GMG COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

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GMG Community School District

Officials

Name	Title	Term Expires
Board of Education (Before September 2003 Election)		
Allen Burt	President	2003
Rick Landt	Vice President	2004
Merle Appelgate	Board Member	2004
Kathy Beane	Board Member	2004
Linda Havelka	Board Member	2005
David Bacon	Board Member	2003
Jim Fleming	Board Member	2005
Board of Education (After September 2003 Election)		
Rick Landt	President	2004
Merle Appelgate	Vice President	2004
Allen Burt	Board Member	2006
Jim Fleming	Board Member	2005
Linda Havelka	Board Member	2005
David Bacon	Board Member	2006
Kathy Beane	Board Member	2004
School Officials		
Michael Ashton	Superintendent	2004
Debra Stahl	Board Secretary	2004
Roger Schoell	Attorney	2004

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
GMG Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the GMG Community School District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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 that 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, business-type activities, each major fund, and the aggregate remaining fund information of the GMG Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with U.S. generally accepted accounting principles.

As described in Note 9 to the financial statements, during the year ended June 30, 2004, GMG Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated August 5, 2004, on our consideration of the GMG Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral

part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 37 through 40 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise GMG Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental 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.

Nolte, Cornman & Johnson P.C.

NOLTE, CORNMAN & JOHNSON, P.C.

August 5, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

GMG 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, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- The General Fund revenues decreased from $3,414,459 in fiscal year 2003 to $3,339,658 in fiscal year 2004, while General Fund expenditures increased from $3,160,586 in fiscal year 2003 to $3,274,483 in fiscal year 2004.

- The decrease in general fund revenues was attributable to a decrease in state aid funding.

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 GMG 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 GMG Community School District's operations in more detail than the government-wide statements providing information about the most significant funds. The remaining statements provide financial information about activities for which GMG Community School District acts solely as an agent or custodian for the benefit of those outside of the School District.

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
GMG Community School District Annual Financial Report

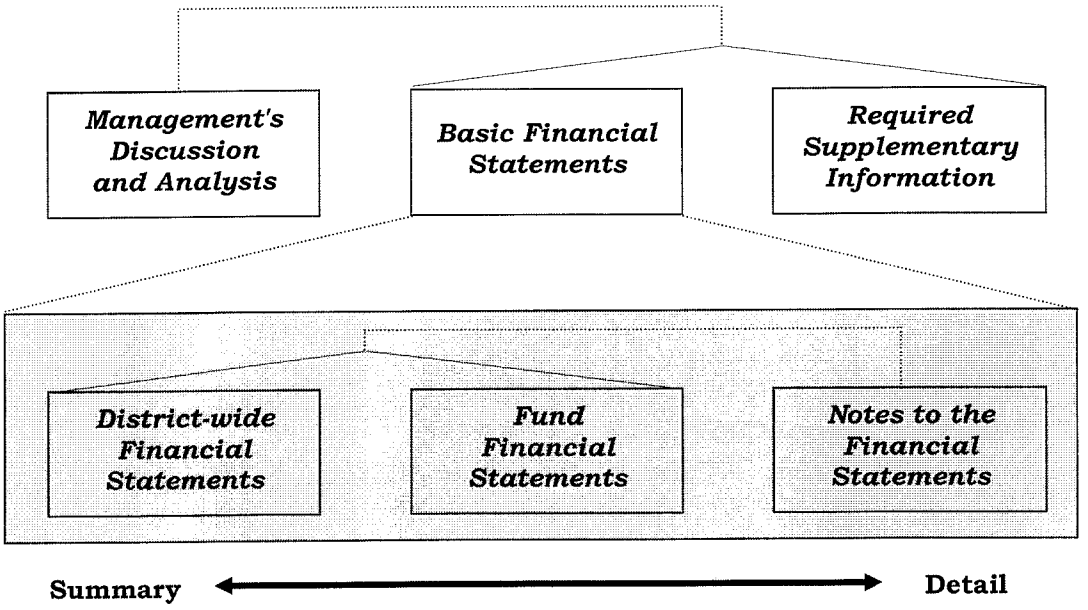

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2
Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	• Statement of net assets • Statement of activities	• Balance sheet • Statement of revenues, expenditures, and changes in fund balances	• Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows	• Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and 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 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 position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively. To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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:

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 funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship or differences between the two statements.

   The District's governmental funds include the General Fund; Special Revenue Funds; Internal Service Fund and the Debt Service Fund.

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 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 funds, the School Nutrition Fund.

3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include the Agency 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.

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 includes 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-3 below provides a summary of the District's net assets for the year ended June 30, 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities	Business-type Activities	Total School District
	2004	2004	2004
Current and other assets	$ 3,170,657	71,856	3,242,513
Capital assets	3,893,197	72,047	3,965,244
Total assets	7,063,854	143,903	7,207,757
Long-term obligations	3,254,464	0	3,254,464
Other liabilities	2,075,344	10,606	2,085,950
Total liabilities	5,329,808	10,606	5,340,414
Net assets:			
Invested in capital assets, net of related debt	648,394	72,047	720,441
Restricted	273,336	0	273,336
Unrestricted	812,316	61,250	873,566
Total net assets	$ 1,734,046	133,297	1,867,343

Figure A-4 shows the changes in net assets for the year ended June 30, 2004.

Figure A-4
Changes of Net Assets

	Governmental Activities	Business-type Activities	Total School District
	2004	2004	2004
Revenues:			
Program revenues:			
Charges for services	$ 672,121	101,042	773,163
Operating grants and contributions and restricted interest	411,460	92,492	503,952
General revenues:			
Property tax	1,637,691	0	1,637,691
Unrestricted state grants	1,162,488	0	1,162,488
Unrestricted investment earnings	20,998	254	21,252
Other	5,500	0	5,500
Total revenues	3,910,258	193,788	4,104,046
Program expenses:			
Governmental activities:			
Instructional	2,342,484	0	2,342,484
Support services	976,570	0	976,570
Non-instructional programs	0	176,761	176,761
Other expenses	532,628	0	532,628
Total expenses	3,851,682	176,761	4,028,443
Change in net assets	$ 58,576	17,027	75,603

Property tax and unrestricted state grants account for 68% of the District's total revenues. The District's expenses primarily relate to instruction and support services, which account for 82% of the total expenses.

Governmental Activities

Revenues for governmental activities were $3,910,258 and expenses were $3,851,682.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	$ 2,342,484	1,370,483
Support services	976,570	975,381
Other expenses	532,628	422,237
Totals	$ 3,851,682	2,768,101

- A portion of the cost financed by users of the District's programs was $672,121
- The federal and state government subsidized certain programs with operating grants and contributions totaling $411,460
- The net cost portion of governmental activities was financed with $1,637,691 in property tax, $1,162,488 in unrestricted state grants, and $20,998 in interest income

Business-Type Activities

Revenues for business type activities were $193,788 and expenses were $176,761. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the GMG 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 combined fund balances of $1,029,045, below last years ending fund balance in governmental funds of $1,056,787.

Governmental Fund Highlights

- The District's General Fund financial position improved even though the District had a decrease in revenues and an increase in expenditures.

- The Physical Plant and Equipment Levy balance decreased substantially due to a decrease in revenues and an increase in expenditures.

Proprietary Fund Highlights

- The School Nutrition Fund net assets increased from $116,270 at June 30, 2003 to $133,297 at June 30, 2004, representing an increase of 15%.

BUDGETARY HIGHLIGHTS

Over the course of the year, GMG Community School District amended its annual budget one time to reflect additional expenditures.

The District's receipts were $12,402 more than budgeted receipts, a variance of .31% The most significance variance resulted from the District receiving less in state sources and more in federal sources than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional programs functional area due to the timing of disbursements paid.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested $3,965,244, 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) More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was $135,335.

The original cost of the District's capital assets was $6,993,601. Governmental funds account for $6,873,189, with the remainder of $120,412 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled $788,689 at June 30, 2004, compared to $728,190 reported at June 30, 2003.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities	Business-type Activities	Total School District
	2004	2004	2004
Land	$ 54,500	0	54,500
Buildings	3,727,000	0	3,727,000
Machinery and equipment	111,697	72,047	183,744
Total	$ 3,893,197	72,047	3,965,244

Long-Term Debt

At June 30, 2004, the District had $3,254,464 in general obligation, and other long-term debt outstanding. This represents a decrease of 5% 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

	Total School District		Total
	2004	2003	Change
General obligation bonds	$ 3,240,000	3,385,000	-4.3%
Early retirement	14,464	21,821	-33.7%
Totals	$ 3,254,464	3,406,821	-4.5%

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:

- State budget cuts continue to be a concern for the District, shifting the majority of funding on property taxes.

- A 2.5% across-the-board state cut did reduce revenues the District received during the 2003-2004 school year. This was due to a downward estimate in state revenues.

- The upcoming Iowa legislative session could again prove to be most challenging in respect to the state budget. The impact of state reductions to education is an unknown that we must be ready to address and compensate.

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 Debra Stahl, Business Manager, GMG Community School District, 306 Park Street, Garwin, Iowa, 50632.

BASIC FINANCIAL STATEMENTS

Exhibit A

GMG COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents:			
ISCAP(Note 3)	$ 212,192	0	212,192
Other	1,278,475	59,395	1,337,870
Receivables			
Property tax:			
Delinquent	19,936	0	19,936
Succeeding year	1,514,550	0	1,514,550
Income surtax	77,052	0	77,052
Accounts	68,452	0	68,452
Inventories	0	12,461	12,461
Capital assets, net of accumulated depreciation(Note 4)	3,893,197	72,047	3,965,244
TOTAL ASSETS	7,063,854	143,903	7,207,757
LIABILITIES			
Salaries and benefits payable	333,343	9,911	343,254
ISCAP warrants payable(Note 3)	214,000	0	214,000
Accrued interest payable	13,451	0	13,451
Deferred revenue:			
Succeeding year property tax	1,514,550	0	1,514,550
Income surtax	0	0	0
Other	0	695	695
Long-term liabilities(Note 5):			
Portion due within one year:			
General obligation bonds payable	150,000	0	150,000
Early retirement	5,705	0	5,705
Portion due after one year:			
General obligation bonds payable	3,090,000	0	3,090,000
Early retirement	8,759	0	8,759
TOTAL LIABILITIES	5,329,808	10,606	5,340,414
NET ASSETS			
Investment in capital assets, net of related debt	648,394	72,047	720,441
Restricted for:			
Management levy	224,863	0	224,863
Physical plant and equipment levy	19,846	0	19,846
Other special revenue purposes	28,627	0	28,627
Unrestricted	812,316	61,250	873,566
TOTAL NET ASSETS	$ 1,734,046	133,297	1,867,343

SEE NOTES TO FINANCIAL STATEMENTS.

GMG COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants, Contributions and Restricted Interest
Governmental activities:			
Instruction:			
Regular instruction	$ 1,547,384	534,245	284,200
Special instruction	456,354	137,876	15,680
Other instruction	338,746	0	0
	2,342,484	672,121	299,880
Support services:			
Instructional staff services	128,468	0	0
Adminstration services	423,412	0	0
Operation and maintenance of plant services	297,108	0	0
Transportation services	116,389	0	1,189
Other support services	11,193	0	0
	976,570	0	1,189
Other expenditures:			
Facilities acquisitions	170,629	0	0
Long-term debt interest	170,408	0	0
AEA flowthrough	110,391	0	110,391
Depreciation(unallocated)*	81,200	0	0
	532,628	0	110,391
Total governmental activities	3,851,682	672,121	411,460
Business-Type activities:			
Non-instructional programs:			
Nutrition services	176,761	101,042	92,492
Total business-type activities	176,761	101,042	92,492
Total	$ 4,028,443	773,163	503,952
General Revenues:			
Property tax levied for:			
General purposes			
Debt service			
Capital outlay			
Unrestricted state grants			
Unrestricted investment earnings			
Sale of equipment			
Total general revenues			
Changes in net assets			
Net assets beginning of year, as restated(Note 9)			
Net assets end of year			

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(728,939)	0	(728,939)
(302,798)	0	(302,798)
(338,746)	0	(338,746)
(1,370,483)	0	(1,370,483)
(128,468)	0	(128,468)
(423,412)	0	(423,412)
(297,108)	0	(297,108)
(115,200)	0	(115,200)
(11,193)	0	(11,193)
(975,381)	0	(975,381)
(170,629)	0	(170,629)
(170,408)	0	(170,408)
0	0	0
(81,200)	0	(81,200)
(422,237)	0	(422,237)
(2,768,101)	0	(2,768,101)
0	16,773	16,773
0	16,773	16,773
(2,768,101)	16,773	(2,751,328)
$ 1,218,867	0	1,218,867
313,050	0	313,050
105,774	0	105,774
1,162,488	0	1,162,488
20,998	254	21,252
5,500	0	5,500
2,826,677	254	2,826,931
58,576	17,027	75,603
1,675,470	116,270	1,791,740
$ 1,734,046	133,297	1,867,343

Exhibit C

GMG COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Management	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments:				
ISCAP(Note 3)	$ 212,192	0	0	212,192
Other	984,991	239,072	51,745	1,275,808
Receivables:				
Property tax:				
Delinquent	14,305	255	5,376	19,936
Succeeding year	1,098,540	5,000	411,010	1,514,550
Income surtax	77,052	0	0	77,052
Accounts	68,452	0	0	68,452
TOTAL ASSETS	$ 2,455,532	244,327	468,131	3,167,990
LIABILITIES AND FUND BALANCES				
Liabilities:				
Salaries and benefits payable	333,343	0	0	333,343
ISCAP warrants payable(Note 3)	214,000	0	0	214,000
Deferred revenue:				
Succeeding year property tax	1,098,540	5,000	411,010	1,514,550
Income surtax	77,052	0	0	77,052
Total liabilities	1,722,935	5,000	411,010	2,138,945
Fund balances:				
Reserved for:				
Debt Service	0	0	8,648	8,648
Unreserved:				
Undesignated	732,597	239,327	48,473	1,020,397
Total fund balances	732,597	239,327	57,121	1,029,045
TOTAL LIABILITIES AND FUND BALANCES	$ 2,455,532	244,327	468,131	3,167,990

SEE NOTES TO FINANCIAL STATEMENTS.

GMG COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2004

Total fund balances of governmental funds (page 17)	$	1,029,045
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.		3,893,197
Blending of the Internal Service Funds to be reflected on an entity-wide basis.		2,667
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(13,451)
Accounts receivable income surtax, is not yet available to finance expenditures of the current period.		77,052
Long-term liabilities, including bonds payable and early retirement, are not due and payable in the current period and, therefore, are not reported in the funds.		(3,254,464)
Net assets of governmental activites (page 14)	$	1,734,046

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit E

GMG COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	General	Management	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	$ 1,200,418	20,269	418,824	1,639,511
Tuition	514,681	0	0	514,681
Other	50,827	9,073	118,538	178,438
State sources	1,447,021	10	206	1,447,237
Federal sources	126,711	0	0	126,711
Total revenues	3,339,658	29,352	537,568	3,906,578
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	1,533,330	12,693	0	1,546,023
Special instruction	456,354	0	0	456,354
Other instruction	220,369	0	113,377	333,746
	2,210,053	12,693	113,377	2,336,123
Support services:				
Instructional staff services	128,468	0	0	128,468
Administration services	420,295	0	0	420,295
Operation and maintenance of plant services	246,218	53,230	0	299,448
Transportation services	147,865	0	0	147,865
Other support services	11,193	0	0	11,193
	954,039	53,230	0	1,007,269
Other expenditures:				
Facilities acquisitions	0	0	170,629	170,629
Long-term debt:				
Principal	0	0	145,000	145,000
Interest and fiscal charges	0	0	170,408	170,408
AEA flowthrough	110,391	0	0	110,391
	110,391	0	486,037	596,428
Total expenditures	3,274,483	65,923	599,414	3,939,820
Excess(deficiency) of revenues over(under) expenditures	65,175	(36,571)	(61,846)	(33,242)
Other financing sources:				
Sale of equipment	5,500	0	0	5,500
Total other financing sources	5,500	0	0	5,500
Net change in fund balances	70,675	(36,571)	(61,846)	(27,742)
Fund balance beginning of year, as restated(Note 9)	661,922	275,898	118,967	1,056,787
Fund balance end of year	$ 732,597	239,327	57,121	1,029,045

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit F

GMG COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2004

Net change in fund balances - total governmental funds (page 19)		$ (27,742)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:		
Capital outlays	$ 60,499	
Depreciation expense	(125,648)	(65,149)
Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments were as follows:		
Repaid		145,000
Net change in the Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis.		930
Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		(1,820)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Early retirement		7,357
Changes in net assets of governmental activities (page 16)		$ 58,576

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit G

GMG COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	Business-Type Activities: Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service
ASSETS		
Cash and pooled investments	$ 59,395	2,667
Inventories	12,461	0
Capital assets, net of accumulated depreciation	72,047	0
Total assets	143,903	2,667
LIABILITIES		
Salaries and benefits payable	9,911	0
Deferred Revenue	695	0
Total liabilities	10,606	0
NET ASSETS		
Invested in capital assets, net of related debt	72,047	0
Unrestricted	61,250	2,667
Total net assets	$ 133,297	2,667

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit H

GMG COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	Business-Type Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service
OPERATING REVENUE:		
Local sources:		
Charges for services	$ 101,042	26,910
TOTAL OPERATING REVENUES	101,042	26,910
OPERATING EXPENSES:		
Salaries	54,350	0
Benefits	18,003	0
Services	2,821	25,980
Supplies	91,885	0
Other	15	0
Depreciation	9,687	0
TOTAL OPERATING EXPENSES	176,761	25,980
OPERATING INCOME (LOSS)	(75,719)	930
NON-OPERATING REVENUES:		
State sources	3,092	0
Federal sources	89,400	0
Interest on investments	254	0
TOTAL NON-OPERATING REVENUES	92,746	0
Change in net assets	17,027	930
Net assets beginning of year, as restated (Note 9)	116,270	1,737
Net assets end of year	$ 133,297	2,667

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit I

GMG COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	Business-Type Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	$ 100,991	$ 0
Cash received from miscellanous operating activities	434	26,910
Cash payments to employees for services	(72,970)	0
Cash payments to suppliers for goods or services	(81,818)	(25,980)
Net cash provided by (used in) operating activities	(53,363)	930
Cash flows from non-capital financing activities:		
State grants received	3,092	0
Federal grants received	74,900	0
Net cash provided by non-capital financing activities	77,992	0
Cash flows from capital and related financing activities:		
Purchase of capital assets	(525)	0
Net cash used in capital and related financing activities	(525)	0
Cash flows from investing activities:		
Interest on investments	254	0
Net cash provided by investing activities	254	0
Net increase in cash and cash equivalents	24,358	930
Cash and cash equivalents at beginning of year	35,037	1,737
Cash and cash equivalents at end of year	$ 59,395	$ 2,667
Reconciliation of operating loss to net cash used in operating activities:		
Operating income (loss)	$ (75,719)	$ 930
Adjustments to reconcile operating loss to net cash used in operating activities:		
Commodities consumed	14,500	0
Depreciation	9,687	0
Increase in inventories	(1,597)	0
Decrease in accounts receivable	1,026	0
Decrease in salaries and benefits payable	(617)	0
Decrease in deferred revenue	(643)	0
Net cash provided by (used in) operating activities	$ (53,363)	$ 930
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:		
Current assets:		
Cash and pooled investments	$ 59,395	$ 2,667

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2004, the District received Federal commodities valued at $14,500.

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit J

GMG COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	Agency
Assets	
Cash and pooled investments	$ 2,422
Total assets	$ 2,422
Liabilities	
Due to other groups	$ 2,422
Total liabilities	$ 2,422

SEE NOTES TO FINANCIAL STATEMENTS.

(1) Summary of Significant Accounting Policies

The GMG Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic are served includes the city of Green Mountain and Garwin, Iowa, and the predominate agricultural territory in Marshall and Tama 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, GMG Community School District has included all funds, organizations, account groups, 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 GMG Community School District has no component units which 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 do 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 Marshall and Tama Counties Assessors' 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 support.

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

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that 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 that are 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 other 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 receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Management Fund is utilized to account for the payment of property insurance and early retirement benefits.

The District reports the following proprietary fund:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund and the Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the self-funded insurance plan of the District. The Internal Service Fund is charged back to the Governmental Funds and

shown combined in the Statement of Net Assets and the Statement of Activities.

The District also reports a Fiduciary Fund which focus's on net assets and changes in net assets. The District's Fiduciary Fund includes the following:

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 financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus". The Government-wide and proprietary fund financial statements are reported using 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 judgments, 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 terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements

issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are 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 that 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 become due and

collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

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, machinery, 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 repairs 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.

Asset Class	Amount
Land	$ 1,000
Buildings	1,000
Improvements other than buildings	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is 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 receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

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

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004 expenditures in the non-instructional programs functional area exceeded the amount budgeted.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2004 were entirely covered by Federal depository insurance, collateralized with securities or letters of credit held by the District or the District's agent in the District's name, or by multiple financial institution collateral pool 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 and the Treasurer of the State of Iowa; 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 at June 30, 2004.

(3) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school

corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2004 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2004-05A	6/30/04	6/30/05	$ 212,192	0	214,000	0

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The District had no advanced activity in ISCAP for the year ended June 30, 2004.

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

Series	Interest Rates on Warrants	Interest Rates on Investments
2004-05A	3.000%	2.463%

(4) Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year, as restated (Note 9)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	54,500	0	0	54,500
Total capital assets not being depreciated	54,500	0	0	54,500
Capital assets being depreciated:				
Buildings	6,030,000	0	0	6,030,000
Machinery and equipment	728,190	60,499	0	788,689
Total capital assets being depreciated	6,758,190	60,499	0	6,818,689
Less accumulated depreciation for:				
Buildings	2,221,800	81,200	0	2,303,000
Machinery and equipment	632,544	44,448	0	676,992
Total accumulated depreciation	2,854,344	125,648	0	2,979,992
Total capital assets being depreciated, net	3,903,846	(65,149)	0	3,838,697
Governmental activities capital assets, net	$ 3,958,346	(65,149)	0	3,893,197

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	$ 119,887	525	0	120,412
Less accumulated depreciation	38,678	9,687	0	48,365
Business-type activities capital assets, net	$ 81,209	(9,162)	0	72,047

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	$ 9,690
Other	5,000
Support services:	
Administration	6,339
Operation and maintenance of plant	895
Transportation	22,524
	44,448
Unallocated depreciation	81,200
Total governmental activities depreciation expense	$ 125,648
Business-type activities:	
Food services	$ 9,687
Total business-type activities depreciation expense	$ 9,687

(5) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	$ 3,385,000	0	145,000	3,240,000	150,000
Early retirement	21,821	0	7,357	14,464	5,705
Total	$ 3,406,821	0	152,357	3,254,464	155,705

General Obligation Bonds Payable

Details of the District's June 30, 2004 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond issue dated July 1, 1999			
	Interest Rates	Principal	Interest	Total
2005	6.00	$ 150,000	161,404	311,404
2006	6.00	160,000	152,404	312,404
2007	4.90	170,000	142,804	312,804
2008	4.50	175,000	134,476	309,476
2009	4.65	185,000	126,515	311,515
2010	4.70	195,000	117,939	312,939
2011	4.75	205,000	108,748	313,748
2012	4.80	215,000	99,010	314,010
2013	4.85	220,000	88,690	308,690
2014	4.85	230,000	78,020	308,020
2015	4.90	245,000	66,750	311,750
2016	5.00	255,000	54,500	309,500
2017	5.00	265,000	41,750	306,750
2018	5.00	280,000	28,500	308,500
2019	5.00	290,000	14,500	304,500
Total		$ 3,240,000	1,416,010	4,656,010

Early retirement

The District offers a voluntary early retirement plan to its certified employees, classified employees and administrative staff. Eligible employees must have completed seventeen or fifteen years of service to the District in order to qualify for supplemental benefits. Employees desiring to elect early retirement under this program must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is on the "per diem" basis based on the current contract at the time of retirement. "Per diem" is defined as per day pay based upon contract days and annual salary. Early retirement benefits paid during the year ended June 30, 2004, totaled $7,357. A liability has been recorded in the District's commitment to fund non-current early retirement.

(6) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were $116,138, $97,196,

$110,355, respectively, equal to the required contributions for each year.

(7) Risk Management

GMG Community School District is a member in the Iowa School Employee Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose Members include various schools throughout the State of Iowa. ISEBA was formed in July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: medical, dental, vision, and prescription drugs.

Each members' contributions to the ISEBA funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General and Management Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004, were $231,741.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2004 no liability has been recorded in the District's financial statements. As of June 30, 2004 settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

GMG Community School 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 $110,391 for

the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Accounting Change and Restatements

Governmental Accounting Standards Board(GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absences and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board(GASB) Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement Number 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments; Omnibus, Statement Number 38, Certain Financial Statement Note Disclosures, and Statement Number 41, Budgetary Comparison Schedule - Perspective Differences; were implemented during the year ended June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include Government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

Beginning capital assets for governmental activities of $5,911,818 were restated to $3,958,346. The restatement primarily removed assets below the District's capitalizations threshold.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund			
	General	Management	Other Nonmajor Governmental Funds	Total
Net assets, June 30, 2003, as previously reported	$ 661,922	275,898	118,967	1,056,787
GASB Interpretation 6 adjustments	0	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	$ 661,922	275,898	118,967	1,056,787
GASB 34 adjustments:				
Capital assets, net of accumulated depreciation of $2,854,344				3,958,346
Recognition of Internal Service Funds within funds serviced				1,737
Long-term liabilities:				
Bonds			3,385,000	
Early retirement			21,821	(3,406,821)
Accrued interest payable				(13,451)
Income surtax				78,872
Net assets, July 1, 2003, as restated				$ 1,675,470

	School Nutrition
Net Assets, June 30, 2003, as previously reported	$ 45,181
Contributed capital	71,089
Net Assets, July 1, 2003, as restated for proprietary funds	$ 116,270

(10) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2004, disbursements in the non-instructional functional program area exceeded the amount budgeted.

REQUIRED SUPPLEMENTAL INFORMATION

GMG COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	$ 2,282,934	101,679
State sources	1,447,236	3,092
Federal sources	124,881	89,400
Total revenues	3,855,051	194,171
Disbursements:		
Instruction	2,317,506	0
Support services	1,001,630	0
Non-instructional programs	0	169,813
Other expenditures	596,428	0
Total expenditures	3,915,564	169,813
Excess(deficiency) of receipts over(under) disbursements	(60,513)	24,358
Other financing sources, net	5,500	0
Excess(deficiency) of receipts over(under) disbursements	(55,013)	24,358
Balance beginning of year	1,330,821	35,037
Balance end of year	$ 1,275,808	59,395

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts Original	Budgeted Amounts Final	Final to Actual Variance - Positive (Negative)
2,384,613	2,352,277	2,352,277	32,336
1,450,328	1,510,043	1,510,043	(59,715)
214,281	174,500	174,500	39,781
4,049,222	4,036,820	4,036,820	12,402
2,317,506	2,242,218	2,500,000	182,494
1,001,630	1,052,027	1,052,027	50,397
169,813	155,000	155,000	(14,813)
596,428	558,631	675,000	78,572
4,085,377	4,007,876	4,382,027	296,650
(36,155)	28,944	(345,207)	(309,052)
5,500	0	0	(5,500)
(30,655)	28,944	(345,207)	(314,552)
1,365,858	1,006,499	1,006,499	359,359
1,335,203	1,035,443	661,292	673,911

GMG COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjust-ments	Modified Accrual Basis
Revenues	$ 3,855,051	51,527	3,906,578
Expenditures	3,915,564	24,256	3,939,820
Net	(60,513)	27,271	(33,242)
Other financing sources, net	5,500	0	5,500
Beginning fund balances	1,330,821	(274,034)	1,056,787
Ending fund balances	$ 1,275,808	(246,763)	1,029,045

	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjust-ments	Modified Accrual Basis
Revenues	$ 194,171	(383)	193,788
Expenditures	169,813	6,948	176,761
Net	24,358	(7,331)	17,027
Other financing sources, net	0	0	0
Beginning fund balances	35,037	81,233	116,270
Ending fund balances	$ 59,395	73,902	133,297

GMG COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2004

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 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 the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. 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 disbursements by $374,151.

During the year ended June 30, 2004, disbursements in the non-instructional programs functional area exceeded the amounts budgeted.

OTHER SUPPLEMENTAL INFORMATION

Schedule 1

GMG COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2004

	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	Total Nonmajor Governmental Funds
ASSETS					
Cash and pooled investments	$ 28,627	18,488	47,115	4,630	51,745
Receivables:					
Property tax:					
Current year delinquent	0	1,358	1,358	4,018	5,376
Succeeding year	0	99,606	99,606	311,404	411,010
TOTAL ASSETS	$ 28,627	119,452	148,079	320,052	468,131
LIABILITIES AND FUND EQUITY					
Liabilities:					
Deferred revenue:					
Succeeding year property tax	0	99,606	99,606	311,404	411,010
Total Liabilities	0	99,606	99,606	311,404	411,010
Fund equity:					
Fund balances:					
Reserved:					
Debt Service	0	0	0	8,648	8,648
Unreserved:					
Undesignated	28,627	19,846	48,473	0	48,473
Total fund balances	28,627	19,846	48,473	8,648	57,121
TOTAL LIABILITIES AND FUND EQUITY	$ 28,627	119,452	148,079	320,052	468,131

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

GMG COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	Total Nonmajor Governmental Funds
REVENUES:					
Local sources:					
Local tax	$ 0	105,774	105,774	313,050	418,824
Other	117,365	1,173	118,538	0	118,538
State sources	0	52	52	154	206
TOTAL REVENUES	117,365	106,999	224,364	313,204	537,568
EXPENDITURES:					
Current:					
Instruction:					
Other instruction	113,377	0	113,377	0	113,377
Other expenditures:					
Facilities acquisitions	0	170,629	170,629	0	170,629
Long-term debt:					
Principal	0	0	0	145,000	145,000
Interest and fiscal charges	0	0	0	170,408	170,408
TOTAL EXPENDITURES	113,377	170,629	284,006	315,408	599,414
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	3,988	(63,630)	(59,642)	(2,204)	(61,846)
FUND BALANCE BEGINNING OF YEAR	24,639	83,476	108,115	10,852	118,967
FUND BALANCE END OF YEAR	$ 28,627	19,846	48,473	8,648	57,121

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

GMG COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Drama	$ 0	455	160	295
Vocal	240	5,130	1,605	3,765
Band	0	55	542	(487)
HS Cheerleading	9	0	0	9
Future Teacher	35	0	0	35
Spanish Club	525	132	390	267
Class of 2004	490	470	0	960
Class of 2005	1,169	9,618	10,480	307
Class of 2006	352	1,318	200	1,470
Class of 2008	20	230	31	219
Class of 2009	630	20	62	588
Art	10	249	0	259
Interest	28	185	0	213
HS Student Council	5,776	15,176	18,403	2,549
JH Student Council	169	230	202	197
National Honor Society	105	672	757	20
Yearbook	(4,258)	1,920	5,955	(8,293)
Athletics	13,241	63,953	57,951	19,243
Dance Team	380	7,264	5,567	2,077
HS SADD	661	632	1,344	(51)
JH SADD	130	742	812	60
Volleyball	329	1,069	0	1,398
Honors & Awards	0	0	10	(10)
Elementary	4,498	7,757	8,869	3,386
Elementary Student Council	0	88	0	88
Elementary Activity	100	0	37	63
Total	$ 24,639	117,365	113,377	28,627

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 4

GMG COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
YEAR ENDED JUNE 30, 2004

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash and pooled investments	$ 2,000	9,217	8,795	2,422
Total assets	$ 2,000	9,217	8,795	2,422
Liabilities				
Due to other groups	$ 2,000	9,217	8,795	2,422
Total liabilities	$ 2,000	9,217	8,795	2,422

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 5

GMG COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	$ 1,639,511	1,639,770	1,507,106	1,520,854
Tuition	514,681	522,976	402,370	325,049
Other	178,438	229,726	233,368	438,985
State sources	1,447,237	1,442,940	1,363,095	1,483,209
Federal sources	126,711	116,125	51,116	89,831
Total	$ 3,906,578	3,951,537	3,557,055	3,857,928
Expenditures:				
Current:				
Instruction:				
Regular instruction	$ 1,546,023	1,471,625	1,433,023	1,354,865
Special instruction	456,354	361,392	382,520	359,359
Other instruction	333,746	316,894	405,427	408,754
Support services:				
Student services	0	72,896	77,954	78,132
Instructional staff services	128,468	108,724	138,324	116,974
Adminstration services	420,295	380,672	375,326	343,958
Operation and maintenance of plant services	299,448	293,022	334,251	302,287
Transportation services	147,865	169,306	118,509	187,009
Other support services	11,193	8,739	0	0
Non-instructional programs	0	0	7,798	7,849
Other expenditures:				
Facilities acquisitions	170,629	163,976	292,499	2,986,886
Long-term debt:				
Principal	145,000	140,000	130,000	125,000
Interest and other charges	170,408	178,806	186,608	193,957
AEA flow-through	110,391	113,434	109,865	115,941
Total	$ 3,939,820	3,779,486	3,992,104	6,580,985

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting

To the Board of Education of the
GMG Community School District:

We have audited the financial statements of GMG Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated August 5, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether GMG Community School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 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. Prior year statutory comments have all been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered GMG Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all

reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have all been resolved except for item I-A-04 and I-C-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of GMG Community School District and other parties to whom GMG Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of GMG 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.

Nolte, Cornman & Johnson P.C.

NOLTE, CORNMAN & JOHNSON, P.C.

August 5, 2004

GMG COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part I: Findings Related to the General Purpose Financial Statements:

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

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

Conclusion - Response accepted.

I-B-04 Financial Condition - The District had several accounts in the Student Activity Fund with deficit balances at June 30, 2004.

Recommendation - The District should review purchase approval procedures for the Student Activity Fund and may wish to require additional approval before ordering goods or services from these accounts. The District should investigate alternatives to eliminate these deficit balances.

Response - We will review the situation and take the necessary steps to try to eliminate the deficit balances.

Conclusion - Response accepted.

I-C-04 Farmland - We noted during the audit that the district owns farmland, which was donated to them. The farmland is currently rented and maintained in an agency fund on the District's books. The farmland is not located within the geographical area of the school district. The proceeds from the farmland is used for scholarships.

Recommendation - The intent of the donation must be considered. If the donor gave the land as a gift to be used as scholarships, the land should be sold and invested in an allowable investment with the proceeds to be used for scholarships. If the donation was not specified for its use, it would appear appropriate to place the proceeds in the General Fund.

Response – We do not intend to sell the farmland.

Conclusion – Response acknowledged. The District should consult with their cognizant agent, Department of Education for a declatory ruling with regard to this matter.

I-D-04 Bank Account - We noted during the audit that the District has an Elementary Activity Fund bank account that is not recorded on the books of the District.

Recommendation - All bank accounts using the District's Federal ID Number should be included on the District's books.

Response – We will put the Elementary bank account on the books.

Conclusion – Response accepted.

GMG COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part II: Other Findings Related to Statutory Reporting

II-A-04 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

II-B-04 Certified Budget - District disbursements for the year ended June 30, 2004 exceeded the amended certified budget amounts in the non-instructional programs functional area.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

II-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-04 Travel Expense - 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.

II-E-04 Business Transactions - No business transactions between the District and District officials were noted.

II-F-04 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-H-04 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-I-04 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.