
Transportation	220,162	281,836	246,619	177,619	261,619	146,576	179,973
Non-instructional programs	125	386	1,036	473	1,700	14,329	-
Other expenditures:							
Facilities acquisition	189,257	167,025	117,736	310,480	325,588	401,264	195,588
Long-term debt:							
Principal	-	-	19,866	19,042	17,981	16,978	16,032
Interest and other charges	-	-	1,142	2,237	3,271	4,247	5,169
AEA flowthrough	167,914	155,039	153,117	151,253	145,603	138,798	141,419
Total expenditures	<u>4,655,916</u>	<u>5,067,828</u>	<u>4,823,454</u>	<u>4,798,005</u>	<u>4,762,167</u>	<u>4,606,808</u>	<u>4,309,799</u>

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

To the Board of Education of  
Clay Central/Everyly Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Clay Central/Everyly Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 7, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Clay Central/Everyly Community School District's internal control over financial reporting 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 an opinion on the effectiveness of Clay Central/Everyly Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Clay Central/Everyly 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses as items 10-I-A and 10-I-B to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clay Central/Every 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 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, 2010 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.

Clay Central/Every Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the District's responses, we did not audit Clay Central/Every 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 Clay Central/Every Community School District and other parties to whom Clay Central/Every Community School District may report, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Clay Central/Every 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 7, 2011

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2010

Part I: Findings Related to the Financial Statements:

Internal Control Deficiencies:

10-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: We will continue to review our procedures and implement additional controls where possible.

Conclusion: Response accepted.

10-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: We have new personnel in bookkeeping. We will be sending them to continuing education and training.

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2010

Part II: Other Findings Related to Statutory Reporting:

10-II-A Certified Budget: Expenditures for the year ended June 30, 2010 did not exceed the amended budget. The District did exceed its General Fund spending authority.

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

District Response: We are working on restoring spending authority. The new administration is meeting with the School Budget Review Committee.

Conclusion: Response accepted.

10-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 except as noted in comment 10-II-N.

10-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 except as noted in comment 10-II-N.

10-II-D Business Transactions: Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
		\$
Gary Klett, board member	Officiating	835
Brian Batsulelet, board member	Substitute bus driver	327

The transactions do not appear to represent a conflict of interest since the dollar amounts are less than \$2,500.

10-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.

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

10-II-G Certified Enrollment: No variances in the basic enrollment data certified to the Department of Education were noted.

10-IV-H Supplementary Weighting: No variances regarding supplementary weighting certified to the Department of Education were noted.

10-II-I Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2010

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

10-II-J Certified Annual Report: The Certified Annual Report was certified to the Iowa Department of Education on September 21, 2010 which was after the September 15, 2010 due date.

Recommendation: In the future, the District should ensure the Certified Annual Report is timely certified to the Iowa Department of Education.

District Response: We will do so in the future.

Conclusion: Response accepted.

10-II-K Categorical Funding: No instances were noted of categorical funding being used to supplant rather than supplement other funds.

According to administrative rules, "Categorical funding shall not be commingled with other funding. School Districts shall use a project code and program code as defined by Uniform Financial Accounting." We noted that during the year categorical funding expenditures were commingled with other General Fund expenditures.

Recommendation: All categorical funding expenditures should be posted to the correct expenditure accounts as the expenditures are incurred.

District Response: We have revised our procedures for identifying categorical expenditures so that they will be coded to the correct expenditure accounts.

Conclusion: Response accepted.

10-II-L Statewide Sales and Services Tax: No instances of non-compliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales and services tax. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales and services tax are as follows:

Beginning balance	\$	\$
		65,342
Statewide sales and services tax revenue	313,098	
Interest	191	
Miscellaneous	<u>5,833</u>	319,122
Expenditures/transfers out:		
School infrastructure:		
Buildings and building improvements	65,825	
Equipment	<u>123,493</u>	<u>189,318</u>
Ending balance		<u><u>195,146</u></u>

CLAY CENTRAL/EVERLY COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2010

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

The statewide sales, services and use tax revenue received during the year ended June 30, 2010 is equivalent to a reduction in the following levies:

	<u>Per \$1,000 of Taxable Valuation</u>	<u>Property Tax Dollars</u>
	\$	\$
Physical plant and equipment levy	1.76	313,098

10-II-M Financial Condition: The District has an unreserved deficit fund balance in the General Fund of \$1,073,741 at June 30, 2010 and the School Nutrition Fund had a deficit net assets of \$35,639 at June 30, 2010. The Student Activity Fund also has several accounts with deficit balances.

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

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

Conclusion: Response accepted.

10-II-N Supporting Documentation: We noted a significant amount of credit card payments that were not supported by invoices or receipts. A review of these undocumented expenditures is being conducted by the State Auditor's Office.

Recommendation: The District should receive sufficient documentation for all travel payments and credit card charges and then reconcile the documentation to the invoices each month.

District Response: We are engaged in a state audit to thoroughly look into new policies and examine all transactions from the past.

Conclusion: Response accepted.

10-II-O Interfund loans: On October 22, 2009 the Iowa Department of Education issued a revised declaratory order covering interfund loans. The Order states that all loans between funds must be approved by the board of directors, interest must be paid on the interfund loans and the loans must be repaid before the October 1, after each year-end.

Recommendation: The District should follow the declaratory order with respect to the interfund loans that are listed in Note 3 to the financial statements and any future interfund loans.

District Response: We will review our procedures for interfund loans and will follow the declaratory order.

Conclusion: Response accepted.