

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

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

June 30, 2005

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Independent Auditor's Report

To the Board of Education of
Garner-Hayfield 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 Garner-Hayfield Community School District, Garner, Iowa, as of and for the year ended June 30, 2005, 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.

Except as explained in the following paragraph, 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.

The financial statements of Garner-Hayfield Community School District Education Foundation have not been audited, and we were not engaged to audit the Foundation financial statements as part of our audit of the Garner-Hayfield Community School District's basic financial statements. The Foundation's financial statements are included in the District's financial statements as a discretely presented component unit. Because we were not engaged to audit the Foundation's financial statements and because we did not apply any auditing procedures to the Foundation's financial statements, we do not express an opinion on the discretely presented component unit.

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 Garner-Hayfield Community School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 11, 2005, on our consideration of Garner-Hayfield Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 40 through 42 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. However, 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 Garner-Hayfield 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, 2004, (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 7, 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

October 11, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Garner-Hayfield 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, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,650,830 in fiscal 2004 to \$5,908,604 in fiscal 2005, while General Fund expenditures increased from \$5,842,240 in fiscal 2004 to \$6,038,441 in fiscal 2005. The District's General Fund balance decreased from \$466,003 in fiscal 2004 to \$328,599 in fiscal 2005, a 29% decrease.
- The increase in General Fund revenues was attributable to an increase in state foundation aid and state and federal grant revenue in fiscal 2005. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and increased spending to purchase new language arts and reading books K-12. Many things combined to cause the decrease in the General Fund balance. The negotiated salary and benefits settlement combined with higher heating and transportation costs, as well as the purchase of the new language arts and reading textbooks, and increases in all supplies in general impacted the total spent for expenditures for fiscal 2005. As a result, the District funded a portion of the current year General Fund salaries and benefits from the carryover fund balance.
- In December of 2004 the voters of the Garner-Hayfield Community School District approved by 90% the renewal of the Voted PPEL Levy not to exceed \$.67/\$1,000 of taxable valuation. The 2005 fiscal year actual tax rate for this levy was slightly less than \$.21/\$1,000 of taxable valuation. The PPEL monies generated by the Voted PPEL and the regular PPEL levies were used to provide a surveillance camera system for added security for the students and staff, purchase a pickup truck for the maintenance department, repair the visitor bleachers at the football field, paint the high school gym, enter into a three year lease on computers that provided additional 76 computers for student use throughout the district, as well as upgrades to the wiring in both buildings.
- SILO monies were used to decrease the property tax rate for the K-8 Building Addition bond issue and to construct the new all weather track that was approved in fiscal year 2004.

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 the Garner-Hayfield 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 the Garner-Hayfield 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 the Garner-Hayfield 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 funds.

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

Figure A-1

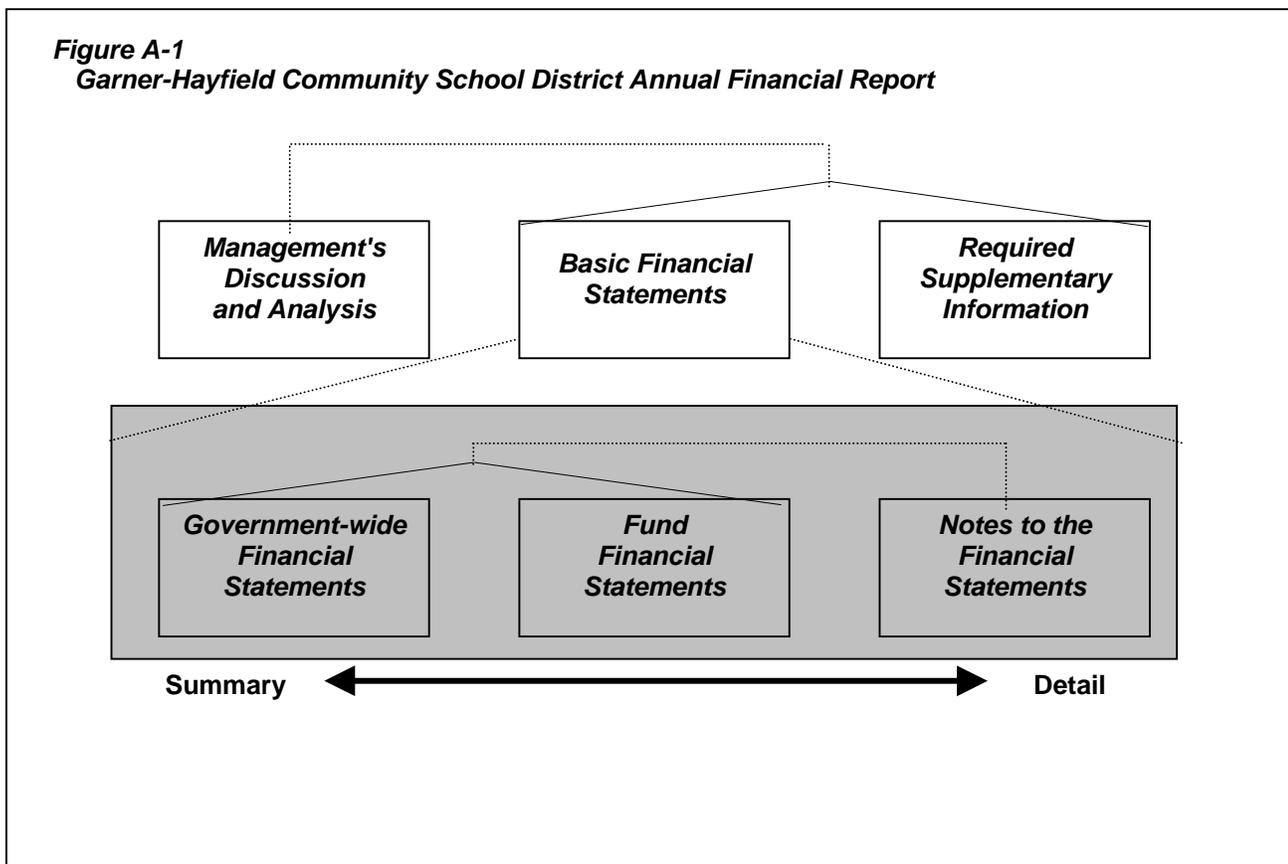


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the

District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

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

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

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

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 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 that consist of Activity, Management, and Physical Plant and Equipment Levy 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 three Enterprise Funds, the School Nutrition Fund, the House Construction Fund, and the Before and After School Daycare Program 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 partial self funding insurance program.

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

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

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts. The District does not have any agency funds at this time.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District’s net assets at June 30, 2005 compared to June 30, 2004.

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2004-2005
	Governmental Activities		Business-type Activities		Total School District		
	2005	2004	2005	2004	2005	2004	
	\$	\$	\$	\$	\$	\$	
Current and other assets	3,424,933	3,152,342	169,082	138,122	3,594,015	3,290,464	+9.2%
Capital assets	4,775,397	4,521,324	26,254	23,599	4,801,651	4,544,923	+5.6%
Total assets	8,200,330	7,673,666	195,336	161,721	8,395,666	7,835,387	+7.1%
Long-term liabilities	1,903,356	1,804,067	0	0	1,903,356	1,804,067	+5.5%
Other liabilities	2,248,648	2,099,978	4,015	2,957	2,252,663	2,102,935	+7.1%
Total liabilities	4,152,004	3,904,045	4,015	2,957	4,156,019	3,907,002	+6.4%
Net Assets:							
Invested in capital assets, net of related debt	3,207,562	3,025,500	26,254	23,599	3,233,816	3,049,099	+6.1%
Restricted	495,213	315,016	0	0	495,213	315,016	57.2%
Unrestricted	345,551	429,105	165,067	135,165	510,618	564,270	-9.5%
TOTAL NET ASSETS	4,048,326	\$3,769,621	191,321	\$158,764	4,239,647	\$3,928,385	+7.9%

The District’s combined net assets increased by nearly 7.9%, or approximately \$311,262, over the prior year. The largest portion of the District’s net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. The biggest item to impact this amount was the construction of the all weather track.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District’s restricted net assets increased \$180,197 or 57.2% over the prior year. The increase was primarily a result of decreased expenditures in the Physical Plant and Equipment Levy Fund and SILO tax revenues significantly higher than anticipated and not expended.

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 \$53,652, or 57.2%. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

Figure A-4 shows the change in net assets for the years ended June 30, 2005 and 2004.

Figure A-4

	Change in Net Assets						Percentage Change 2004-2005
	Governmental Activities		Business-type Activities		Total School District		
	2005	2004	2005	2004	2005	2004	
	\$	\$	\$	\$	\$	\$	
Revenues							
Program Revenues:							
Charges for services	851,052	909,920	353,345	472,968	1,204,397	1,382,888	-12.9%
Operating grants & contributions	662,486	580,302	126,952	123,525	789,438	703,827	+12.2%
Capital grants & contributions	3,300	3,000	0	0	3,300	3,000	+10%
General Revenues:							
Property taxes	1,856,277	2,042,156	0	0	1,856,277	2,042,156	-9.1%
Income Surtax	237,070	177,520	0	0	237,070	177,520	+33.5%
Local option sales tax	344,480	235,739	0	0	344,480	235,739	+46.1%
Unrestricted state grants	3,033,787	2,661,820	0	0	3,033,787	2,661,820	+14.0%
Unrestricted investment earnings	12,734	5,509	169	190	12,903	5,699	+126.4%
Other revenue	13,788	9,705	0	-1,933	13,788	7,772	+77.4%
Total Revenues	\$7,014,974	\$6,625,671	\$480,466	\$594,750	\$7,495,440	\$7,220,421	+3.8%
Expenses:							
Instruction	4,556,014	4,547,560	0	0	4,556,014	4,547,560	+2%
Support services	1,719,097	1,634,486	0	0	1,719,097	1,634,486	+5.2%
Non-instructional programs	0	0	455,494	545,631	455,494	545,631	-16.5%
Other expenditures	453,573	533,277	0	0	453,573	533,277	-15%
Total expenses	\$6,728,684	\$6,715,323	\$455,494	\$545,631	\$7,184,178	\$7,260,954	-1.1%
Change in net assets before transfers							
	\$286,290	-\$89,652	\$24,972	\$49,119	\$311,262	-\$40,533	
Transfers	-7,585	12,000	7,585	-12,000	0	0	0%
CHANGE IN NET ASSETS	278,705	-77,652	32,557	37,119	311,262	-40,533	
	3,769,621	3,847,273	158,764	121,645	3,928,385	3,968,918	-1.1%
Net assets end of year	4,048,326	3,769,621	191,321	158,764	4,239,647	3,928,385	+7.9%

Property tax and unrestricted state grants account for 65.2% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 87.3% of the total expenses.

The decrease in charges for services are due to two of the student built houses (the house built in 2003 and the house built in 2004) being sold in 2004 and only one house to sell in 2005, as well as a decrease in the tuition paid to the district for special education students and open enrollment students. These students vary some every year as we gain a new group of students in kindergarten and graduate a class. Also, people move during the year and that affects our income.

The property tax decrease was offset by the increase in state foundation aid and other state contributions. This is something that can vary every year due to the state funding formula. The income surtax rate varies every year. Local option taxes increased significantly due to larger than anticipated sales in the county.

The change of -1.1% in total expenditures was a slight decrease that we do not feel is significant.

Governmental Activities

Revenues for governmental activities were \$7,014,974 and expenses were \$6,728,684. In a difficult budget year, the District was required to use some of the cash on hand to finance the general fund, but other governmental funds such as the PPEL and Construction Funds had excess revenue which explains why these figures indicate a positive balance.

Figure A-5 presents the cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses. The table shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost show the financial burden placed on the District's taxpayers by each of these functions.

Figure A-5

Total and Net Cost of Governmental Activities

	Total Cost of Services 2005 \$	Total Cost of Services 2004 \$	Net Cost of Services 2005 \$	Net Cost of Services 2004 \$
Instruction	4,556,014	4,547,560	3,277,074	3,286,860
Support Services	1,719,097	1,634,486	1,715,076	1,630,416
Non-instructional Programs	0	0	0	0
Other Expenses	453,573	533,277	219,696	304,825
TOTAL	6,728,684	6,715,323	5,211,846	5,222,101

- The cost of all governmental activities this year was \$6,728,684.
- The cost financed by users of the District's programs was \$851,052.
- The federal and state governments and private contributors subsidized certain programs with grants and contributions (\$665,786).
- The net cost of governmental activities was financed with \$2,437,827 in property and other taxes and \$3,060,309 in unrestricted state grants, investment earnings and miscellaneous revenues.

Business Type Activities

Revenues for business type activities were \$480,466 and expenses were \$455,494. The District's business type activities include the School Nutrition Fund, the Before and After School Daycare Fund, and the House Construction Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, investment income, a transfer from General Fund to the Before and After School Daycare Program to cover the negative balance when the program was discontinued, and proceeds from the sale of the school built house.

During the year ended June 30, 2005, the District increased meal prices for the first time in many years. This increase resulted in increased revenue to the School Nutrition Fund that the District has obligated for replacement of obsolete kitchen equipment at two elementary buildings in the next fiscal year.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Garner-Hayfield 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 \$865,290, above last year's ending fund balances of \$786,420. However, the primary reason for the increase in combined fund balances in fiscal 2005 is due to the increase in the fund balance in the nonmajor governmental funds.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the result of many factors. Growth during the year in state aid and grants resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures requiring the District to use carryover fund balance to meet its financial obligations during the year.
- The General Fund balance decreased from \$466,003 to \$328,599, due in part to the negotiated salary and benefits settlement and existing expenditure commitments of the District as well as increased costs for normal supplies and the purchase of language arts and reading textbooks district wide.
- The Nonmajor Governmental (Management and Activity) Funds balance changed from \$77,819 to \$106,504 due in large part to an increase in the Management Fund taxation rate and a small decrease in the Activity Fund due to expenditures exceeding revenues.
- The Physical Plant and Equipment Levy (PEEL) Fund balance increased from \$68,612 in fiscal 2004 to \$90,053 in fiscal 2005. While revenues remained approximately the same, expenditures increased and the District received other financing sources of \$62,003 from the lease purchase financing of computers.
- The Capital Projects Fund balance increased from \$149,128 in 2004 to \$315,473 in 2005 mainly due to revenue being significantly higher than projected from county-wide sales.

Increases in the unreserved fund balances in the Management Fund, the PEEL Fund, and the Capital Projects Fund are all due to either increases revenues from either the SILO taxes or district taxes. The decrease in unreserved fund balance in the Trust Funds is due to smaller donations. The decrease in unreserved fund balance in the Activity Fund is from increased expenditures over revenue collected.

Proprietary Fund Highlights

The School Nutrition Fund and the House Construction Fund net assets increased from \$158,764 at June 30, 2004 to \$191,131 at June 30, 2005, representing an increase of approximately 17%. For fiscal 2005, the District increased meal prices, but salary and food costs also increased, resulting in a \$5,583 decrease in School

Nutrition Fund net assets. In the House Construction Fund the increase is due to the sale and related profit of the latest student built house. Also, with the elimination of the Before and After School Daycare Program the deficit it was carrying was funded by a permanent transfer from the General Fund.

BUDGETARY HIGHLIGHTS

The District’s receipts were \$290,408 more than budgeted receipts. The most significant variance resulted from the District receiving more in state aid and other state sources than originally anticipated. We also received more local tax than was expected.

Total expenditures were more than budgeted, due primarily to the increase in salaries and benefits and the purchase of textbooks for the language arts and reading classes. The District manages or controls General Fund spending through its line-item budget. The District’s certified budget should always exceed actual expenditures for the year and we budget between what we think we will actually spend and the maximum authorized spending authority for the General Fund.

In spite of the District’s budgetary practice, the certified budget was exceeded in the instruction and other expenditures areas due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$4,801,651, 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 increase of 5.6% from last year. More detailed information about the District’s capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$226,034. The district did borrow \$300,000 against anticipated SILO revenues for the construction of an all weather track. The track is included in the above information. Other capital assets were purchased as revenue became available and included the surveillance camera system, a pickup truck, and 76 computers.

The original cost of the District’s capital assets was \$7,772,363. Governmental funds account for \$7,640,144, with the remainder of \$132,219 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District’s construction in progress totaled \$31,458 at June 30, 2005, compared to \$0 reported at June 30, 2004. This significant increase resulted from construction activity financed by PPEL monies and donations for the construction of a new football concession stand. Improvements also significantly increased due to the construction of the new all weather track that was completed. The lease of 76 computers using PPEL money impacted the Equipment and Furniture category. Money is being set aside in the Nutrition Fund for the purpose of updating equipment in the school kitchen.

Figure A-6

Capital Assets (net of depreciation)

Governmental Activities	Business type Activities	Total School District	Percentage Change
----------------------------	-----------------------------	--------------------------	----------------------

	2005	2004	2005	2004	2005	2004	2004-2005
	\$	\$	\$	\$	\$	\$	
Land	48,803	48,803	0	0	48,803	48,803	0.0%
Construction in progress	31,458	0	0	0	31,458	0	+100.0%
Buildings	3,879,294	4,003,394	0	0	3,879,294	4,003,394	-3.1%
Improvements	580,964	304,206	0	0	580,964	304,206	+90.0%
Equipment & Furniture	234,878	164,921	26,254	23,599	261,132	188,520	+38.5%
TOTAL	4,775,397	4,521,324	26,254	23,599	4,801,651	4,544,923	+5.6%

Long-Term Debt

At June 30, 2005, the District had \$1,903,356 in general obligation, revenue and other long-term debt outstanding. This represents an increase of approximately 5.5% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

The District has \$200,000 in Revenue bond anticipation notes outstanding. These notes were taken out for the construction of the new all weather track. There is also a Capital Lease outstanding in the amount of \$62,003 for the 76 new computers leased from Apple Computer. The early retirement debt increased \$35,111 due to additional early retirements. Compensated absences increased slightly to \$10,885 due to the increases in wages.

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

	Total School District		Percentage
	2005	2004	Change
	\$	\$	2004-2005
General Obligation Bonds	1,305,000	1,490,000	-12.4%
Local Option Sales and Services			
Revenue Bond Anticipation Notes	200,000	0	+100.0%
Equipment Loans – Computers	4,932	13,674	-64.0%
Energy Loan	832	5,824	-86.0%
Capital Leases	62,003	0	+100.0%
Early Retirement	319,704	284,593	+12.3%
Compensated Absences	10,885	9,976	+9.1%
	<u>1,903,356</u>	<u>1,804,067</u>	<u>+5.5%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- School financing is highly dependent upon student enrollment. The District's September 2005 enrollment decreased by 16.1 students. This drop in enrollment will decrease the District's funding for fiscal year 2007.
- Although the District has experienced declining enrollment for nine of the past ten years with a net effect of being down 116.1 students, the District expects a slight increase in future enrollment due to three new housing developments in progress within the District.
- The District will negotiate a new contract with the Garner-Hayfield Education Association (GHEA) and the Garner-Hayfield Education Services Association (GHESA) during fiscal 2005. Settlements in excess of "new

money” or allowable growth in state funding will have an adverse effect on the District’s General Fund budget and related fund balance.

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 Tyler Williams, Superintendent, Garner-Hayfield Community School District, 605 Lyon St., Garner, Iowa, 50438.

BASIC FINANCIAL STATEMENTS

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business Type Activities	Total	Component Unit Garner-Hayfield Community School District Education Foundation
	\$	\$	\$	\$
Assets				
Cash and cash equivalents	1,111,329	147,706	1,259,035	10,822
Investments		-	-	526,745
Receivables:				
Property tax:				
Delinquent	23,092	-	23,092	-
Succeeding year	1,968,394	-	1,968,394	-
Accounts	12,954	798	13,752	-
Accrued interest	1,620	-	1,620	-
Due from other governments	302,612	-	302,612	-
Inventories	-	20,578	20,578	-
Notes receivable	4,932	-	4,932	-
Capital assets, net of accumulated depreciation	4,775,397	26,254	4,801,651	-
Total assets	8,200,330	195,336	8,395,666	537,567
Liabilities				
Accounts payable	215,544	1,035	216,579	-
Salaries and benefits payable	56,598	-	56,598	-
Accrued interest payable	8,112	-	8,112	-
Deferred revenue:				
Succeeding year property tax	1,968,394	-	1,968,394	-
Other	-	2,980	2,980	-
Long-term liabilities:				
Portion due within one year:				
General obligation bonds payable	195,000	-	195,000	-
Energy loan note	832	-	832	-
Revenue bond anticipation note	100,000	-	100,000	-
Capital lease	30,045	-	30,045	-
Equipment note payable	3,467	-	3,467	-
Early retirement	49,830	-	49,830	-
Compensated absences	10,885	-	10,885	-
Portion due after one year:				
General obligation bonds payable	1,110,000	-	1,110,000	-
Revenue bond anticipation note	100,000	-	100,000	-
Capital lease	31,958	-	31,958	-
Equipment note payable	1,465	-	1,465	-
Early retirement	269,874	-	269,874	-
Total liabilities	4,152,004	4,015	4,156,019	-

See notes to financial statements.

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business Type Activities	Total	Garner-Hayfield Community School District Education Foundation
	\$	\$	\$	\$
Net assets				
Invested in capital assets, net of related debt	3,207,562	26,254	3,233,816	-
Restricted for:				
Endowment by donors	-	-	-	470,000
Phase III	32	-	32	-
Gifted and talented program	6,615	-	6,615	-
Physical plant and equipment levy	90,053	-	90,053	-
Other special revenue purposes	74,597	-	74,597	-
Local option sales tax capital projects	315,473	-	315,473	-
Debt service	8,443	-	8,443	-
Unrestricted	345,551	165,067	510,618	67,567
Total net assets	4,048,326	191,321	4,239,647	537,567

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions	Capital Grants, Contributions and Restricted
Governmental activities:				
Instruction:				
Regular instruction	3,007,584	511,958	388,259	-
Special instruction	765,656	61,294	38,237	-
Other instruction	782,774	273,779	5,413	-
	<u>4,556,014</u>	<u>847,031</u>	<u>431,909</u>	<u>-</u>
Support services:				
Student services	115,782	-	-	-
Instructional staff services	63,651	-	-	-
Administration services	659,955	-	-	-
Operation and maintenance of plant services	676,663	4,021	-	-
Transportation services	203,046	-	-	-
	<u>1,719,097</u>	<u>4,021</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	-	-	-	3,300
Long-term debt interest	71,058	-	220	-
AEA flowthrough	230,357	-	230,357	-
Depreciation (unallocated)*	152,158	-	-	-
	<u>453,573</u>	<u>-</u>	<u>230,577</u>	<u>3,300</u>
Total governmental activities	<u>6,728,684</u>	<u>851,052</u>	<u>662,486</u>	<u>3,300</u>
Business type activities:				
Non-instructional programs:				
Food service operations	349,498	216,794	126,952	-
Student house construction project	105,979	136,551	-	-
Before/after school program	17	-	-	-
Total business-type activities	<u>455,494</u>	<u>353,345</u>	<u>126,952</u>	<u>-</u>
Total primary government	<u>7,184,178</u>	<u>1,204,397</u>	<u>789,438</u>	<u>3,300</u>
Component Units				
Garner-Hayfield Community School				
District Education Foundation	1,894	-	7,719	-
Total	<u>7,186,072</u>	<u>1,204,397</u>	<u>797,157</u>	<u>3,300</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Debt service				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets beginning of year				
Net assets end of year				

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

Program Revenues

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

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business Type Activities	Total	Component Unit
(2,107,367)	-	(2,107,367)	-
(666,125)	-	(666,125)	-
(503,582)	-	(503,582)	-
<u>(3,277,074)</u>	<u>-</u>	<u>(3,277,074)</u>	<u>-</u>
(115,782)	-	(115,782)	-
(63,651)	-	(63,651)	-
(659,955)	-	(659,955)	-
(672,642)	-	(672,642)	-
(203,046)	-	(203,046)	-
<u>(1,715,076)</u>	<u>-</u>	<u>(1,715,076)</u>	<u>-</u>
3,300	-	3,300	-
(70,838)	-	(70,838)	-
-	-	-	-
(152,158)	-	(152,158)	-
<u>(219,696)</u>	<u>-</u>	<u>(219,696)</u>	<u>-</u>
<u>(5,211,846)</u>	<u>-</u>	<u>(5,211,846)</u>	<u>-</u>
-	(5,752)	(5,752)	-
-	30,572	30,572	-
-	(17)	(17)	-
-	24,803	24,803	-
<u>(5,211,846)</u>	<u>24,803</u>	<u>(5,187,043)</u>	<u>-</u>
-	-	-	5,825
<u>(5,211,846)</u>	<u>24,803</u>	<u>(5,187,043)</u>	<u>5,825</u>
1,616,090	-	1,616,090	-
163,032	-	163,032	-
77,155	-	77,155	-
237,070	-	237,070	-
344,480	-	344,480	-
3,033,787	-	3,033,787	-
12,734	169	12,903	28,205
13,788	-	13,788	-
<u>5,498,136</u>	<u>169</u>	<u>5,498,305</u>	<u>28,205</u>
(7,585)	7,585	-	-
<u>5,490,551</u>	<u>7,754</u>	<u>5,498,305</u>	<u>28,205</u>
278,705	32,557	311,262	34,030
<u>3,769,621</u>	<u>158,764</u>	<u>3,928,385</u>	<u>503,537</u>
<u>4,048,326</u>	<u>191,321</u>	<u>4,239,647</u>	<u>537,567</u>

See notes to financial statements.

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

Net (Expense) Revenue and Changes in Net Assets
Primary Government

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2005

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Assets			
Cash and pooled investments	373,900	481,246	855,146
Receivables:			
Property tax:			
Delinquent	18,305	4,787	23,092
Succeeding year	1,615,660	352,734	1,968,394
Accounts	1,874	-	1,874
Accrued interest	1,394	226	1,620
Interfund receivable	-	36,584	36,584
Due from other governments	183,856	118,756	302,612
Notes receivable	4,932	-	4,932
	<u>2,199,921</u>	<u>994,333</u>	<u>3,194,254</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	23,613	37,940	61,553
Salaries and benefits payable	56,598	-	56,598
Interfund payable	36,584	-	36,584
Deferred revenue:			
Succeeding year property tax	1,615,660	352,734	1,968,394
Other	138,867	66,968	205,835
Total liabilities	<u>1,871,322</u>	<u>457,642</u>	<u>2,328,964</u>
Fund balances:			
Reserved for:			
Phase III	32	-	32
Gifted and talented program	6,615	-	6,615
Debt service	-	16,555	16,555
Unreserved reported in:			
General fund	321,952	-	321,952
Special revenue funds	-	204,663	204,663
Capital projects funds	-	315,473	315,473
Total fund balances	<u>328,599</u>	<u>536,691</u>	<u>865,290</u>
	<u>2,199,921</u>	<u>994,333</u>	<u>3,194,254</u>
Total liabilities and fund balances			

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

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

June 30, 2005

	\$
Total fund balances of governmental funds (Exhibit C)	865,290
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	4,775,397
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	205,835
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.	(8,112)
An internal service fund is used by the District's management to charge the costs health insurance and health insurance deductible reimbursements to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	113,272
Long-term liabilities, including bonds payable, notes payable, capital leases, early retirement benefits and compensated absences are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(1,903,356)</u>
Net assets of governmental activities (Exhibit A)	<u><u>4,048,326</u></u>

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	1,599,469	813,272	2,412,741
Tuition	523,800	-	523,800
Other	89,586	260,196	349,782
State sources	3,578,795	304	3,579,099
Federal sources	116,954	-	116,954
Total revenues	<u>5,908,604</u>	<u>1,073,772</u>	<u>6,982,376</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	2,886,385	181,259	3,067,644
Special instruction	769,429	-	769,429
Other instruction	518,570	263,557	782,127
	<u>4,174,384</u>	<u>444,816</u>	<u>4,619,200</u>
Support services:			
Student services	115,708	660	116,368
Instructional staff services	63,629	330	63,959
Administration services	658,716	3,961	662,677
Operation and maintenance of plant services	634,980	73,935	708,915
Transportation services	160,667	21,020	181,687
	<u>1,633,700</u>	<u>99,906</u>	<u>1,733,606</u>
Other expenditures:			
Facilities acquisition	-	321,837	321,837
Long-term debt:			
Principal	-	289,992	289,992
Interest and fiscal charges	-	67,942	67,942
AEA flowthrough	230,357	-	230,357
	<u>230,357</u>	<u>679,771</u>	<u>910,128</u>
Total expenditures	<u>6,038,441</u>	<u>1,224,493</u>	<u>7,262,934</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(129,837)</u>	<u>(150,721)</u>	<u>(280,558)</u>
Other financing sources (uses):			
Compensation for loss of fixed assets	4,770	-	4,770
Proceeds from long-term debt	-	362,003	362,003
Sales of materials and equipment	240	-	240
Operating transfers in	-	194,579	194,579
Operating transfers out	(12,577)	(189,587)	(202,164)
Total other financing sources (uses)	<u>(7,567)</u>	<u>366,995</u>	<u>359,428</u>
Net change in fund balances	(137,404)	216,274	78,870
Fund balances beginning of year	<u>466,003</u>	<u>320,417</u>	<u>786,420</u>
Fund balances end of year	<u>328,599</u>	<u>536,691</u>	<u>865,290</u>

See notes to financial statements.

GARNER-HAYFIELD 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, 2005

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		78,870
<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 Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital expenditures exceeded depreciation expense in the year as follows:		
Expenditures for capital assets	475,850	
Depreciation expense	<u>(221,777)</u>	254,073
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.		
		27,588
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
		289,992
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities interest expense is recognized as the interest accrues, regardless of when it is due.		
		(3,116)
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	(35,111)	
Compensated absences	<u>(909)</u>	(36,020)
Proceeds from issuing long-term liabilities are included in the governmental funds but increase long-term liabilities in the Statement of Net Assets.		
		(362,003)
An internal service fund is used by the District's management to charge the costs of the health insurance premiums and health insurance deductible reimbursements to the individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.		
		<u>29,321</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>278,705</u></u>

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2005

	<u>Enterprise Nonmajor Funds</u>	<u>Governmental Activities - Internal Service Fund</u> \$
Assets		
Cash and cash equivalents	147,706	256,183
Accounts receivable	798	11,080
Inventories	20,578	-
Capital assets, net of accumulated depreciation	<u>26,254</u>	<u>-</u>
Total assets	<u>195,336</u>	<u>267,263</u>
Liabilities		
Accounts payable	1,035	153,991
Deferred revenue	<u>2,980</u>	<u>-</u>
Total liabilities	<u>4,015</u>	<u>153,991</u>
Net assets		
Invested in capital assets, net of related debt	26,254	-
Unrestricted	<u>165,067</u>	<u>113,272</u>
Total net assets	<u><u>191,321</u></u>	<u><u>113,272</u></u>

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	<u>Enterprise Nonmajor Funds</u> \$	<u>Governmental Activities - Internal Service Fund</u> \$
Operating revenue:		
Local sources:		
Sale of student constructed home	136,551	-
Charges for service	<u>216,794</u>	<u>930,787</u>
	353,345	930,787
Operating expenses:		
Non-instructional programs:		
Salaries	131,583	-
Benefits	17,388	901,466
Purchased services	5,985	-
Supplies	296,281	-
Depreciation	<u>4,257</u>	<u>-</u>
	455,494	901,466
Operating gain (loss)	<u>(102,149)</u>	<u>29,321</u>
Non-operating revenue:		
State sources	5,023	-
Federal sources	121,929	-
Interest income	169	-
Total non-operating revenue	<u>127,121</u>	<u>-</u>
Gain (loss) before contributions and transfers	24,972	29,321
Transfers in (out)	<u>7,585</u>	<u>-</u>
Change in net assets	32,557	29,321
Net assets beginning of year	<u>158,764</u>	<u>83,951</u>
Net assets end of year	<u><u>191,321</u></u>	<u><u>113,272</u></u>

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2005

	<u>Enterprise</u> Nonmajor Funds \$	<u>Governmental</u> Activities - Internal Service Fund \$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	216,888	-
Cash payments from sale of house	136,551	-
Cash payments from services to other funds	-	919,707
Cash payments to employees for services	(148,971)	(891,374)
Cash payments to suppliers for goods or services	(276,479)	-
Net cash used by operating activities	<u>(72,011)</u>	<u>28,333</u>
Cash flows from non-capital financing activities:		
State grants received	5,023	-
Federal grants received	96,141	-
Net cash provided by non-capital financing activities	<u>101,164</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Transfers (to) from General Fund	7,585	-
Acquisition of capital assets	(6,912)	-
Net cash used by capital and related financing activities	<u>673</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	169	-
Net increase (decrease) in cash and cash equivalents	29,995	28,333
Cash and cash equivalents at beginning of year	<u>117,711</u>	<u>227,850</u>
Cash and cash equivalents at end of year	<u><u>147,706</u></u>	<u><u>256,183</u></u>

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2005

	<u>Enterprise</u> <u>Nonmajor</u> <u>Funds</u> \$	<u>Governmental</u> <u>Activities -</u> <u>Internal Service</u> <u>Fund</u> \$
Reconciliation of operating gain (loss) to net cash used by operating activities:		
Operating gain (loss)	(102,149)	29,321
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	25,788	-
Depreciation	4,257	-
Decrease (increase) in inventories	(892)	-
Decrease (increase) in accounts receivable	(73)	(11,080)
(Decrease) increase in accounts payable	891	10,092
(Decrease) increase in deferred revenue	167	-
	<u>(72,011)</u>	<u>28,333</u>
Net cash provided by (used in) operating activities	<u>(72,011)</u>	<u>28,333</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received \$25,788 of federal commodities.

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2005

	Private Purpose Trust Scholarship
	<u>\$</u>
Assets	
Cash and pooled investments	9,669
Accrued interest receivable	<u>6</u>
Total Assets	9,675
Liabilities	<u>-</u>
Net Assets	
Reserved for scholarships	<u><u>9,675</u></u>

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2005

	Private Purpose Trust Scholarship <u> </u> \$
Additions:	
Local sources:	
Gifts and contributions	6,699
Interest	<u>125</u>
Total additions	6,824
Deductions:	
Support services:	
Scholarships awarded	<u>3,500</u>
Change in net assets	3,324
Net assets beginning of year	<u>6,351</u>
Net assets end of year	<u><u>9,675</u></u>

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2005

1. Summary of Significant Accounting Policies

Garner-Hayfield 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 Garner and Hayfield, Iowa and the predominately agricultural territory in a portion of Hancock County. 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, Garner-Hayfield 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 Garner-Hayfield Community School District Education Foundation has been included in the financial statements as a component unit

The Garner-Hayfield Community School District Education Foundation was established for charitable, educational, and scientific purposes which benefit the Garner-Hayfield Community School District. Foundation financial statements are shown in the Statement of Net Assets and the Statement of Activities in separate columns. As explained in the Independent Auditor's Opinion, the Foundation financial statements have not been audited.

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

B. Basis of Presentation

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

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

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions, and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental fund:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instruction, support and other costs.

The District's had three proprietary enterprise funds during the year ended June 30, 2005. The School Nutrition Fund is used to account for the food service operations of the District. The Student Construction Fund is used to account for the proceeds from the sale of and the costs of the construction of a house. The Before and After School Fund is used to account for a childcare program, this fund was closed during the year.

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 health insurance plan premiums and medical deductible reimbursement plan.

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

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

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the

timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants, and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgements, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

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

D. Assets, Liabilities and Fund Equity

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

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

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, 2003 assessed property valuations; is for the tax accrual period July 1, 2004, through June 30, 2005, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants, and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

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

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	-
Buildings	3,000
Improvements other than buildings	3,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	3,000

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	20-50 years
Improvements other than buildings	20 years
Furniture and equipment	5-12 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 for subsequent use. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for vacation time that has been used. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General fund.

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, 2005, disbursements in the instruction and other expenditures functions exceeded the amounts budgeted.

2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2005 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 No. 40.

3. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2005 is as follows:

Receivable Fund	Payable Fund	Amount
		\$
Special Revenue:		
Physical Plant and Equipment Levy Fund	General Fund	36,584

This interfund balance was created when receipts were deposited in the incorrect fund. The amount will be repaid during the next fiscal year.

4. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
		\$
Debt Service	Capital Projects: Local Option Sales Tax	189,587
Debt Service	General Fund	4,992
Enterprise: Before and After School Program	General Fund	7,585

The transfers to the Debt Service Fund moved revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

The transfer from the General Fund to the to the Enterprise, Before and After School Fund was the amount needed to close the Before and After School Program Fund.

5. Capital Assets

Capital assets activity for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	-	31,458	-	31,458
Land	48,803	-	-	48,803
Total capital assets not being deprec.	<u>48,803</u>	<u>31,458</u>	<u>-</u>	<u>80,261</u>
Capital assets being depreciated:				
Buildings	6,120,290	3,605	-	6,123,895
Improvements other than buildings	342,964	301,211	-	644,175
Furniture and equipment	655,250	139,576	3,013	791,813
Total capital assets being deprec.	<u>7,118,504</u>	<u>444,392</u>	<u>3,013</u>	<u>7,559,883</u>
Less accumulated depreciation for:				
Buildings	2,116,896	127,705	-	2,244,601
Improvements other than buildings	38,758	24,453	-	63,211
Furniture and equipment	490,329	69,619	3,013	556,935
Total accumulated depreciation	<u>2,645,983</u>	<u>221,777</u>	<u>3,013</u>	<u>2,864,747</u>
Total capital assets being depreciated, net	<u>4,472,521</u>	<u>222,615</u>	<u>-</u>	<u>4,695,136</u>
Governmental activities capital assets, net	<u>4,521,324</u>	<u>254,073</u>	<u>-</u>	<u>4,775,397</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	125,307	6,912	-	132,219
Less accumulated depreciation	101,708	4,257	-	105,965
Business type activities capital assets, net	<u>23,599</u>	<u>2,655</u>	<u>-</u>	<u>26,254</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	21,526
Other	2,809
Support Services:	
Operation and maintenance of plant services	10,918
Transportation	34,366
	<u>69,619</u>

Unallocated depreciation	<u>152,158</u>
Total depreciation expense – governmental activities	<u>221,777</u>
Business type activities:	
Food services	<u>4,257</u>

6. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2005, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
General obligation bonds	1,490,000	-	185,000	1,305,000	195,000
Revenue bond anticipation note	-	300,000	100,000	200,000	100,000
Capital lease	-	62,003	-	62,003	30,045
Energy loan notes	5,824	-	4,992	832	832
Equipment loans	13,674	-	8,742	4,932	3,467
Early retirement	284,593	75,063	39,952	319,704	49,830
Compensated absences	9,976	10,885	9,976	10,885	10,885
Total	<u>1,804,067</u>	<u>447,951</u>	<u>348,662</u>	<u>1,903,356</u>	<u>390,059</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be between the ages fifty-five and sixty and must have completed twelve years of service to the District. Employees must complete an application, which is subject to approval by the Board of Education. Early retirement incentives include payment of the single health insurance premium until age sixty-five, with the premium amount frozen at the dollar amount at the time of retirement and payment of up to \$2,500 for unused sick leave. Early retirement expenditures for the year ended June 30, 2005 totaled \$39,952.

General Obligation Bonds Payable

Details of the District's June 30, 2005 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of December 1, 1998			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2006	4.00	195,000	52,555	247,555
2007	4.00	205,000	44,755	249,755
2008	4.00	215,000	36,555	251,555
2009	4.00	220,000	27,955	247,955
2010	4.05	230,000	19,155	249,155
2011	4.10	240,000	9,840	249,840
		<u>1,305,000</u>	<u>190,815</u>	<u>1,495,815</u>

Revenue Bond Anticipation Notes

In July, 2004 the District issued \$300,000 of local option sales and services tax revenue bond anticipation notes. The note proceeds were used to finance a new track. The notes will be repaid with proceeds from the local option sales and services tax. Payments will be made as follows:

<u>Year Ending June 30,</u>	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	<u>%</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
2006	2.75	100,000	5,500	105,500
2007	2.75	100,000	2,750	102,750
		<u>200,000</u>	<u>8,250</u>	<u>208,250</u>

Capital Leases

The District has leased computers under a capital lease. The following is a schedule of future minimum lease payments under the capital lease, together with the net present value of the minimum lease payments as of June 30, 2005.

	<u>Year Ending June 30,</u>	<u>Amount</u>
		<u>\$</u>
	2006	33,994
	2007	33,994
Minimum Lease Payments		<u>67,988</u>
Less Amount Representing Interest		<u>5,985</u>
Present Value of Minimum Lease Payments		<u>62,003</u>

Energy Loan Notes

The District has purchased energy saving equipment using a no interest loan. The loan is payable as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>
	<u>\$</u>
2006	<u>832</u>

Equipment Loans

The District has borrowed money, at interest rates of 2.91% to 4.87%, to purchase computers for resale to teachers. The District also has notes receivable from the teachers in the same amounts and at the same interest rates as the notes payable. The teachers have agreed to have the monthly payments withheld from their payroll checks. Payment details are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
2006	3,467	120	3,587
2007	1,465	21	1,486
	<u>4,932</u>	<u>141</u>	<u>5,073</u>

7. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$208,186, \$200,730, and \$196,868 respectively, equal to the required contributions for each year.

8. Risk Management

Garner-Hayfield 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.

9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$105,979 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

10. Construction Commitment

The District has entered into a \$66,544 contract for the construction of a concessions building. As of June 30, 2005 costs of \$31,458 had been incurred against the contract. The balance remaining at June 30, 2005 will be paid as work on the project progresses.

REQUIRED SUPPLEMENTARY INFORMATION

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Receipts:						
Local sources	3,256,471	353,608	3,610,079	3,443,204	3,443,204	166,875
State sources	3,580,100	5,023	3,585,123	3,537,216	3,537,216	47,907
Federal sources	149,697	121,929	271,626	196,000	196,000	75,626
Total receipts	<u>6,986,268</u>	<u>480,560</u>	<u>7,466,828</u>	<u>7,176,420</u>	<u>7,176,420</u>	<u>290,408</u>
Disbursements:						
Instruction	4,620,328	-	4,620,328	4,518,561	4,518,561	(101,767)
Support services	1,730,335	-	1,730,335	1,811,793	1,811,793	81,458
Non-instructional programs	-	458,150	458,150	495,235	495,235	37,085
Other expenditures	880,008	-	880,008	771,623	771,623	(108,385)
Total disbursements	<u>7,230,671</u>	<u>458,150</u>	<u>7,688,821</u>	<u>7,597,212</u>	<u>7,597,212</u>	<u>(91,609)</u>
Excess (deficiency) of receipts over (under) disbursements	(244,403)	22,410	(221,993)	(420,792)	(420,792)	198,799
Other financing sources (uses) net	<u>359,428</u>	<u>7,585</u>	<u>367,013</u>	<u>-</u>	<u>-</u>	<u>367,013</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements	115,025	29,995	145,020	(420,792)	(420,792)	565,812
Balance beginning of year	<u>740,121</u>	<u>117,711</u>	<u>857,832</u>	<u>1,028,886</u>	<u>1,028,886</u>	<u>(171,054)</u>
Balance end of year	<u><u>855,146</u></u>	<u><u>147,706</u></u>	<u><u>1,002,852</u></u>	<u><u>608,094</u></u>	<u><u>608,094</u></u>	<u><u>394,758</u></u>

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
	\$	\$	\$
Revenues	6,986,268	(3,892)	6,982,376
Expenditures	7,230,671	32,263	7,262,934
Net	(244,403)	(36,155)	(280,558)
Other financing sources (uses) net	359,428	-	359,428
Beginning fund balances	740,121	46,299	786,420
Ending fund balances	855,146	10,144	865,290

	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
	\$	\$	\$
Revenues	480,560	(94)	480,466
Expenditures	458,150	(2,656)	455,494
Net	22,410	2,562	24,972
Other financing sources (uses) net	7,585	-	7,585
Beginning fund balances	117,711	41,053	158,764
Ending fund balances	147,706	43,615	191,321

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2005

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 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 functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by the fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. The District did not amend its budget during the year.

During the year ended June 30, 2005, disbursements in the instruction and other expenditures functions exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2005

Assets	Special Revenue Funds				Capital Projects Fund	Debt Service
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	District Support Trust Funds	Local Option Sales Tax	
	\$	\$	\$	\$	\$	
Cash and pooled investments	38,004	72,484	84,297	8,259	263,629	14,573
Receivables:						
Property tax:						
Delinquent	1,872	-	936	-	-	1,979
Succeeding year	150,000	-	78,956	-	-	123,778
Accrued interest	137	12	18	-	56	3
Interfund receivable	-	-	36,584	-	-	-
Due from other governments	-	-	66,968	-	51,788	-
Total assets	190,013	72,496	267,759	8,259	315,473	140,333
Liabilities & Fund Balances						
Liabilities:						
Accounts payable	-	6,005	31,782	153	-	-
Deferred revenue:						
Succeeding year property tax	150,000	-	78,956	-	-	123,778
Other	-	-	66,968	-	-	-
Total liabilities	150,000	6,005	177,706	153	-	123,778
Fund balances:						
Reserved for debt service	-	-	-	-	-	16,555
Unreserved reported in:						
Special revenue funds	40,013	66,491	90,053	8,106	-	-
Capital projects funds	-	-	-	-	315,473	-
Total fund balances	40,013	66,491	90,053	8,106	315,473	16,555
Total liabilities and fund balances	190,013	72,496	267,759	8,259	315,473	140,333

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2005

<u>Total</u>
\$
481,246
4,787
352,734
226
36,584
<u>118,756</u>
<u>994,333</u>
37,940
352,734
<u>66,968</u>
<u>457,642</u>
16,555
204,663
<u>315,473</u>
<u>536,691</u>
<u>994,333</u>

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	Special Revenue Funds				Capital Projects Fund	
	Management	Student	Physical	District	Local	Debt
	Levy	Activity	Plant and	Support	Option	Service
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	149,795	-	155,798	-	344,480	163,199
Other	985	252,666	3,493	2,071	761	220
State sources	120	-	59	-	-	125
Total revenues	<u>150,900</u>	<u>252,666</u>	<u>159,350</u>	<u>2,071</u>	<u>345,241</u>	<u>163,544</u>
Expenditures:						
Current:						
Instruction:						
Regular instruction	67,089	-	111,713	2,457	-	-
Other instruction	-	263,557	-	-	-	-
Support services:						
Student services	660	-	-	-	-	-
Instructional staff services	330	-	-	-	-	-
Administration services	3,961	-	-	-	-	-
Operation and maintenance of plant services	30,514	-	43,421	-	-	-
Transportation services	8,770	-	12,250	-	-	-
Other expenditures:						
Facilities acquisition	-	-	32,528	-	289,309	-
Long-term debt:						
Principal	-	-	-	-	-	289,992
Interest and fiscal charges	-	-	-	-	-	67,942
Total expenditures	<u>111,324</u>	<u>263,557</u>	<u>199,912</u>	<u>2,457</u>	<u>289,309</u>	<u>357,934</u>
Excess (deficiency) of revenues over (under) expenditures	<u>39,576</u>	<u>(10,891)</u>	<u>(40,562)</u>	<u>(386)</u>	<u>55,932</u>	<u>(194,390)</u>
Other financing sources (uses):						
Proceeds from long-term debt	-	-	62,003	-	300,000	-
Operating transfers in	-	-	-	-	-	194,579
Operating transfers out	-	-	-	-	(189,587)	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>62,003</u>	<u>-</u>	<u>110,413</u>	<u>194,579</u>
Net change in fund balance	39,576	(10,891)	21,441	(386)	166,345	189
Fund balances beginning of year	<u>437</u>	<u>77,382</u>	<u>68,612</u>	<u>8,492</u>	<u>149,128</u>	<u>16,366</u>
Fund balances end of year	<u><u>40,013</u></u>	<u><u>66,491</u></u>	<u><u>90,053</u></u>	<u><u>8,106</u></u>	<u><u>315,473</u></u>	<u><u>16,555</u></u>

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

<u>Total</u>
\$
813,272
260,196
304
<u>1,073,772</u>
181,259
263,557
660
330
3,961
73,935
21,020
321,837
289,992
67,942
<u>1,224,493</u>
<u>(150,721)</u>
362,003
194,579
<u>(189,587)</u>
<u>366,995</u>
216,274
<u>320,417</u>
<u><u>536,691</u></u>

Combining Schedule of Net Assets
Nonmajor Enterprise Funds

June 30, 2005

	Enterprise			Total Nonmajor Funds
	School Nutrition	Student Construction	Before/After School Program	
	\$	\$	\$	\$
Assets				
Cash and cash equivalents	33,025	114,681	-	147,706
Accounts receivable	798	-	-	798
Inventories	8,578	12,000	-	20,578
Capital assets, net of accumulated depreciation	26,254	-	-	26,254
Total assets	68,655	126,681	-	195,336
Liabilities				
Accounts payable	662	373	-	1,035
Deferred revenue	2,980	-	-	2,980
Total liabilities	3,642	373	-	4,015
Net assets				
Invested in capital assets, net of related debt	26,254	-	-	26,254
Unrestricted	38,759	126,308	-	165,067
Total net assets	65,013	126,308	-	191,321

Combining Schedule of Revenues, Expenses, and Changes in Net Assets
Nonmajor Enterprise Funds

Year ended June 30, 2005

	Enterprise			Total Nonmajor Funds
	School Nutrition	Student Construction	Before/After School Program	
	\$	\$	\$	\$
Operating revenue:				
Local sources:				
Sale of student constructed home	-	136,551	-	136,551
Charges for service	216,794	-	-	216,794
	<u>216,794</u>	<u>136,551</u>	<u>-</u>	<u>353,345</u>
Operating expenses:				
Non-instructional programs:				
Salaries	131,583	-	-	131,583
Benefits	17,388	-	-	17,388
Purchased services	5,985	-	-	5,985
Supplies	190,285	105,979	17	296,281
Depreciation	4,257	-	-	4,257
	<u>349,498</u>	<u>105,979</u>	<u>17</u>	<u>455,494</u>
Operating gain (loss)	<u>(132,704)</u>	<u>30,572</u>	<u>(17)</u>	<u>(102,149)</u>
Non-operating revenue:				
State sources	5,023	-	-	5,023
Federal sources	121,929	-	-	121,929
Interest income	169	-	-	169
Total non-operating revenue	<u>127,121</u>	<u>-</u>	<u>-</u>	<u>127,121</u>
Gain (loss) before contributions and transfers	(5,583)	30,572	(17)	24,972
Transfers in (out)	-	-	7,585	7,585
Change in net assets	(5,583)	30,572	7,568	32,557
Net assets beginning of year	<u>70,596</u>	<u>95,736</u>	<u>(7,568)</u>	<u>158,764</u>
Net assets end of year	<u>65,013</u>	<u>126,308</u>	<u>-</u>	<u>191,321</u>

Combining Schedule of Cash Flows
Nonmajor Enterprise Funds

Year ended June 30, 2005

	Enterprise		
	School Nutrition	Student Construction	Before/After School Program
	2005	2005	2005
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	216,888	-	-
Cash payments from sale of houses	-	136,551	-
Cash payments to employees for services	(148,971)	-	-
Cash payments to suppliers for goods or services	(170,712)	(105,721)	(46)
Net cash used by operating activities	<u>(102,795)</u>	<u>30,830</u>	<u>(46)</u>
Cash flows from non-capital financing activities:			
State grants received	5,023	-	-
Federal grants received	96,141	-	-
Net cash provided by non-capital financing activities	<u>101,164</u>	<u>-</u>	<u>-</u>
Cash flows from capital and related financing activities:			
Transfers (to) from General Fund	-	-	7,585
Acquisition of capital assets	(6,912)	-	-
Net cash used by capital and related financing activities	<u>(6,912)</u>	<u>-</u>	<u>7,585</u>
Cash flows from investing activities:			
Interest on investments	169	-	-
Net increase (decrease) in cash and cash equivalents	(8,374)	30,830	7,539
Cash and cash equivalents at beginning of year	41,399	83,851	(7,539)
Cash and cash equivalents at end of year	<u>33,025</u>	<u>114,681</u>	<u>-</u>
Reconciliation of operating gain (loss) to net cash used by operating activities:			
Operating gain (loss)	(132,704)	30,572	(17)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:			
Commodities used	25,788	-	-
Depreciation	4,257	-	-
Decrease (increase) in inventories	(892)	-	-
Decrease (increase) in accounts receivable	(73)	-	-
(Decrease) increase in accounts payable	662	258	(29)
(Decrease) increase in deferred revenue	167	-	-
Net cash provided by (used in) operating activities	<u>(102,795)</u>	<u>30,830</u>	<u>(46)</u>

See accompanying independent auditor's report.

Combining Schedule of Cash Flows
Nonmajor Enterprise Funds

Year ended June 30, 2005

<u>Total Nonmajor Funds</u>
<u>2005</u>
\$
216,888
136,551
(148,971)
<u>(276,479)</u>
<u>(72,011)</u>
5,023
<u>96,141</u>
<u>101,164</u>
7,585
<u>(6,912)</u>
<u>673</u>
<u>169</u>
29,995
<u>117,711</u>
<u>147,706</u>
(102,149)
25,788
4,257
(892)
(73)
891
167
<u>(72,011)</u>

See accompanying independent auditor's report.

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

<u>Account</u>	Balance	Revenues	Expenditures	Intra-Fund Transfers	Balance End
	Beginning of Year				of Year
	\$	\$	\$	\$	\$
Athletics	(930)	67,889	75,669	(652)	(9,362)
Athletic towel service	4,555	5,215	5,635	-	4,135
Fellowship of Christian Athletes	36	-	-	-	36
Girls basketball camp	98	2,812	2,326	(416)	168
Roger Ginapp golf	-	933	877	-	56
Paul Nelson wrestling	2,036	2,285	2,844	-	1,477
Girls basketball	193	6,581	5,679	98	1,193
Eenhuis basketball	4,457	7,657	7,746	-	4,368
Girls volleyball	-	5,491	4,491	-	1,000
Football	2,435	11,392	10,461	(300)	3,066
Girls track	926	2,153	2,863	-	216
Summer concessions	(547)	7,015	5,227	-	1,241
Girls softball	277	-	-	-	277
Softball concessions	2,551	5,701	5,528	200	2,924
Cross country	627	2,529	2,972	-	184
Weight room	52	-	-	-	52
MS volleyball	38	-	-	-	38
Boys and girls junior basketball	2,522	-	1,354	(855)	313
Cheerleading fund	564	17,076	18,601	855	(106)
Pep club	600	-	-	-	600
Student council	7,880	3,381	3,959	-	7,302
Jr. Hi. student council	198	13,192	12,623	50	817
Curtain club	5	-	-	-	5
Peer helper association	525	769	470	-	824
Middle school cheerleading	-	-	-	-	-
Que pasa	275	-	21	-	254
Class of 2002	186	-	-	-	186
Class of 2003	1,619	-	-	-	1,619
Class of 2004	1,001	-	81	-	920
Class of 2005	4,615	22	2,966	-	1,671
Class of 2006	4,075	8,245	8,301	-	4,019
Class of 2007	140	16,702	13,272	820	4,390
Class of 2008	-	-	75	-	(75)
Investments	9,044	223	-	-	9,267
N.O.W. interest	10,617	221	-	-	10,838
FFA	4,156	37,254	40,290	-	1,120
FHA	612	2,331	1,784	-	1,159
National Honor Society	299	1,413	949	-	763
Retail marketing	1,891	915	1,656	-	1,150
NCIBA honor band	38	-	-	-	38
Band trip	742	-	-	-	742

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

<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>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Flag & rifle	1,799	4,094	3,334	-	2,559
HS solo & ensemble contest	904	-	896	100	108
Jr. Hi. solo & ens. contest	20	-	-	-	20
Impulse dance club	1,811	1,980	3,065	-	726
Annual	2,510	2,879	4,742	100	747
MS annual	48	1,530	607	-	971
HS concessions	(93)	543	445	-	5
K-8 concessions	(165)	2,292	2,638	-	(511)
Speech & drama	3,653	4,886	4,084	-	4,455
Musical productions	3,091	4,698	3,964	-	3,825
PSAT Testing	-	353	357	-	(4)
Video yearbook	2,193	10	1,505	-	698
June 30, 2004 accrual entries	(6,797)	(8)	(6,805)	-	-
June 30, 2005 accrual entries	-	12	6,005	-	(5,993)
	<u>77,382</u>	<u>252,666</u>	<u>263,557</u>	<u>-</u>	<u>66,491</u>
Total					

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2005	2004	2003	2002
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,412,741	2,459,892	2,208,268	2,014,676
Tuition	523,800	559,121	478,461	499,426
Other	349,782	359,797	408,208	386,314
State sources	3,579,099	3,138,599	3,412,053	3,335,083
Federal sources	116,954	103,229	89,908	93,191
Total revenues	<u>6,982,376</u>	<u>6,620,638</u>	<u>6,596,898</u>	<u>6,328,690</u>
Expenditures:				
Instruction:				
Regular instruction	3,067,644	2,849,646	2,777,927	2,681,867
Special instruction	769,429	779,172	672,171	680,347
Other instruction	782,127	770,275	749,012	763,323
Support services:				
Student services	116,368	98,749	118,092	143,276
Instructional staff services	63,959	103,534	95,914	107,572
Administration services	662,677	621,615	611,188	573,658
Operation and maintenance of plant services	708,915	589,586	556,617	503,924
Transportation services	181,687	158,696	201,110	139,346
Other expenditures:				
Facilities acquisition	321,837	165,657	197,631	177,034
Long-term debt:				
Principal	289,992	180,092	251,007	164,992
Interest and other charges	67,942	67,607	76,027	81,631
AEA flowthrough	230,357	225,158	243,027	240,297
Total expenditures	<u>7,262,934</u>	<u>6,609,787</u>	<u>6,549,723</u>	<u>6,257,267</u>

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

To the Board of Education of
Garner-Hayfield 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 Garner-Hayfield Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 11, 2005. We did not issue an opinion on the Garner-Hayfield Community School District Education Foundation, which is included as a discretely presented component unit, because we were not engaged to, and did not audit the Foundation. 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 Garner-Hayfield Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items 05-I-A and 05-I-B are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Garner-Hayfield Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Garner-Hayfield Community School District and other parties to whom Garner-Hayfield 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 Garner-Hayfield 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

October 11, 2005

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

05-I-A Segregation of Duties: The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although we noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

Recommendation: We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures and investigate methods to increase monitoring activities to obtain the maximum internal control possible under the circumstances.

District Response: The District is aware of the lack of complete segregation of duties and will make changes as the opportunity arises.

Conclusion: Response accepted.

05-I-B Athletic Gate Admissions: We noted that the District is using a ticket system to account for the proceeds from school events that charge an admission, but the number of tickets sold was not reconciled to the cash collected.

Recommendation: At the end of each event the cash collected should be counted by two individuals and should be reconciled to the number of tickets sold. This reconciliation should be signed by the individuals responsible for counting the cash. This reconciliation should also match the bank deposit slip.

District Response: We will change our current procedures.

Conclusion: Response accepted.

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting:

05-II-A Official Depositories: Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

05-II-B Certified Budget: Disbursements for the year ended June 30, 2005, exceeded the amounts budgeted in the instruction and other expenditures functional areas.

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

District Response: We will amend future budgets before disbursements exceed the budget.

Conclusion: Response accepted.

05-II-C 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.

05-II-D 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.

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u> \$
David Zrostlik, board member and owner of Stellar Ind.	Gym boards	810
William Paulus, board member and VP at local bank	School banking	

Recommendation: The transaction with Stellar Ind. does not appear to represent a conflict of interest since the dollar amount was less than \$2,500. The District should consult with its attorney before entering into any banking agreements with the above bank.

District Response: We will consult with our attorney.

Conclusion: Response accepted.

05-II-F 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.

05-II-G Board Minutes: Except as explained in comment 04-II-K, we noted no transactions requiring Board approval that had not been approved by the Board.

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

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

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

05-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.

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

05-II-K Student Activity Fund Expenditure Procedures: All public funds are the legal responsibility of the Board, Board Secretary and Board Treasurer. All public funds have the same legal requirements for accounting, reporting, auditing and allowing, dual signatures, publishing and investing. We noted that the Student Activity Fund was not following the statutory requirements for Board approval prior to disbursement, publication of bills paid and dual signatures.

Recommendation: The District should implement procedures to ensure compliance with statutory requirements for disbursements in the Student Activity Fund.

District Response: The District will pursue the auditor's recommendation.

Conclusion: Response accepted.

05-II-L Old Outstanding Checks: We noted that the District's bank reconciliations included approximately \$900 of old outstanding checks. Iowa Code Section 566 specifies that holders unclaimed property, which includes outstanding checks, must file a report with and send the unclaimed property to the Treasurer of Iowa.

Recommendation: The District should investigate the status of all old outstanding checks. Checks that were issued in error or in duplicate should be voided and removed from the list of outstanding checks. The District should search for the owners of all other outstanding checks, then reissue new checks if the owners are found. If the owners can not be found, the District must file an unclaimed property report with and send the money to the Treasurer State of Iowa.

Response: We will begin investigating the status of old outstanding checks and we will file an unclaimed property report with the Treasurer of Iowa if necessary.

Conclusion: Response accepted.

05-II-M Travel Allowances: We noted that the District was paying a travel allowance to one employee. The District has an accountable plan. Under an accountable plan the employee must account to the District for how all of the allowance is spent. Any amounts that are not accounted for must be included as taxable income in the employee's W-2 form. When accounting for auto expenses the employee may use the standard mileage rate or actual expenses. We noted that the employee was using a combination of the two methods.

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

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

Recommendation: Travel should be documented with detailed records listing date, place, purpose and number of miles driven or dollars spent to avoid having it included in employees W-2 as taxable income. The dollar value of the miles driven must be determined by using either the standard mileage rate or actual expenses.

District Response: We will obtain more detailed accounting for travel allowances paid to employees and any portion of the allowance that is not accounted for will be included in the employee's W-2 form.

Conclusion: Response accepted.

05-II-N Deficit Balances: The Student Activity Fund has several accounts with deficit balances at June 30, 2005.

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

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

Conclusion: Response accepted.