

SOUTH CLAY 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  
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, 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 South Clay Community School District at June 30, 2010, 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.

As explained on note 9 to the financial statements, South Clay Community School District dissolved on June 30, 2010.

In accordance with Government Auditing Standards, we have also issued our report dated March 25, 2011, 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, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 4 through 12 and 33 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 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 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 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 25, 2011

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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South Clay Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 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 \$1,518,472 in fiscal 2009 to \$1,476,479 in fiscal 2010, while General Fund expenditures increased from \$1,512,240 in fiscal 2009 to \$1,707,302 in fiscal 2010. The District's General Fund balance decreased from \$332,453 in fiscal 2009 to \$228,789 in fiscal 2010, a 31% decrease.

### USING THIS ANNUAL REPORT

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

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

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

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

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds.

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

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

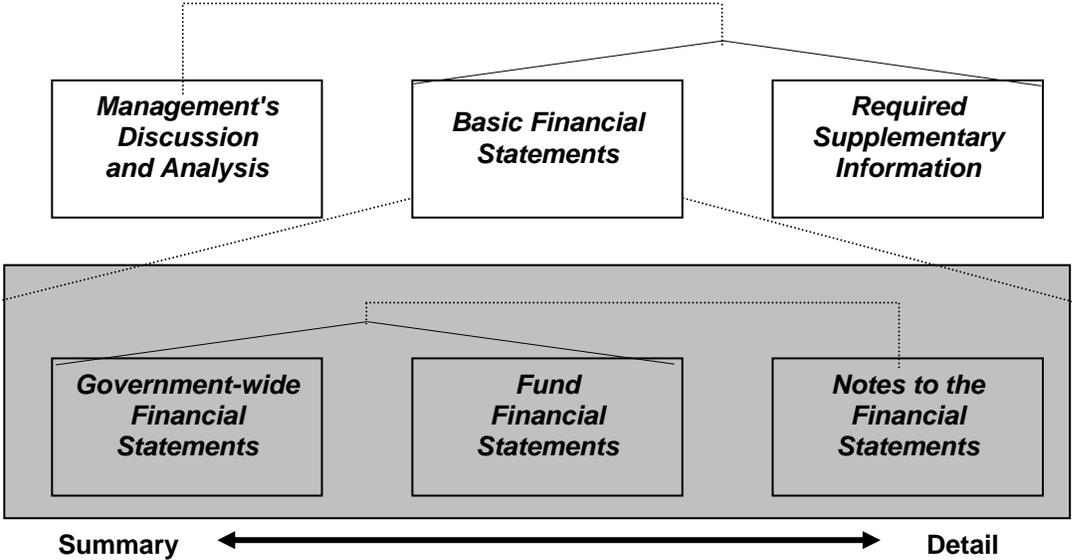


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

## REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

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

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

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

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

#### *Fund Financial Statements*

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

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

The District has two kinds of funds:

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

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

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

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

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

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

## Government-Wide Financial Analysis

Figure A-3 below provides a summary of the District's net assets at June 30, 2010 compared to June 30, 2009.

*Figure A-3*

<b>Condensed Statement of Net Assets</b>							
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total School District</b>		<b>Percentage Change</b>
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2009-2010</b>
	\$	\$	\$		\$	\$	
Current and other assets	856,624	1,877,031	1,799	14,781	858,423	1,891,812	-55%
Capital assets	-	135,856	-	-	-	135,856	-100%
<b>Total assets</b>	<b>856,624</b>	<b>2,012,887</b>	<b>1,799</b>	<b>14,781</b>	<b>858,423</b>	<b>2,027,668</b>	<b>-58%</b>
Long-term liabilities	-	26,913	-	-	-	26,913	-100%
Other liabilities	65,615	913,849	-	-	65,615	913,849	-93%
<b>Total liabilities</b>	<b>65,615</b>	<b>940,762</b>	<b>-</b>	<b>-</b>	<b>65,615</b>	<b>940,762</b>	<b>-93%</b>
Net Assets:							
Invested in capital assets, net of related debt	-	135,856	-	-	-	135,856	-100%
Restricted	506,382	546,143	-	-	506,382	546,143	-7%
Unrestricted	284,627	390,126	1,799	14,781	286,426	404,907	-29%
<b>TOTAL NET ASSETS</b>	<b>791,009</b>	<b>1,072,125</b>	<b>1,799</b>	<b>14,781</b>	<b>792,808</b>	<b>1,086,906</b>	<b>-27%</b>

The District's combined net assets decreased by nearly 27%, or approximately \$294,098, 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 \$39,761 or 7% 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 \$118,481, or 29%.

Figure A-4 shows the change in net assets for the years ended June 30, 2009 and 2010.

**Figure A-4**

	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	98,415	67,458	7,899	14,623	106,314	82,081	30%
Operating grants & contributions	335,818	222,784	14,675	20,790	350,493	243,574	44%
General Revenues:							
Property taxes	849,520	829,131	-	-	849,520	829,131	2%
Income Surtax	65,982	71,835	-	-	65,982	71,835	-8%
Statewide sales & services tax	109,273	133,406	-	-	109,273	133,406	-18%
Unrestricted state grants	256,134	447,604	-	-	256,134	447,604	-43%
Unrestricted investment earnings	9,690	14,416	54	166	9,744	14,582	-33%
Other	20,205	-	3,177	-	23,382	-	100%
<b>Total Revenues</b>	<b>1,745,037</b>	<b>1,786,634</b>	<b>25,805</b>	<b>35,579</b>	<b>1,770,842</b>	<b>1,822,213</b>	<b>-3%</b>
Expenses:							
Instruction	1,419,429	1,162,584	-	-	1,419,429	1,162,584	22%
Support services	512,129	430,912	-	-	512,129	430,912	19%
Non-instructional programs	17,815	-	38,787	42,140	56,602	42,140	34%
Other expenditures	76,780	69,348	-	-	76,780	69,348	11%
<b>Total expenses</b>	<b>2,026,153</b>	<b>1,662,844</b>	<b>38,787</b>	<b>42,140</b>	<b>2,064,940</b>	<b>1,704,984</b>	<b>21%</b>
<b>Change in net assets before transfers</b>	<b>(281,116)</b>	<b>123,790</b>	<b>(12,982)</b>	<b>(6,561)</b>	<b>(294,098)</b>	<b>117,229</b>	<b>-351%</b>
Transfers	-	(20,000)	-	20,000	-	-	0%
<b>CHANGE IN NET ASSETS</b>	<b>(281,116)</b>	<b>103,790</b>	<b>(12,982)</b>	<b>13,439</b>	<b>(294,098)</b>	<b>117,229</b>	<b>-351%</b>
Net assets beginning of year	1,072,125	968,335	14,781	1,342	1,086,906	969,677	12%
Net assets end of year	791,009	1,072,125	1,799	14,781	792,808	1,086,906	-27%

Property tax and unrestricted state grants account for 62% 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 \$1,745,037 and expenses were \$2,026,153. 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**

	<b>Total Cost of Services</b>	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>	<b>Net Cost of Services</b>
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Instruction	1,419,429	1,162,584	1,059,519	960,321
Support Services	512,129	430,912	503,632	404,106
Non-instructional	17,815	-	17,815	-
Other Expenses	76,780	69,348	10,954	8,175
<b>TOTAL</b>	<b><u>2,026,153</u></b>	<b><u>1,662,844</u></b>	<b><u>1,591,920</u></b>	<b><u>1,372,602</u></b>

- The cost financed by users of the 2009 District's programs was \$67,458 and for 2010 the total was \$98,415. This was charges for services.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$335,818.
- The net cost of governmental activities was financed with \$1,024,775 in property and other taxes and \$256,134 in unrestricted state grants.

## Business Type Activities

Revenues for business type activities were \$25,805 and expenses were \$38,787. 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 \$735,151 well below last year's ending fund balances of \$905,509.

## Governmental Fund Highlights

- The General Fund balance decreased from \$332,453 to \$228,789.
- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$23,797 in fiscal 2009 to \$7,300 in fiscal 2010.

- The Capital Projects, Local Option Sales Tax Fund balance increased \$47,206. Fiscal 2010 ended with a balance of \$477,641.

### Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$14,781 at June 30, 2009 to \$1,799 at June 30 2010.

### BUDGETARY HIGHLIGHTS

The District's receipts were \$191,515 less than budgeted receipts.

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 its budgeting practice, expenditures during the year ended June 30, 2010, exceeded the amount budgeted in the instruction and non-instructional programs functional areas.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

At June 30, 2009, the District had invested \$0, 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 \$28,902.

Figure A-6

#### Capital Assets (net of depreciation)

	Governmental		Business type		Total		Percentage Change 2009-2010
	Activities		Activities		School District		
	2010	2009	2010	2009	2010	2009	
	\$	\$	\$	\$	\$	\$	
Land	-	650	-	-	-	650	-100%
Buildings	-	60,430	-	-	-	60,430	-100%
Equipment & Furniture	-	74,776	-	-	-	74,776	-100%
<b>TOTAL</b>	-	135,856	-	-	-	135,856	-100%

#### Long-Term Debt

At June 30, 2010 the District had \$0 in long-term debt outstanding. This represents a decrease of approximately 100% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

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

	<b>Total School District</b>		<b>Percentage Change</b>
	<u>2010</u>	<u>2009</u>	<u>2009-2010</u>
Termination benefits	\$ -	\$ 26,913	-100%

## **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:

- On June 30, 2010 the District's voluntary dissolution was implemented. The assets and liabilities of the South Clay Community School District shall be distributed as follows:

00.75%	Clay Central Everly
03.24%	Laurens Marathon
00.48%	Ruthven Ayshire
45.50%	Sioux Central
50.03%	Spencer Community School

When the board secretary of the Spencer Community School District determines that the assets and liabilities are all accounted for and that all liabilities have been paid, the balance of the funds remaining in the account shall be distributed to the five school districts on the basis of each district's percentage of real estate received to the total real estate contained in the school district dissolved.

## **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 Sharon Slawson, Business Manager/Board Secretary/Treasurer Spencer Community School District, 23 East 7<sup>th</sup> Street Spencer, Iowa.

## BASIC FINANCIAL STATEMENTS

## SOUTH CLAY COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2010

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and cash equivalents	604,970	2,039	607,009
Receivables:			
Property tax:			
Delinquent	11,987	-	11,987
Accounts receivable	43,884	3,160	47,044
Due from other governments	192,383	-	192,383
Internal balances	3,400	(3,400)	-
	<u>856,624</u>	<u>1,799</u>	<u>858,423</u>
<b>Total assets</b>			
<b>Liabilities</b>			
Accounts payable	65,615	-	65,615
<b>Net assets</b>			
Restricted for:			
Management levy	21,441	-	21,441
Physical plant and equipment levy	7,300	-	7,300
Capital projects sales tax	477,641	-	477,641
Unrestricted	284,627	1,799	286,426
	<u>791,009</u>	<u>1,799</u>	<u>792,808</u>
<b>Total net assets</b>			

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2010

<b><u>Functions/Programs</u></b>	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular	1,001,932	79,703	186,757	-
Special	269,918	18,712	29,520	-
Other	147,579	-	45,218	-
	1,419,429	98,415	261,495	-
Support services:				
Student	9	-	-	-
Instructional staff	29,801	-	-	-
Administration	266,795	-	-	-
Operation and maintenance of plant	132,097	-	-	-
Transportation	83,427	-	8,497	-
	512,129	-	8,497	-
Non-instructional programs	17,815	-	-	-
Other expenditures:				
Facilities acquisition	8,402	-	-	-
AEA flowthrough	65,826	-	65,826	-
Depreciation (unallocated)*	2,552	-	-	-
	76,780	-	65,826	-
Total governmental activities	2,026,153	98,415	335,818	-
Business type activities:				
Non-instructional programs:				
Food service operations	38,787	7,899	14,675	-
Total	2,064,940	106,314	350,493	-
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes				
Income surtax				
Statewide sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
<b>Change in net assets</b>				
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 Assets

Governmental Activities	Business Type Activities	Total
\$	\$	\$
(735,472)	-	(735,472)
(221,686)	-	(221,686)
(102,361)	-	(102,361)
<u>(1,059,519)</u>	<u>-</u>	<u>(1,059,519)</u>
(9)	-	(9)
(29,801)	-	(29,801)
(266,795)	-	(266,795)
(132,097)	-	(132,097)
(74,930)	-	(74,930)
<u>(503,632)</u>	<u>-</u>	<u>(503,632)</u>
(17,815)	-	(17,815)
(8,402)	-	(8,402)
-	-	-
(2,552)	-	(2,552)
<u>(10,954)</u>	<u>-</u>	<u>(10,954)</u>
(1,591,920)	-	(1,591,920)
-	(16,213)	(16,213)
<u>(1,591,920)</u>	<u>(16,213)</u>	<u>(1,608,133)</u>
849,520	-	849,520
65,982	-	65,982
109,273	-	109,273
256,134	-	256,134
9,690	54	9,744
20,205	3,177	23,382
<u>1,310,804</u>	<u>3,231</u>	<u>1,314,035</u>
(281,116)	(12,982)	(294,098)
<u>1,029,688</u>	<u>14,781</u>	<u>1,044,469</u>
<u>791,009</u>	<u>1,799</u>	<u>792,808</u>

## SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2010

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
<b>Assets</b>				
Cash and pooled investments	101,376	476,661	26,794	604,831
Receivables:				
Property tax:				
Delinquent	10,578	-	1,409	11,987
Accounts receivable	42,746	269	538	43,553
Interfund receivable	3,400	-	-	3,400
Due from other governments	172,810	19,573	-	192,383
<b>Total assets</b>	<u>330,910</u>	<u>496,503</u>	<u>28,741</u>	<u>856,154</u>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	46,753	18,862	-	65,615
Deferred revenue:				
Income surtax	55,368	-	-	55,368
Total liabilities	<u>102,121</u>	<u>18,862</u>	<u>-</u>	<u>120,983</u>
Fund balances:				
Unreserved reported in:				
General Fund	228,789	-	-	228,789
Special Revenue Funds	-	-	28,741	28,741
Capital Projects Fund	-	477,641	-	477,641
Total fund balances	<u>228,789</u>	<u>477,641</u>	<u>28,741</u>	<u>735,171</u>
<b>Total liabilities and fund balances</b>	<u>330,910</u>	<u>496,503</u>	<u>28,741</u>	<u>856,154</u>

## SOUTH CLAY 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>	735,171
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	55,368
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>470</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>791,009</u></u>

## SOUTH CLAY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	820,346	109,273	99,844	1,029,463
Tuition	35,137	-	-	35,137
Other	29,044	2,127	4,336	35,507
State sources	417,054	-	-	417,054
Federal sources	174,898	-	-	174,898
Total revenues	<u>1,476,479</u>	<u>111,400</u>	<u>104,180</u>	<u>1,692,059</u>
Expenditures:				
Current:				
Instruction:				
Regular	818,692	52,018	123,527	994,237
Special	269,918	-	-	269,918
Other	145,735	-	1,844	147,579
	<u>1,234,345</u>	<u>52,018</u>	<u>125,371</u>	<u>1,411,734</u>
Support services:				
Student	9	-	-	9
Instructional staff	21,230	-	8,571	29,801
Administration	258,819	-	5,776	264,595
Operation and maintenance of plant	80,148	12,176	37,354	129,678
Transportation	46,925	-	14,771	61,696
	<u>407,131</u>	<u>12,176</u>	<u>66,472</u>	<u>485,779</u>
Non-instructional programs	-	-	17,815	17,815
Other expenditures:				
Facilities acquisition	-	-	8,402	8,402
AEA flowthrough	65,826	-	-	65,826
	<u>65,826</u>	<u>-</u>	<u>8,402</u>	<u>74,228</u>
Total expenditures	<u>1,707,302</u>	<u>64,194</u>	<u>218,060</u>	<u>1,989,556</u>
Excess (deficiency) of revenues over (under) expenditures	(230,823)	47,206	(113,880)	(297,497)
Other financing sources (uses):				
Sale of equipment	127,159	-	-	127,159
Net change in fund balances	(103,664)	47,206	(113,880)	(170,338)
Fund balances beginning of year	332,453	430,435	142,621	905,509
Fund balances end of year	<u>228,789</u>	<u>477,641</u>	<u>28,741</u>	<u>735,171</u>

See notes to financial statements.

## SOUTH CLAY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		(170,338)
<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. Loss on disposal of assets exceeded depreciation expense in the current year, as follows:		
Gain (Loss) on disposal assets	(106,954)	
Depreciation expense	<u>(28,902)</u>	(135,856)
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.		
		(4,688)
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 benefit		26,913
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>2,853</u>
<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>(281,116)</u></u>

## SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Funds

June 30, 2010

	Enterprise Fund	Governmental Activities - Internal Service Fund
	<u>Nonmajor School Nutrition</u>	<u>Service Fund</u>
	\$	\$
<b>Assets</b>		
Cash and cash equivalents	2,039	139
Accounts receivable	<u>3,160</u>	<u>331</u>
<b>Total assets</b>	<u>5,199</u>	<u>470</u>
<b>Liabilities</b>		
Interfund payable	<u>3,400</u>	<u>-</u>
<b>Net assets</b>		
Unrestricted	<u><u>1,799</u></u>	<u><u>470</u></u>

## SOUTH CLAY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	Enterprise Fund <u>Nonmajor School Nutrition</u> \$	Governmental Activities - Internal Service Fund <u>                    </u> \$
Operating revenues:		
Local sources:		
Charges for service	7,899	37,434
Operating expenses:		
Non-instructional programs:		
Salaries	22,159	-
Benefits	5,789	34,608
Supplies	10,839	-
Total operating expenses	<u>38,787</u>	<u>34,608</u>
Operating gain (loss)	<u>(30,888)</u>	<u>2,826</u>
Non-operating revenues:		
State sources	236	-
Federal sources	14,439	-
Interest income	54	27
Gain in sale of capital assets	3,177	-
Total non-operating revenues	<u>17,906</u>	<u>27</u>
Change in net assets	(12,982)	2,853
Net assets beginning of year	<u>14,781</u>	<u>(2,383)</u>
Net assets end of year	<u><u>1,799</u></u>	<u><u>470</u></u>

## SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2010

	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	7,899	-
Cash received from other services	-	37,103
Cash payments to employees for services	(27,264)	(34,608)
Cash payments to suppliers for goods or services	(5,855)	-
Net cash (used by) provided by operating activities	<u>(25,220)</u>	<u>2,495</u>
Cash flows from non-capital financing activities:		
Loan from (repaid to) General Fund	-	(15,300)
State grants received	236	-
Federal grants received	11,138	-
Net cash (used by) provided by non-capital financing activities	<u>11,374</u>	<u>(15,300)</u>
Cash flows from capital and related financing activities:		
Sale of capital assets	19	-
Cash flows from investing activities:		
Interest on investments	52	27
Net increase (decrease) in cash and cash equivalents	(13,775)	(12,778)
Cash and cash equivalents at beginning of year	15,814	12,917
Cash and cash equivalents at end of year	<u>2,039</u>	<u>139</u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>		
Operating gain (loss)	(30,888)	2,826
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	3,301	-
Decrease (increase) in inventories	1,683	-
Decrease (increase) in accounts receivable	-	(331)
(Decrease) increase in accounts payable	684	-
Net cash (used by) provided by operating activities	<u>(25,220)</u>	<u>2,495</u>

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

During the year ended June 30, 2010, the District received \$3,301 of federal commodities.

# SOUTH CLAY COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2010

### 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 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 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 instructional, support and other costs.

The Capital Projects 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 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. The District had no investments as of June 30, 2010.

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.

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 were paid for unused vacation and sick leave benefits at June 30, 2010.

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

**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.

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

**3. Interfund Receivables and Payables**

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

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor: School Nutrition Fund	\$ 3,400

The loan was made to assist with cash flow.

#### 4. 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	650	-	650	-
Capital assets being depreciated:				
Buildings	290,299	-	290,299	-
Furniture and equipment	399,499	-	399,499	-
Total capital assets being deprec.	689,798	-	689,798	-
Less accumulated depreciation for:				
Buildings	229,869	2,552	232,421	-
Furniture and equipment	324,723	26,350	351,073	-
Total accumulated depreciation	554,592	28,902	583,494	-
Total capital assets being depreciated, net	135,206	(28,902)	106,304	-
Governmental activities capital assets, net	135,856	(28,902)	106,954	-
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Business type activities:</b>				
Furniture and equipment	26,953	-	26,953	-
Less accumulated depreciation	26,953	-	26,953	-
Business type activities capital assets, net	-	-	-	-

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Support services:	
Administration	2,200
Operation and maintenance	2,419
Transportation	21,731
	26,350
Unallocated depreciation	2,552
Total depreciation expense – governmental activities	28,902
Business type activities:	
Food services	-

## 5. 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:					
Compensated Absences	-	166,082	166,082	-	-
Termination benefits	26,913	106,000	132,913	-	-
Total	26,913	272,082	298,995	-	-

### 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 no obligations to any participants. Actual early retirement expenditures for the year ended June 30, 2010 totaled \$132,913.

## 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 4.30% of their covered annual 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 \$38,296, \$37,494, and \$37,301 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 \$65,826 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.

**9. Going Concern**

The board of directors of the South Clay Community School has approved dissolving the District effective June 30, 2010. The assets remaining after all liabilities have been paid will be split among the public school districts that are adjacent to the South Clay District.

**10. Impaired Assets**

The District is in the process of disposing of its remaining assets and therefore has removed them from the Districts Statement of Net Assets as of June 30, 2010.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH CLAY 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	1,100,107	7,953	1,108,060	1,198,119	1,198,119	(90,059)
Intermediate sources	-	-	-	2,450	2,450	(2,450)
State sources	417,054	236	417,290	616,133	616,133	(198,843)
Federal sources	174,898	14,439	189,337	89,500	89,500	99,837
Total revenues	<u>1,692,059</u>	<u>22,628</u>	<u>1,714,687</u>	<u>1,906,202</u>	<u>1,906,202</u>	<u>(191,515)</u>
Expenditures/Expenses:						
Instruction	1,411,734	-	1,411,734	1,270,908	1,270,908	(140,826)
Support services	485,779	-	485,779	648,000	648,000	162,221
Non-instructional programs	17,815	38,787	56,602	45,000	45,000	(11,602)
Other expenditures	74,228	-	74,228	77,305	77,305	3,077
Total expenditures/expenses	<u>1,989,556</u>	<u>38,787</u>	<u>2,028,343</u>	<u>2,041,213</u>	<u>2,041,213</u>	<u>12,870</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(297,497)	(16,159)	(313,656)	(135,011)	(135,011)	(178,645)
Other financing sources (uses) net	<u>127,159</u>	<u>3,177</u>	<u>130,336</u>	<u>-</u>	<u>-</u>	<u>130,336</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses	(170,338)	(12,982)	(183,320)	(135,011)	(135,011)	(48,309)
Balance beginning of year	<u>905,509</u>	<u>14,781</u>	<u>920,290</u>	<u>772,292</u>	<u>772,292</u>	<u>147,998</u>
Balance end of year	<u><u>735,171</u></u>	<u><u>1,799</u></u>	<u><u>736,970</u></u>	<u><u>637,281</u></u>	<u><u>637,281</u></u>	<u><u>99,689</u></u>

SOUTH CLAY 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 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. During the year, the District did not amend its budget.

During the year ended June 30, 2010 expenditures exceeded the amounts budgeted in the instruction and noninstructional programs functions.

OTHER SUPPLEMENTARY INFORMATION

## SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2010

<b>Assets</b>	<u>Special Revenue Funds</u>			<u>Total</u>
	<u>Management</u>	<u>Student</u>	<u>Physical</u>	
	<u>Levy</u>	<u>Activity</u>	<u>Plant and</u>	
	<u>\$</u>	<u>\$</u>	<u>Equipment</u>	<u>\$</u>
			<u>Levy</u>	
Cash and pooled investments	19,763	-	7,031	26,794
Receivables:				
Property tax:				
Delinquent	1,409	-	-	1,409
Accounts	269	-	269	538
	<u>21,441</u>	<u>-</u>	<u>7,300</u>	<u>28,741</u>
<b>Total assets</b>				
	<u>21,441</u>	<u>-</u>	<u>7,300</u>	<u>28,741</u>
<b>Liabilities &amp; Fund Balances</b>				
Liabilities	-	-	-	-
Fund balances:				
Unreserved fund balance reported in:				
Special Revenue Funds	21,441	-	7,300	28,741
	<u>21,441</u>	<u>-</u>	<u>7,300</u>	<u>28,741</u>
<b>Total liabilities and fund balances</b>				
	<u>21,441</u>	<u>-</u>	<u>7,300</u>	<u>28,741</u>

## SOUTH CLAY 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 Activity	Physical	
	Levy	Fund	Plant and Equipment Levy	
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	99,844	-	-	99,844
Other	2,127	82	2,127	4,336
Total revenues	<u>101,971</u>	<u>82</u>	<u>2,127</u>	<u>104,180</u>
Expenditures:				
Current:				
Instruction:				
Regular	123,527	-	-	123,527
Other	-	1,844	-	1,844
Support services:				
Instructional staff	8,571	-	-	8,571
Administration	3,766	-	2,010	5,776
Operation and maintenance	29,142	-	8,212	37,354
Transportation	14,771	-	-	14,771
Non-instructional programs	17,815	-	-	17,815
Other expenditures:				
Facilities acquisition	-	-	8,402	8,402
Total expenditures	<u>197,592</u>	<u>1,844</u>	<u>18,624</u>	<u>218,060</u>
Net change in fund balances	(95,621)	(1,762)	(16,497)	(113,880)
Fund balances beginning of year	<u>117,062</u>	<u>1,762</u>	<u>23,797</u>	<u>142,621</u>
Fund balances end of year	<u><u>21,441</u></u>	<u><u>-</u></u>	<u><u>7,300</u></u>	<u><u>28,741</u></u>

## SOUTH CLAY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

<u>Account</u>	<u>Balance Beginning of Year</u> \$	<u>Revenues</u> \$	<u>Expenditures</u> \$	<u>Intra- Fund Transfers</u> \$	<u>Balance End of Year</u> \$
Pop	1,780	81	1,131	-	730
T-Shirt fund raiser/field trip fund raiser	(7,322)	-	-	-	(7,322)
Annual	<u>7,304</u>	<u>1</u>	<u>713</u>	<u>-</u>	<u>6,592</u>
Total	<u><u>1,762</u></u>	<u><u>82</u></u>	<u><u>1,844</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

## SOUTH CLAY 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	1,029,463	1,018,008	989,373	988,400	883,367	932,642	952,717
Tuition	35,137	17,655	43,605	19,020	8,155	10,496	32,481
Other	35,507	64,219	78,626	62,354	91,014	39,895	54,197
State sources	417,054	615,511	602,072	604,911	624,060	632,473	561,772
Federal sources	174,898	54,877	48,958	73,900	55,744	57,628	64,454
Total revenues	<u>1,692,059</u>	<u>1,770,270</u>	<u>1,762,634</u>	<u>1,748,585</u>	<u>1,662,340</u>	<u>1,673,134</u>	<u>1,665,621</u>
Expenditures:							
Instruction:							
Regular	994,237	820,298	894,839	853,708	857,146	844,002	768,875
Special	269,918	244,196	270,599	220,363	161,487	205,789	276,576
Other	147,579	91,902	37,111	55,776	55,918	68,872	6,839
Support services:							
Student	9	54	12,695	737	1,176	7,910	10,215
Instructional staff	29,801	25,384	22,404	27,209	26,116	20,273	35,012
Administration	264,595	157,450	141,678	151,143	158,257	144,474	152,802
Operation and maintenance	129,678	149,153	147,884	132,792	134,460	104,601	149,970
Transportation	61,696	72,521	79,634	139,453	136,630	81,683	97,271
Non-instructional programs	17,815	-	-	-	-	5,203	3,964
Other expenditures:							
Facilities acquisition	8,402	5,623	50	26,508	2,922	22,481	16,102
Long-term debt:							
Principal	-	-	-	-	2,544	5,000	5,000
AEA flowthrough	65,826	61,173	60,224	59,058	57,304	57,339	58,152
Total expenditures	<u>1,989,556</u>	<u>1,627,754</u>	<u>1,667,118</u>	<u>1,666,747</u>	<u>1,593,960</u>	<u>1,567,627</u>	<u>1,580,778</u>

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

To the Board of Education of  
South Clay Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of South Clay Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 25, 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 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 an 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 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.

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, 10-I-B and 10-I-C to be 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, 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.

South Clay 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 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, and pass-through entities, 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 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 25, 2011

SOUTH CLAY 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: Duties were segregated to the extent 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: 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. It was not cost effective to train our staff to the level necessary that would enable them to write the financial statements, nor was it feasible to hire additional employees that already possess the skills.

Conclusion: Response accepted.

10-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.

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2010

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

District Response: The use of the stamp allowed the accounting office to operate efficiently.

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2010

Part II: Other Findings Related to Required Statutory Reporting:

10-II-A Certified Budget: Expenditures for the year ended June 30, 2010, exceeded the published budget in the instructional and non-instructional programs functions.

Recommendation: The certified 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: Year-end expenditures were more than anticipated.

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.

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.

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

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.

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

10-II-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.

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

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 some categorical funding expenditures were commingled with other General Fund expenditures, then were reclassified as categorical spending at the end of the year.

SOUTH CLAY COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2010

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

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

District Response: We had supplemental records to support the categorical funding expenditures.

Conclusion: Response accepted.

10-II-L Statewide Sales and Services Tax:

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, services and use tax. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax are as follows:

Beginning balance	\$	430,435
Statewide sales, services and use tax revenue		109,273
Interest income		2,127
Expenditures/transfers out:		
School infrastructure:		
Equipment		(64,194)
Ending balance		477,641

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:

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
	\$	\$
Physical plant and equipment levy	1.3515	109,273