

GMG COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2005

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GMG Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2004 Election)		
Rick Landt	President	2004
Merle Appelgate	Vice-President	2004
Allen Burt	Board Member	2006
Jim Fleming	Board Member	2005
Linda Havelka	Board Member	2005
David Bacon	Board Member	2006
Kathy Beane	Board Member	2004

Board of Education  
(After September 2004 Election)

Rick Landt	President	2007
Merle Appelgate	Vice President	2007
Allen Burt	Board Member	2006
Jim Fleming	Board Member	2005
Linda Havelka	Board Member	2005
David Bacon	Board Member	2006
Kathy Beane	Board Member	2007

School Officials

Michael Ashton	Superintendent	2005
Debra Stahl	Board Secretary	2005
Roger Schoell	Attorney	2005

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the GMG Community School District, Garwin, 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.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of GMG Community School District at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

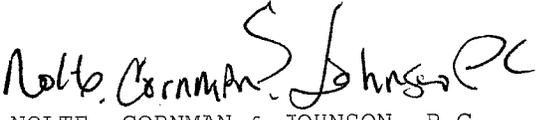
In accordance with Government Auditing Standards, we have also issued our report dated August 22, 2005 on our consideration of GMG Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 35 through 38 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise GMG Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

August 22, 2005

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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GMG Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 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 \$3,339,658 in fiscal 2004 to \$3,395,599 in fiscal 2005, while General Fund expenditures increased from \$3,274,483 in fiscal 2004 to \$3,426,591 in fiscal 2005. This resulted in a decrease in the District's General Fund balance from \$732,597 in fiscal 2004 to a balance of \$701,805 in fiscal 2005, a 4.2% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in state sources in fiscal 2005. The increase in expenditures was due primarily to an increase in the instruction functional area.
- The District performed a number of building and repair projects to its facilities in order to keep them in optimal condition. Roof repair, new gymnasium and tuckpointing were done at the High School.
- The District purchased 3 new copy machines in September 2005 for \$21,654.
- A new bus was purchased in September 2005 for \$53,099. A new van was purchased in May of 2005 for \$17,897.
- The District began receiving Local Option Sales Tax from all resident counties beginning July 1, 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 GMG Community School District as a whole and present an overall view of the District's finances.

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

Notes to the 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.

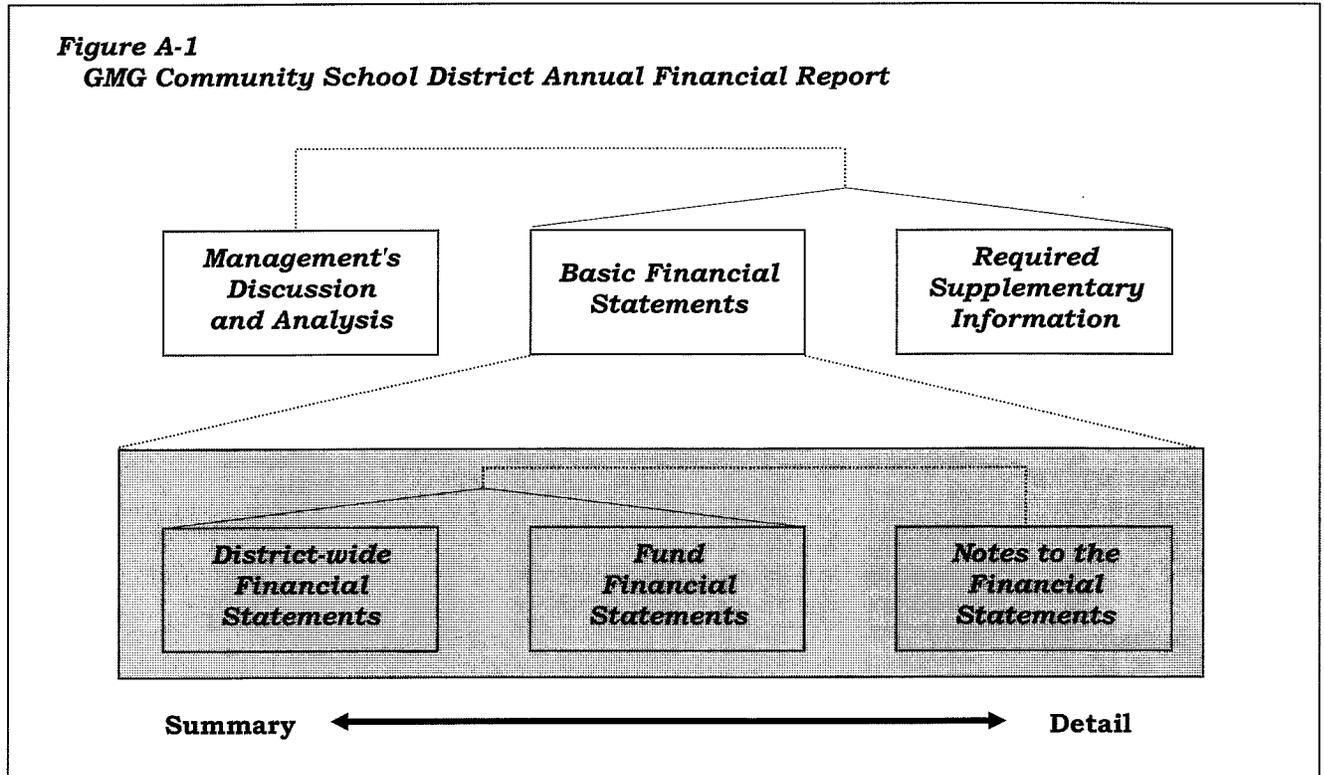


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

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## 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 position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

### Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise funds, the School Nutrition Fund.

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

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

Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts.

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2005 compared to June 30, 2004.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Current and other assets	\$ 3,070,689	3,170,657	58,855	71,856	3,129,544	3,242,513	-3.48%
Capital assets	3,782,869	3,893,197	72,597	72,047	3,855,466	3,965,244	-2.77%
Total assets	6,853,558	7,063,854	131,452	143,903	6,985,010	7,207,757	-3.09%
Long-term obligations	3,098,759	3,254,464	0	0	3,098,759	3,254,464	-4.78%
Other liabilities	1,984,533	2,075,344	11,533	10,606	1,996,066	2,085,950	-4.31%
Total liabilities	5,083,292	5,329,808	11,533	10,606	5,094,825	5,340,414	-4.60%
Net assets:							
Invested in capital assets, net of related debt	686,978	648,394	72,597	72,047	759,575	720,441	5.43%
Restricted	302,606	273,336	0	0	302,606	273,336	10.71%
Unrestricted	780,682	812,316	47,322	61,250	828,004	873,566	-5.22%
Total net assets	\$ 1,770,266	1,734,046	119,919	133,297	1,890,185	1,867,343	1.22%

The District's combined net assets increased by 1.22%, or \$22,842, over the prior year. The largest portion of the District's net assets is the 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 \$45,562, or 5.22%. The decrease was primarily a result of the General Fund balance decreasing.

Restricted net assets represents 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 \$29,270, or 10.71% over the prior year.

Figure A-4 shows the changes in net assets for the year ended June 30, 2005 compared to June 30, 2004.

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Revenues:							
Program revenues:							
Charges for services	\$ 697,432	672,121	96,958	101,042	794,390	773,163	2.75%
Operating grants and contributions and restricted interest	410,266	411,460	84,617	92,492	494,883	503,952	-1.80%
General revenues:							
Property tax	1,522,412	1,637,691	0	0	1,522,412	1,637,691	-7.04%
Local option sales and services tax	194,548	0	0	0	194,548	0	100.00%
Unrestricted state grants	1,272,830	1,162,488	0	0	1,272,830	1,162,488	9.49%
Other	24,462	26,498	231	254	24,693	26,752	-7.70%
Total revenues	4,121,950	3,910,258	181,806	193,788	4,303,756	4,104,046	4.87%
Program expenses:							
Governmental activities:							
Instructional	2,474,736	2,342,484	0	0	2,474,736	2,342,484	5.65%
Support services	1,023,682	976,570	0	0	1,023,682	976,570	4.82%
Non-instructional programs	0	0	194,194	176,761	194,194	176,761	9.86%
Other expenses	587,312	532,628	0	0	587,312	532,628	10.27%
Total expenses	4,085,730	3,851,682	194,194	176,761	4,279,924	4,028,443	6.24%
Changes in net assets before other financing uses	\$ 36,220	58,576	(12,388)	17,027	23,832	75,603	-68.48%
Other financing uses:							
Loss on disposal of assets	0	0	(990)	0	(990)	0	-100.00%
Change in net assets	\$ 36,220	58,576	(13,378)	17,027	22,842	75,603	-69.79%

Property tax and unrestricted state grants account for 65% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 82% of the total expenses.

Changes in revenues will be as a result of changes in student participation, whether in the regular, special or extracurricular programs. Fluctuations in basic enrollment will significantly impact the state revenues, as well as property tax revenues, keeping in mind that neither source of funding will be ever fully realized with current law and funding structure as set by the legislature.

The most significant fluctuation in expenditure levels will be caused by increased salary and benefit obligations, in large part resulting from collective bargaining agreements. With a declining enrollment comes lesser ability to fund various programs required by the state and constant evaluation of staffing needs becomes a priority. Even with certain staff reductions there may still be an increase in expenditures due to the salary and benefit requirements.

The District makes a continual effort to be a good steward of public funds and maintains a philosophy of providing the best education possible, exploring every avenue available to fund the programs, while making certain to keep watch for services that could be merged with other programs.

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## Governmental Activities

Revenues for governmental activities were \$4,121,750 and expenses were \$4,085,730. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 2,474,736	1,480,668
Support services	1,023,682	1,022,100
Other expenses	587,312	475,264
Totals	<u>\$ 4,085,730</u>	<u>2,978,032</u>

- The cost financed by users of the District's programs was \$697,432.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$410,266.
- The net cost of governmental activities was financed with \$1,522,412 in property tax, \$194,548 in local option sales and services tax, \$1,272,830 in state foundation aid and \$24,262 in interest income.

## Business-Type Activities

Revenues of the District's business-type activities were \$181,806 and expenses were \$195,184. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## INDIVIDUAL FUND ANALYSIS

As previously noted, the GMG Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,019,980, below last year's ending fund balances of a \$1,029,045. However, the primary reason for the decrease in combined fund balances in fiscal 2005 is that the local option sales and services tax monies that the District starting receiving in 2005 was more than offset by the increase in expenditures.

## Governmental Fund Highlights

- The District's declining General Fund financial position is the product of many factors:
  - Increase in state aid grants during the year resulted in an increase in revenues, however, the increase in revenues was more than offset by the increase in expenditures.
- The Management Fund balance decreased from \$239,327 in fiscal 2004 to \$183,827 in fiscal 2005. This decrease was due to the decrease in property tax monies received.

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## Proprietary Fund Highlights

The Proprietary Fund net assets decreased from \$133,297 at June 30, 2004 to \$119,919 at June 30, 2005, representing a decrease of 10%. For fiscal 2005, the District had an increase in expenditures.

## BUDGETARY HIGHLIGHTS

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

The District's revenues were \$12,737 more than budgeted revenues, a variance of .3%. The most significant variance resulted from the District receiving less in federal sources than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional programs and other expenditures functional areas.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2005, the District had invested \$3,855,466, 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 amount represents a net decrease of 2.77% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$226,118.

The original cost of the District's capital assets was \$7,103,731. Governmental funds account for \$6,979,260 with the remainder of \$124,471 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$3,624,454 at June 30, 2005, compared to \$3,727,000 reported at June 30, 2004. This decrease resulted from the current year depreciation expense.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2003-04
Land	\$ 54,500	54,500	0	0	54,500	54,500	0.00%
Buildings	3,624,454	3,727,000	0	0	3,624,454	3,727,000	-2.83%
Machinery and equipment	103,915	111,697	72,597	72,047	176,512	183,744	-4.10%
Total	\$ 3,782,869	3,893,197	72,597	72,047	3,855,466	3,965,244	-2.85%

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## Long-Term Debt

At June 30, 2005, the District had \$3,098,759 in general obligation and other long-term debt outstanding. This represents a decrease of 4.8% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding general obligation bonds of \$3,090,000 at June 30, 2005.

The District had total outstanding Early Retirement payable of \$8,759 at June 30, 2005.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	2005	2004	
General obligation bonds	\$ 3,090,000	3,240,000	-4.6%
Early Retirement	8,759	14,464	-39.4%
Totals	\$ 3,098,759	3,254,464	-4.8%

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The SILO tax that was passed will keep the District's facilities in good shape so we can continue to purchase new and safe vehicles for our students.
- With the budget guarantee being phased out, if we continue to have a decline in enrollment we will be forced to trim costs even more.
- Although the District has experienced steady enrollment the past several years, enrollment numbers decreased in September 2005.
- Health insurance continues to be a very costly item to the District. We have been very fortunate to be considered in the low bracket for claims. This is something that is unpredictable. The skyrocketing cost of health care and the insurance to cover the cost will soon be unattainable by many.
- Unfunded mandates are stretching limits of not only the financial health of the District, but also the human resources aspect of the District, "No Child Left Behind", "Student Achievement and Teacher Quality Act", and "GASB 34" to name a few.
- The School District has completed its third year of participation in the Lighthouse Study. The District has seen increased student achievement and continues to focus on quality staff development.
- The School District will be converting to GAAP based budgeting in the 2005-2006 school year to grant the District additional allowable growth to protect the District's unspent balance.

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## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Debra Stahl, Business Manager, GMG Community School District, 306 Park Street, Garwin, Iowa, 50632.

BASIC FINANCIAL STATEMENTS

GMG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2005

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments			
ISCAP (Note 4)	\$ 148,656	0	148,656
Other	1,230,727	47,718	1,278,445
Receivables:			
Property tax:			
Delinquent	26,612	0	26,612
Succeeding year	1,457,912	0	1,457,912
Income surtax	77,052	0	77,052
Accrued interest - ISCAP (Note 4)	32	0	32
Due from other governments	129,698	0	129,698
Inventories	0	11,137	11,137
Capital assets, net of accumulated depreciation (Note 5)	3,782,869	72,597	3,855,466
<b>TOTAL ASSETS</b>	<b>6,853,558</b>	<b>131,452</b>	<b>6,985,010</b>
<b>LIABILITIES</b>			
Accounts payable	14,387	0	14,387
Salaries and benefits payable	349,517	10,883	360,400
ISCAP warrants payable (Note 4)	148,000	0	148,000
ISCAP accrued interest payable (Note 4)	28	0	28
ISCAP unamortized premium	1,988	0	1,988
Accrued interest payable	12,701	0	12,701
Deferred revenue:			
Succeeding year property tax	1,457,912	0	1,457,912
Other	0	650	650
Long-term liabilities (Note 6):			
Portion due within one year:			
General obligation bonds payable	160,000	0	160,000
Early retirement payable	3,818	0	3,818
Portion due after one year:			
General obligation bonds payable	2,930,000	0	2,930,000
Early retirement payable	4,941	0	4,941
<b>TOTAL LIABILITIES</b>	<b>5,083,292</b>	<b>11,533</b>	<b>5,094,825</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	686,978	72,597	759,575
Restricted for:			
Capital projects	90,467	0	90,467
Management levy	175,068	0	175,068
Physical plant and equipment levy	6,879	0	6,879
Other special revenue purposes	30,192	0	30,192
Unrestricted	780,682	47,322	828,004
<b>TOTAL NET ASSETS</b>	<b>\$ 1,770,266</b>	<b>119,919</b>	<b>1,890,185</b>

SEE NOTES TO FINANCIAL STATEMENTS.

GMG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2005

	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 1,624,769	607,012	275,603
Special instruction	481,758	90,420	21,033
Other instruction	368,209	0	0
	<u>2,474,736</u>	<u>697,432</u>	<u>296,636</u>
Support services:			
Instructional staff services	113,856	0	0
Administration services	426,685	0	0
Operation and maintenance of plant services	302,269	0	0
Transportation services	172,866	0	1,582
Other support services	8,006	0	0
	<u>1,023,682</u>	<u>0</u>	<u>1,582</u>
Other expenditures:			
Facilities and acquisitions	150,585	0	0
Long-term debt interest	161,058	0	0
AEA flowthrough	112,048	0	112,048
Depreciation (unallocated) *	163,621	0	0
	<u>587,312</u>	<u>0</u>	<u>112,048</u>
Total governmental activities	4,085,730	697,432	410,266
Business-Type activities:			
Non-instructional programs:			
Nutrition services	194,194	96,958	84,617
Total business-type activities	<u>194,194</u>	<u>96,958</u>	<u>84,617</u>
Total	<u>\$ 4,279,924</u>	<u>794,390</u>	<u>494,883</u>

**General Revenues:**

Local tax for:  
  General purposes  
  Debt Service  
  Capital outlay  
  Local option sales and services tax  
Unrestricted state grants  
Unrestricted investment earnings  
Gain on sale of equipment

Total general revenues

Changes in net assets before other financing uses

Other financing uses:

  Loss on disposal of assets

Change in net assets

Net assets beginning of year

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(742,154)	0	(742,154)
(370,305)	0	(370,305)
(368,209)	0	(368,209)
(1,480,668)	0	(1,480,668)
(113,856)	0	(113,856)
(426,685)	0	(426,685)
(302,269)	0	(302,269)
(171,284)	0	(171,284)
(8,006)	0	(8,006)
(1,022,100)	0	(1,022,100)
(150,585)	0	(150,585)
(161,058)	0	(161,058)
0	0	0
(163,621)	0	(163,621)
(475,264)	0	(475,264)
(2,978,032)	0	(2,978,032)
0	(12,619)	(12,619)
0	(12,619)	(12,619)
(2,978,032)	(12,619)	(2,990,651)
\$ 1,113,414	0	1,113,414
309,879	0	309,879
99,119	0	99,119
194,548	0	194,548
1,272,830	0	1,272,830
24,262	231	24,493
200	0	200
3,014,252	231	3,014,483
36,220	(12,388)	23,832
0	(990)	(990)
36,220	(13,378)	22,842
1,734,046	133,297	1,867,343
\$ 1,770,266	119,919	1,890,185

GMG COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

	General	Management	Other Nonmajor Governmental Funds	Total
<b>ASSETS</b>				
Cash and pooled investments				
ISCAP (Note 4)	\$ 148,656	0	0	148,656
Other	987,441	183,734	57,727	1,228,902
Receivables:				
Property tax:				
Delinquent	18,891	93	7,628	26,612
Succeeding year	1,020,205	25,000	412,707	1,457,912
Income surtax	77,052	0	0	77,052
Accrued interest - ISCAP (Note 4)	32	0	0	32
Due from other governments	60,705	0	68,993	129,698
<b>TOTAL ASSETS</b>	<b>\$ 2,312,982</b>	<b>208,827</b>	<b>547,055</b>	<b>3,068,864</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 14,387	0	0	14,387
Salaries and benefits payable	349,517	0	0	349,517
ISCAP warrants payable (Note 4)	148,000	0	0	148,000
ISCAP accrued interest payable (Note 4)	28	0	0	28
ISCAP unamortized premium	1,988	0	0	1,988
Deferred revenue:				
Succeeding year property tax	1,020,205	25,000	412,707	1,457,912
Income surtax	77,052	0	0	77,052
Total liabilities	<u>1,611,177</u>	<u>25,000</u>	<u>412,707</u>	<u>2,048,884</u>
Fund balances:				
Reserved for:				
Debt service	0	0	6,810	6,810
Unreserved:				
General	701,805	0	0	701,805
Management	0	183,827	0	183,827
Capital Projects	0	0	90,467	90,467
Physical plant and equipment levy	0	0	6,879	6,879
Other special revenue purposes	0	0	30,192	30,192
Total fund balances	<u>701,805</u>	<u>183,827</u>	<u>134,348</u>	<u>1,019,980</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,312,982</b>	<b>208,827</b>	<b>547,055</b>	<b>3,068,864</b>

SEE NOTES TO FINANCIAL STATEMENTS.

GMG COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2005

<b>Total fund balances of governmental funds (page 17)</b>	\$ 1,019,980
 <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 in the governmental funds.	3,782,869
Blending of the Internal Service Funds to be reflected on an entity-wide basis.	1,825
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	77,052
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.	(12,701)
Long-term liabilities, including general obligation bonds and early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(3,098,759)</u>
<b>Net assets of governmental activities (page 14)</b>	<u><u>\$ 1,770,266</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

GMG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2005

	General	Management	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 1,108,438	4,976	603,546	1,716,960
Tuition	560,856	0	0	560,856
Other	43,331	9,372	106,598	159,301
State sources	1,558,886	2	1,657	1,560,545
Federal sources	124,088	0	0	124,088
Total revenues	<u>3,395,599</u>	<u>14,350</u>	<u>711,801</u>	<u>4,121,750</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular instruction	1,610,417	9,393	0	1,619,810
Special instruction	481,758	0	0	481,758
Other instruction	258,932	0	104,277	363,209
	<u>2,351,107</u>	<u>9,393</u>	<u>104,277</u>	<u>2,464,777</u>
Support services:				
Instructional staff services	108,056	0	0	108,056
Administration services	423,968	0	2,178	426,146
Operation and maintenance of plant services	239,960	59,999	4,651	304,610
Transportation services	183,446	458	0	183,904
Other support services	8,006	0	0	8,006
	<u>963,436</u>	<u>60,457</u>	<u>6,829</u>	<u>1,030,722</u>
Other expenditures:				
Facilities acquisitions	0	0	211,660	211,660
Long-term debt:				
Principal	0	0	150,000	150,000
Interest and fiscal charges	0	0	161,808	161,808
AEA flowthrough	112,048	0	0	112,048
	<u>112,048</u>	<u>0</u>	<u>523,468</u>	<u>635,516</u>
Total expenditures	<u>3,426,591</u>	<u>69,850</u>	<u>634,574</u>	<u>4,131,015</u>
Excess(deficiency) of revenues over(under) expenditures	(30,992)	(55,500)	77,227	(9,265)
Other financing sources:				
Operating transfers in	0	0	70,000	70,000
Operating transfers out	0	0	(70,000)	(70,000)
Sale of equipment	200	0	0	200
Total other financing sources	<u>200</u>	<u>0</u>	<u>0</u>	<u>200</u>
Net change in fund balances	(30,792)	(55,500)	77,227	(9,065)
Fund balance beginning of year	<u>732,597</u>	<u>239,327</u>	<u>57,121</u>	<u>1,029,045</u>
Fund balance end of year	<u>\$ 701,805</u>	<u>183,827</u>	<u>134,348</u>	<u>1,019,980</u>

SEE NOTES TO FINANCIAL STATEMENTS.

GMG COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2005

Net change in fund balances - total governmental funds (page 19) \$ (9,065)

*Amounts reported for governmental activities in the  
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 106,071	
Depreciation expense	<u>(216,399)</u>	(110,328)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets 150,000

Net change in the Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. (842)

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. 750

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.

Early retirement	\$ 5,705	<u>5,705</u>
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Changes in net assets of governmental activities (page 16) \$ 36,220

SEE NOTES TO FINANCIAL STATEMENTS.

GMG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2005

	Business-Type Activities:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
<b>ASSETS</b>		
Cash and pooled investments	\$ 47,718	1,825
Inventories	11,137	0
Capital assets, net of accumulated depreciation(Note 5)	72,597	0
<b>TOTAL ASSETS</b>	<b>131,452</b>	<b>1,825</b>
<b>LIABILITIES</b>		
Salaries and benefits payable	10,883	0
Deferred revenue:		
Other	650	0
<b>TOTAL LIABILITIES</b>	<b>11,533</b>	<b>0</b>
<b>NET ASSETS</b>		
Investment in capital assets, net of related debt	72,597	0
Unrestricted	47,322	1,825
<b>TOTAL NET ASSETS</b>	<b>\$ 119,919</b>	<b>1,825</b>

SEE NOTES TO FINANCIAL STATEMENTS.

GMG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2005

	Business-Type Activities:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
	<hr/>	
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 96,958	33,440
TOTAL OPERATING REVENUES	<hr/> 96,958	<hr/> 33,440
OPERATING EXPENSES:		
Non-instructional programs:		
Salaries	61,186	0
Benefits	17,100	0
Services	3,424	34,282
Supplies	102,765	0
Depreciation	9,719	0
TOTAL OPERATING EXPENSES	<hr/> 194,194	<hr/> 34,282
OPERATING LOSS	<hr/> (97,236)	<hr/> (842)
NON-OPERATING REVENUES:		
State sources	2,899	0
Federal sources	81,718	0
Interest on investments	231	0
TOTAL NON-OPERATING REVENUES	<hr/> 84,848	<hr/> 0
Change in net assets before other financing uses	(12,388)	(842)
Other financing sources:		
Loss on disposal of assets	(990)	0
Change in net assets	(13,378)	(842)
Net assets beginning of year	<hr/> 133,297	<hr/> 2,667
Net assets end of year	<hr/> \$ 119,919	<hr/> 1,825

SEE NOTES TO FINANCIAL STATEMENTS.

GMG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2005

	Business-Type Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 96,183	0
Cash received from miscellaneous	730	33,440
Cash payments to employees for services	(77,314)	0
Cash payments to suppliers for goods or services	(95,810)	(34,282)
Net cash used in operating activities	(76,211)	(842)
Cash flows from non-capital financing activities:		
State grants received	2,899	0
Federal grants received	72,663	0
Net cash provided by non-capital financing activities	75,562	0
Cash flows from capital and related financing activities:		
Purchase of capital assets	(11,259)	0
Net cash used in capital and related financing activities	(11,259)	0
Cash flows from investing activities:		
Interest on investments	231	0
Net cash provided by investing activities	231	0
Net decrease in cash and cash equivalents	(11,677)	(842)
Cash and cash equivalents at beginning of year	59,395	2,667
Cash and cash equivalents at end of year	\$ 47,718	1,825
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (97,236)	(842)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Commodities consumed	9,055	0
Depreciation	9,719	0
Decrease in inventories	1,324	0
Increase in salaries and benefits payable	972	0
Decrease in deferred revenue	(45)	0
Net cash used in operating activities	\$ (76,211)	(842)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:		
Current assets:		
Cash and pooled investments	\$ 47,718	1,825
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
During the year ended June 30, 2005, the District received Federal commodities valued at \$9,055.		

SEE NOTES TO FINANCIAL STATEMENTS.

GMG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2005

	<u>Agency</u>
Assets	
Cash and pooled investments	\$ 2,379
Total assets	<u>\$ 2,379</u>
Liabilities	
Due to other groups	\$ 2,379
Total liabilities	<u>\$ 2,379</u>

SEE NOTES TO FINANCIAL STATEMENTS.

GMG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

(1) **Summary of Significant Accounting Policies**

The GMG Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Green Mountain and Garwin, Iowa, and the predominate agricultural territory in Marshall and Tama Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

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

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

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues,

are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

The District's proprietary funds are the School Nutrition Fund and the Internal Service Fund. The Nutrition fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the self-funded insurance plan of the District. The Internal Service Fund is charged back to the Governmental Funds and shown combined in the Statement of Net Assets and

the Statement of Activities.

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

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

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

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

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

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB

pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a

1½% per month penalty for delinquent payments; is based on January 1, 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 repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,000
Buildings	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

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

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period

or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

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

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

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

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

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements in the non-instructional and other expenditures functional areas exceeded the amounts budgeted.

#### (2) **Cash and Pooled Investments**

The District's deposits 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 and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The district had no investments at June 30, 2005.

**(3) Transfers**

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
PPEL	Capital Projects	<u>\$ 70,000</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

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

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2005 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Accrued Warrants Payable</u>	<u>Accrued Interest Payable</u>
2005-06A	6/28/2005	6/28/2006	\$ 148,656	32	148,000	28
Total			<u>\$ 148,656</u>	<u>32</u>	<u>148,000</u>	<u>28</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no advance activity during the year ended June 30, 2005.

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

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investment</u>
2005-06A	<u>3.500%</u>	<u>3.903%</u>

(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:				
Land	\$ 54,500	0	0	54,500
Total capital assets not being depreciated	<u>54,500</u>	<u>0</u>	<u>0</u>	<u>54,500</u>
Capital assets being depreciated:				
Buildings	6,030,000	61,075	0	6,091,075
Machinery and equipment	788,689	44,996	0	833,685
Total capital assets being depreciated	<u>6,818,689</u>	<u>106,071</u>	<u>0</u>	<u>6,924,760</u>
Less accumulated depreciation for:				
Buildings	2,303,000	163,621	0	2,466,621
Machinery and equipment	676,992	52,778	0	729,770
Total accumulated depreciation	<u>2,979,992</u>	<u>216,399</u>	<u>0</u>	<u>3,196,391</u>
Total capital assets being depreciated, net	<u>3,838,697</u>	<u>(110,328)</u>	<u>0</u>	<u>3,728,369</u>
Governmental activities capital assets, net	<u>\$ 3,893,197</u>	<u>(110,328)</u>	<u>0</u>	<u>3,782,869</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 120,412	11,259	7,200	124,471
Less accumulated depreciation	48,365	9,719	6,210	51,874
Business-type activities capital assets, net	<u>\$ 72,047</u>	<u>1,540</u>	<u>990</u>	<u>72,597</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 7,807
Other		5,000
Support services:		
Instructional staff		5,800
Administration		539
Operation and maintenance of plant		894
Transportation		<u>32,738</u>
Unallocated depreciation		<u>52,778</u>
Total governmental activities depreciation expense		<u>\$ 216,399</u>
Business-type activities:		
Food services		\$ 9,719
Total business-type activities depreciation expense		<u>\$ 9,719</u>

**(6) Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 3,240,000	0	150,000	3,090,000	160,000
Early Retirement	14,464	0	5,705	8,759	3,818
Total	\$ 3,254,464	0	155,705	3,098,759	163,818

General Obligation Bonds Payable

Details of the District's June 30, 2005 general obligation bonds, which will be paid using Debt Service Funds, are as follows:

Year Ending June 30,	Bond issued dated July 1, 1999			
	Interest Rates	Principal	Interest	Total
2006	6.00	160,000	152,404	312,404
2007	4.90	170,000	142,804	312,804
2008	4.50	175,000	134,476	309,476
2009	4.65	185,000	126,515	311,515
2010	4.70	195,000	117,939	312,939
2011	4.75	205,000	108,748	313,748
2012	4.80	215,000	99,010	314,010
2013	4.85	220,000	88,690	308,690
2014	4.85	230,000	78,020	308,020
2015	4.90	245,000	66,750	311,750
2016	5.00	255,000	54,500	309,500
2017	5.00	265,000	41,750	306,750
2018	5.00	280,000	28,500	308,500
2019	5.00	290,000	14,500	304,500
Total		\$ 3,090,000	1,254,606	4,344,606

Early Retirement

The District offers a voluntary early retirement plan to its certified employees, classified employees and administrative staff. Eligible employees must have completed seventeen or fifteen years of service to the District in order to qualify for supplemental benefits. Employees desiring to elect early retirement under this program must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is on the "per diem" basis based on the current contract at the time of retirement. "Per diem" is defined as per day pay based upon contract days and annual salary. Early retirement benefits paid during the year ended June 30, 2005 totaled \$5,705. A liability has been recorded in the District's commitment to fund non-current early retirement.

**(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 contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$124,076, \$116,138, and \$97,196 respectively, equal to the required contributions for each year.

**(8) Risk Management**

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

**(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 \$112,048 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) Budget Overexpenditure**

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2005, disbursements in the non-instruction and other expenditures functional program areas exceeded the amounts budgeted.

REQUIRED SUPPLEMENTAL INFORMATION

GMG COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON OF RECEIPTS, DISBURSEMENTS AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 2,375,342	97,144
State sources	1,559,006	2,899
Federal sources	114,148	81,718
Total revenues	<u>4,048,496</u>	<u>181,761</u>
Disbursements:		
Instruction	2,433,206	0
Support services	1,020,051	0
Non-instructional programs	0	193,438
Other expenditures	642,345	0
Total expenditures	<u>4,095,602</u>	<u>193,438</u>
Deficiency of receipts under disbursements	(47,106)	(11,677)
Other financing sources, net	<u>200</u>	<u>0</u>
Deficiency of receipts under disbursements	(46,906)	(11,677)
Balance beginning of year	<u>1,275,808</u>	<u>59,395</u>
Balance end of year	<u>\$ 1,228,902</u>	<u>47,718</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
2,472,486	2,428,142	2,428,142	44,344
1,561,905	1,587,378	1,587,378	(25,473)
195,866	202,000	202,000	(6,134)
<u>4,230,257</u>	<u>4,217,520</u>	<u>4,217,520</u>	<u>12,737</u>
2,433,206	2,371,667	2,470,000	36,794
1,020,051	1,119,598	1,119,598	99,547
193,438	158,000	164,000	(29,438)
642,345	582,804	582,804	(59,541)
<u>4,289,040</u>	<u>4,232,069</u>	<u>4,336,402</u>	<u>47,362</u>
(58,783)	(14,549)	(118,882)	(60,099)
200	0	0	(200)
(58,583)	(14,549)	(118,882)	(60,299)
<u>1,335,203</u>	<u>1,318,955</u>	<u>1,318,955</u>	<u>16,248</u>
<u>1,276,620</u>	<u>1,304,406</u>	<u>1,200,073</u>	<u>76,547</u>

GMG COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2005

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 4,048,496	73,254	4,121,750
Expenditures	4,095,602	35,413	4,131,015
Net	(47,106)	37,841	(9,265)
Other financing sources, net	200	0	200
Beginning fund balances	1,275,808	(246,763)	1,029,045
Ending fund balances	\$ 1,228,902	(208,922)	1,019,980

	Proprietary Fund Enterprise		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 181,761	45	181,806
Expenditures	193,438	756	194,194
Net	(11,677)	(711)	(12,388)
Other financing sources, net	0	(990)	(990)
Beginning fund balances	59,395	73,902	133,297
Ending fund balances	\$ 47,718	72,201	119,919

GMG 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 Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison 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 Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$104,333.

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

OTHER SUPPLEMENTAL INFORMATION

GMG COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2005

	Special Revenue Funds					Total Other Nonmajor Governmental Funds
	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Projects	Debt Service	
<b>ASSETS</b>						
Cash and pooled investments	\$ 30,192	5,030	35,222	21,474	1,031	57,727
Receivables:						
Property tax:						
Current year delinquent		0 1,849	1,849	0	5,779	7,628
Succeeding year		0 99,899	99,899	0	312,808	412,707
Due from other governments		0 0	0	68,993	0	68,993
<b>TOTAL ASSETS</b>	<b>\$ 30,192</b>	<b>106,778</b>	<b>136,970</b>	<b>90,467</b>	<b>319,618</b>	<b>547,055</b>
<b>LIABILITIES AND FUND EQUITY</b>						
Liabilities:						
Deferred revenue:						
Succeeding year property tax	\$ 0	99,899	99,899	0	312,808	412,707
Fund equity:						
Fund balances:						
Reserved for:						
Debt Service		0 0	0	0	6,810	6,810
Unreserved:						
Undesignated	30,192	6,879	37,071	90,467	0	127,538
Total fund balances	30,192	6,879	37,071	90,467	6,810	134,348
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 30,192</b>	<b>106,778</b>	<b>136,970</b>	<b>90,467</b>	<b>319,618</b>	<b>547,055</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

GMG COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2005

	Special Revenue Funds					Total
	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Projects	Debt Service	Other Nonmajor Governmental Funds
REVENUES:						
Local sources:						
Local tax	\$ 0	99,119	99,119	194,548	309,879	603,546
Other	105,842	642	106,484	114	0	106,598
State sources	0	1,566	1,566	0	91	1,657
Federal sources	0	0	0	0	0	0
TOTAL REVENUES	105,842	101,327	207,169	194,662	309,970	711,801
EXPENDITURES:						
Current:						
Instruction:						
Other instruction	104,277	0	104,277	0	0	104,277
Support services:						
Administration services	0	2,178	2,178	0	0	2,178
Operation and maintenance of plant services	0	4,651	4,651	0	0	4,651
Other expenditures:						
Facilities acquisitions	0	177,465	177,465	34,195	0	211,660
Long-term debt:						
Principal	0	0	0	0	150,000	150,000
Interest and fiscal charges	0	0	0	0	161,808	161,808
TOTAL EXPENDITURES	104,277	184,294	288,571	34,195	311,808	634,574
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,565	(82,967)	(81,402)	160,467	(1,838)	77,227
OTHER FINANCING SOURCES (USES):						
Operating transfers in	0	70,000	70,000	0	0	70,000
Operating transfers out	0	0	0	(70,000)	0	(70,000)
TOTAL OTHER FINANCING SOURCES (USES)	0	70,000	70,000	(70,000)	0	0
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	1,565	(12,967)	(11,402)	90,467	(1,838)	77,227
FUND BALANCE BEGINNING OF YEAR	28,627	19,846	48,473	0	8,648	57,121
FUND BALANCE END OF YEAR	\$ 30,192	6,879	37,071	90,467	6,810	134,348

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

GMG COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2005

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 295	314	308	301
Vocal	3,765	4,502	6,908	1,359
Band	(487)	661	0	174
HS Cheerleading	9	5,418	5,262	165
Future Teacher	35	0	0	35
Spanish Club	267	629	561	335
Class of 2004	960	62	1,022	0
Class of 2005	307	417	753	(29)
Class of 2006	1,470	7,454	7,754	1,170
Class of 2007	259	1,162	156	1,265
Class of 2008	219	504	0	723
Class of 2009	588	5	4	589
Interest	275	187	446	16
HS Student Council	2,549	12,950	14,637	862
JH Student Council	197	491	418	270
National Honor Society	20	748	316	452
Yearbook	(8,293)	1,967	5,178	(11,504)
Athletics	19,233	50,165	46,941	22,457
Dance Team	2,077	8,956	7,992	3,041
HS SADD	(51)	1,867	1,816	0
JH SADD	60	0	60	0
Volleyball	1,398	1,842	0	3,240
Elementary	3,386	5,541	3,731	5,196
Elementary Student Council	89	0	14	75
<b>Total</b>	<b>\$ 28,627</b>	<b>105,842</b>	<b>104,277</b>	<b>30,192</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

GMG COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
 AGENCY FUND  
 YEAR ENDED JUNE 30, 2005

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
<b>Assets</b>				
Cash and pooled investments	\$ 2,422	9,217	9,260	2,379
Total assets	<u>\$ 2,422</u>	<u>9,217</u>	<u>9,260</u>	<u>2,379</u>
<b>Liabilities</b>				
Due to other groups	\$ 2,422	9,217	9,260	2,379
Total liabilities	<u>\$ 2,422</u>	<u>9,217</u>	<u>9,260</u>	<u>2,379</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2005	2004	2003	2002
<b>Revenues:</b>				
Local sources:				
Local tax	\$ 1,716,960	1,639,511	1,639,770	1,507,106
Tuition	560,856	514,681	522,976	402,370
Other	159,301	178,438	229,726	233,368
State sources	1,560,545	1,447,237	1,442,940	1,363,095
Federal sources	124,088	126,711	116,125	51,116
Total	<u>\$ 4,121,750</u>	<u>3,906,578</u>	<u>3,951,537</u>	<u>3,557,055</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular instruction	\$ 1,619,810	1,546,023	1,471,625	1,433,023
Special instruction	481,758	456,354	361,392	382,520
Other instruction	363,209	333,746	316,894	405,427
Support services:				
Student services	0	0	72,896	77,954
Instructional staff services	108,056	128,468	108,724	138,324
Administration services	426,146	420,295	380,672	375,326
Operation and maintenance of plant services	304,610	299,448	293,022	334,251
Transportation services	183,904	147,865	169,306	118,509
Other support services	8,006	11,193	8,739	0
Non-instructional programs	0	0	0	7,798
Other expenditures:				
Facilities acquisitions	211,660	170,629	163,976	292,499
Long-term debt:				
Principal	150,000	145,000	140,000	130,000
Interest	161,808	170,408	178,806	186,608
AEA flow-through	112,048	110,391	113,434	109,865
Total	<u>\$ 4,131,015</u>	<u>3,939,820</u>	<u>3,779,486</u>	<u>3,992,104</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

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

Telephone (641) 792-1910

### Independent Auditor's Report on 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 the  
GMG 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 GMG 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 August 22, 2005. 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 GMG Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide 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 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 item I-A-05 is a material weakness.

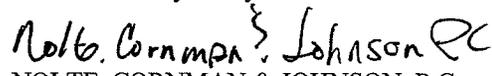
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether GMG 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 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 GMG Community School District and other parties to whom GMG Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of GMG Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

August 22, 2005

GMG COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2005

Part I: Findings Related to the Basic Financial Statements:

REPORTABLE CONDITIONS:

I-A-05 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted in the Student Activity Fund that the cash receipts and bank deposits were done by the same person.

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

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

I-B-05 Financial Condition - The District had accounts in the Student Activity Fund with deficit balances at June 30, 2004.

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

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

Conclusion - Response accepted.

I-C-05 Farmland - We noted during the audit that the district owns farmland, which was donated to them. The farmland is currently rented and maintained in an agency fund on the District's books. The farmland is not located within the geographical area of the school district. The proceeds from the farmland is used for scholarships.

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

Response - We do not intend to sell the farmland.

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

I-D-05 Bank Account - We noted during the audit that the District has an Elementary Activity Fund bank account that is not recorded on the books of the District.

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

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

Conclusion – Response accepted.

GMG COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2005

Part II: Other Findings Related to Statutory Reporting

II-A-05 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

II-B-05 Certified Budget - District disbursements for the year ended June 30, 2005, exceeded the amended certified budget amounts in the non-instructional and other expenditures functional areas.

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

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

Conclusion - Response accepted.

II-C-05 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-05 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-E-05 Business Transactions - No business transactions between the District and District officials or employees were noted.

II-F-05 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-05 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-H-05 Certified Enrollment - We noted no variance in the basic enrollment data certified to the Department of Education.

II-I-05 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

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