

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT
GRINNELL, IOWA

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

JUNE 30, 2005

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GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2004 Election)		
Tom Dillman	President	2006
Lori Brown	Vice President	2005
Vicki DeAngelo	Board Member	2004
Wanda Sims	Board Member	2006
Kevin Kolbe	Board Member	2004
Judy Hunter	Board Member	2004
Randy Lidtka	Board Member	2005
<u>Board of Education</u>		
(After September 2004 Election)		
Kevin Kolbe	President	2007
Tom Dillman	Vice President	2006
Lori Brown	Board Member	2005
Randy Lidtka	Board Member	2005
Wanda Sims	Board Member	2006
Vicki DeAngelo	Board Member	2007
Doug Cutchins	Board Member	2007
<u>School Officials</u>		
David Stoakes	Superintendent	2005
Don Longhurst	District Secretary/Treasurer	2005
Donald L. Schild	Attorney	2005

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Grinnell-Newburg Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Grinnell-Newburg Community School District, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the basic financial statements of the District's primary government as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these basic 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 that our audit provides a reasonable basis for our opinions.

The financial statements do not include financial data for the District's legally separate component unit. U.S. generally accepted accounting principles require the financial data for that component unit to be reported with the financial data of the District's primary government unless the District also issues financial statements for the financial reporting entity that include the financial data for its component unit. The District has not issued such reporting entity statements. The effects of this departure from U.S. generally accepted accounting principles on the assets, liabilities, fund balances, revenues and expenditures of the discretely presented component unit are not reasonably determinable at this time.

In our opinion, because of the omission of the discretely presented component unit, as discussed above, the financial statements referred to above do not present fairly, in conformity with U.S. generally accepted accounting principles, the financial position of the aggregate discretely presented component unit of the District as of June 30, 2005, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Grinnell-Newburg 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 14, 2005 on our consideration of Grinnell-Newburg 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.

The Management's Discussion and Analysis and budgetary comparison information on pages 7 through 15 and 54 through 56 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 Grinnell-Newburg Community School District's basic financial statements. The financial statements for the three years ended June 30, 2004 (none of which are presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements for the years ended June 30, 2004 and June 30, 2003. Those auditors issued a qualified opinion on those financial statements for the year ended June 30, 2002, due the effects of the omission of the general fixed asset account group. Other supplementary information included in Schedules 1 through 5, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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.

Oskaloosa, Iowa
October 14, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Grinnell-Newburg Community School District's comprehensive annual financial report presents management's discussion and analysis of the District's financial performance for the year ending June 30, 2005. Please read it in conjunction with the district's financial statements.

Financial Highlights

- General Fund revenues decreased from \$13,679,929 in fiscal 2004 to \$13,521,892 in fiscal 2005, while General Fund expenditures decreased from \$12,879,342 in fiscal 2004 to \$12,521,527 in fiscal 2005. Revenues exceeded expenditures by \$1,000,365, the third consecutive year that revenues have exceeded expenditures.

The General Fund balance at June 30, 2005 was \$2,502,387, or 20% of general fund expenditures. The increase resulted from expense reductions, transfers of equipment purchases to the PPEL fund, reduction of the special education deficit, and increases in the cash reserve levy designed to eliminate borrowing in the months of August and September.

- The district received \$1,094,772 in School Infrastructure Local Option Sales Tax from Poweshiek and Jasper counties. Funds were used for completion of a bus garage, re-roofing of an elementary building, high school improvements, and reduction of SILO debt of 2002 and 2003.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts: Management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- The statements for *fiduciary funds* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

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

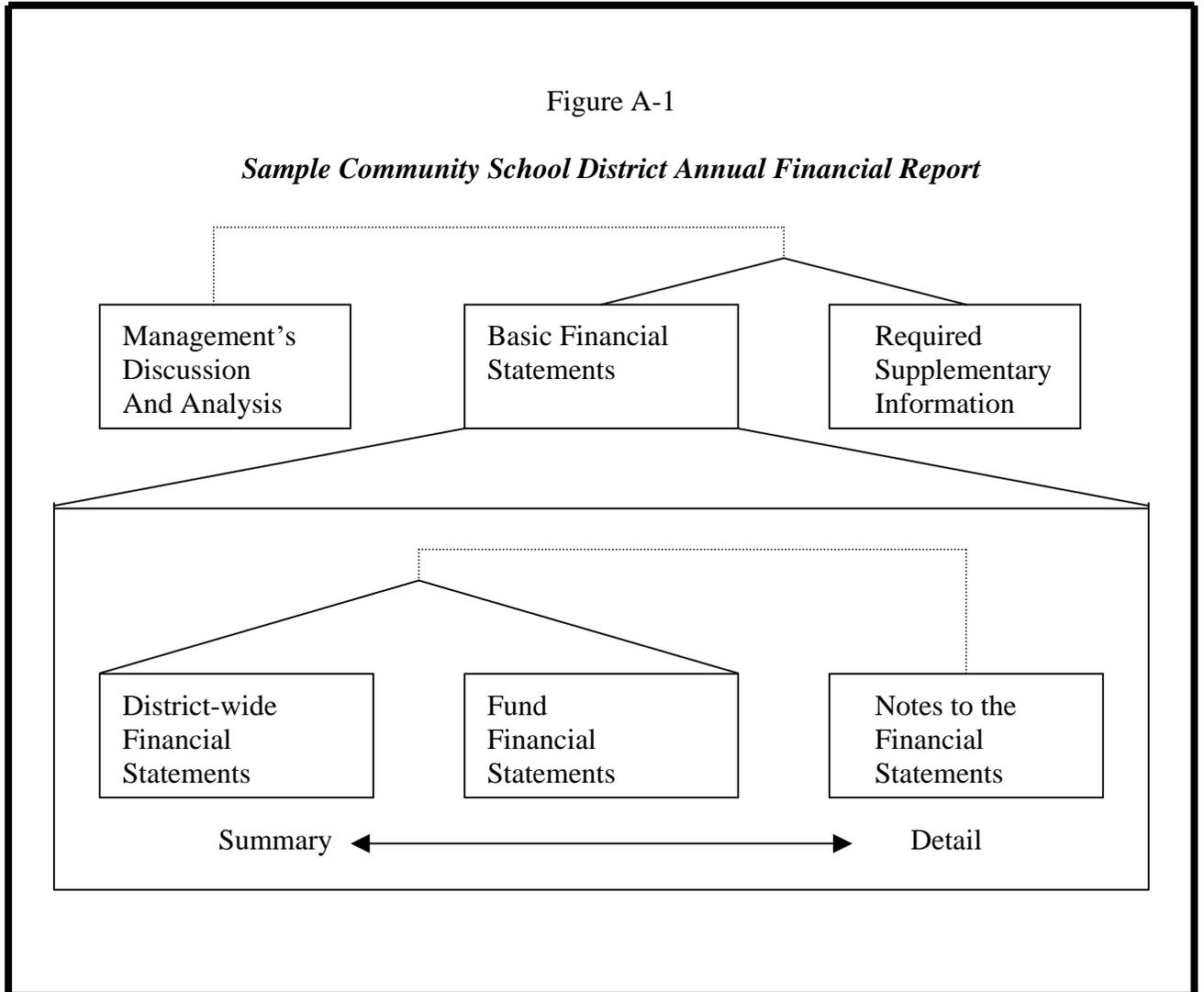


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights the structure and contents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

Figure A-2 <i>Major Features of the District-Wide and Fund Financial Statements</i>				
	District-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	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	Statement of net assets Statement of Activities	Balance sheet Statement of revenues, expenditures, and changes in fund balances	Statement of net assets Statement of revenues, expenses and changes in net assets Statement of cash Flows	Statement of fiduciary net assets Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

District-wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-section 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 District-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

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

In the District-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 funds.

The District has three kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provided a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.

- *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 District-wide statements. The District's enterprise funds are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District's proprietary funds are the Enterprise, School Nutrition Fund and Enterprise, After School Fund.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as a scholarship fund. The District accounts for outside donations to specific District school for specific purposes in this fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations. The District's fiduciary fund is the Private-Purpose Trust, Scholarship Fund.

The School District as a Whole

Net assets. A comparison of the District's combined net assets for 2004 and 2005 follows:

Figure A-3
Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total School District	
	2004	2005	2004	2005	2004	2005
Assets:						
Current and other Assets	\$17,271,216	\$17,263,333	\$ 100,347	\$99,694	\$17,371,563	\$17,363,027
Capital assets	<u>9,774,776</u>	<u>13,346,254</u>	<u>39,755</u>	<u>37,207</u>	<u>9,814,531</u>	<u>13,383,461</u>
Total assets	27,045,992	30,609,587	140,102	136,901	27,186,094	30,746,488
Long-term obligations	13,152,207	15,214,570	0	18,522	13,152,207	15,233,092
Other obligations	<u>8,549,989</u>	<u>6,940,298</u>	<u>61,465</u>	<u>54,579</u>	<u>8,611,454</u>	<u>6,994,877</u>
Total liabilities	21,702,196	22,154,868	61,465	73,101	21,763,661	22,227,969
Net assets						
Invested in capital assets net of related debt	(2,950,224)	4,461,922	39,755	37,207	(2,910,469)	4,499,129
Restricted	7,230,349	1,362,076	0	0	7,230,349	1,362,076
Unrestricted	<u>1,063,671</u>	<u>2,630,721</u>	<u>38,882</u>	<u>26,593</u>	<u>\$1,102,553</u>	<u>2,657,314</u>
Total net assets	<u>\$5,343,796</u>	<u>\$8,454,719</u>	<u>\$78,637</u>	<u>\$63,800</u>	<u>\$5,422,433</u>	<u>\$8,518,519</u>

A large portion of the District's net assets reflects its investment in capital assets (land, buildings and building improvements, and equipment and machinery), less related debt (general obligation and local option sales and services tax revenue bonds payable). The District uses these capital assets to provide services to students and the assets are generally not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Change in net assets – Figure A-4 shows a comparison of the changes in net assets for two years ending June 30, 2005. We presented the property and other tax figures in more detail for the year ended June 30, 2005, to allow for more detailed comparisons in future years.

Figure A-4

Changes in Net Assets

	Governmental Activities		Business-type Activities		Total School District	
	2004	2005	2004	2005	2004	2005
Revenues:						
Program revenues:						
Charges for service & sales	\$ 373,674	\$ 975,829	\$ 486,671	\$ 511,719	\$ 860,345	\$ 1,487,548
Operating grants, contributions, and restricted interest	1,925,420	1,789,135	251,366	240,082	2,176,786	2,029,217
Capital grants, contributions and restricted interest	0	62,838	0	0		62,838
General revenues:						
Property tax	5,727,557	4,704,419	0	0	5,727,557	4,704,419
Debt Service	481,219	825,546	0	0	481,219	825,546
PPEL		169,092	0	0		169,092
Local Option Sales and Services tax		1,094,772	0	0		1,094,772
Income Surtax		652,047	0	0		652,047
Unrestricted state grants	6,217,107	6,275,866	0	0	6,217,107	6,275,866
Unrestricted interest earnings		243,486		0		243,486
Other	<u>1,359,233</u>	<u>68,042</u>	<u>0</u>	<u>487</u>	<u>1,359,233</u>	<u>68,529</u>
Total revenues	\$16,084,210	\$ 16,861,072	\$ 738,037	\$751,801	\$16,822,247	\$17,613,360
Program expenses:						
Governmental activities:						
Instruction	\$9,189,754	\$8,865,812	0	0	\$9,189,754	\$8,865,212
Support Services	3,789,899	3,974,468	0	0	3,789,899	3,974,468
Non-instructional programs	66,468		757,800	767,125	824,268	767,125
Other expenses	<u>1,220,290</u>	<u>1,346,397</u>	<u>0</u>	<u>0</u>	<u>1,220,290</u>	<u>1,346,397</u>
	\$14,266,411	\$14,186,077	\$757,800	\$ 767,125	\$15,024,211	\$14,953,202
Change in net assets	\$1,817,799	\$2,674,995	\$ (19,763)	\$ (14,837)	\$ 1,798,036	\$ 2,660,158

The major sources of 2005 revenues for the District were property tax and unrestricted state grants, accounting for 68% of the 2005 revenues. Other revenue sources were charges for sales and services, 8%; operating grants, contributions, and restricted interest, 12%; sales and services tax, 6%; income surtax, 4%; and other sources, 2%.

The District's expenses primarily relate to instruction and support services, which have accounted for 90% of the total expenses each year.

Governmental Activities

Governmental activities revenues for 2005 were \$16,861,072 and expenses were \$14,186,077, resulting in a net asset increase of \$2,674,995.

Figure A-5 presents a comparison of the total and net cost of the District's major governmental activities:

Figure A-5

Total and Net Cost of Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2004	2005	2004	2005
Instruction	\$9,189,754	\$8,865,212	\$8,050,919	\$7,067,524
Support Services	3,789,899	3,974,468	3,141,452	3,520,346
Non-instructional programs	66,468		66,468	
Other expenses	<u>1,220,290</u>	<u>1,346,397</u>	<u>708,478</u>	<u>770,405</u>
Totals	\$14,266,411	\$14,186,077	\$11,967,317	\$11,358,275

- The cost financed by users of the District's programs was \$975,829 in 2005 compared to \$373,674 in 2004.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,851,973 in 2005 compared to \$1,925,420 in 2004.
- The net cost of governmental activities was financed with \$7,445,876 property and other taxes, \$6,275,866 in unrestricted state funds, \$243,486 in unrestricted investment earnings, and \$68,042 in other revenues.

Business-Type Activities

Revenues of the District's business-type activities were \$752,288 and expenses were \$767,125. The District's business-type activities include the School Nutrition Fund and after school and summer child care programs. Revenues of these activities were comprised of charges for service, federal and state reimbursements, and investment income.

Financial Analysis of the District's Funds

As previously noted, the Grinnell-Newburg Community School District used 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 the District ended 2005, its governmental funds reported combined fund balances of \$9,881,660.

Governmental Fund Highlights

The General Fund balance increased for the third consecutive year, as noted in the financial highlights at the beginning of the MD&A. Fund balances increased for the student activity funds, physical plant and equipment, and debt service funds, but decreased for the management and capital projects funds.

Proprietary Fund Highlights

The School Nutrition fund net assets increased from \$72,827 in 2004 to \$83,845 in 2005. The district's After School Enterprise Fund (child care) net assets decreased from \$5,810 in 2004 to (\$20,045) in 2005.

Budgetary Highlights

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 its private-purpose trust fund. Although the budget document presents functional area expenditures of expenses by fund, the legal level of control is at the aggregated functional level, at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and other major governmental funds are not presented as part of required supplementary information.

Legal Budgetary Highlights

The District's total actual revenues were \$2,990,615 less than the total projected certified budget revenues.

Total expenditures were \$6,993,890 less than budgeted. Budgeted revenues and expenses were both overstated due to uncertainties in cash flow planning for an approximately \$12,000,000 capital project. Also, it is the practice of the District to budget expenditures at the maximum authorized spending authority for all funds. The district controls spending through the line-item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2005, the District's governmental activities had invested \$13,346,254, net of accumulated depreciation of \$5,606,154, in a broad range of governmental capital assets, including land, buildings and building improvements, ground improvements, vehicles, and furniture. Business-type activities had invested \$37,207, net of accumulated depreciation of \$96,040, in capital assets. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$363,787 for governmental activities, and \$8,326 for business-type activities.

The District has set capitalization levels of \$5000 for all governmental activities assets except buildings and improvements, which are capitalized at \$20,000. Business-type activities utilize the \$500 capitalization level as required by regulations of the Bureau of Food and Nutrition.

Significant capital assets activities include the completion of a bus garage, re-roofing of an elementary, and the high school addition and renovation project currently in process.

Figure A-6

	Capital Assets, net of Depreciation		
	Governmental Activities	Business-type Activities	Total School District
Land	\$ 52,500	\$ 0	\$ 52,500
Buildings, incl. Construction in process	12,971,950	0	12,971,950
Improvements, other than buildings	94,799	0	94,799
Furniture and equipment	<u>227,005</u>	<u>37,207</u>	<u>264,212</u>
Total	<u>13,346,254</u>	<u>\$37,207</u>	<u>13,383,461</u>

Long-Term Liabilities

At June 30, 2005, the District had long-term liabilities totaling \$15,233,092 of which \$488,092 was for early retirement benefits, \$8,630,000 was for general obligation bonds, and \$6,115,000 was for school infrastructure local option sales and services tax revenue bonds. More detailed information is available in Note 6 to the financial statements.

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 Infrastructure Local Option Sales tax was first collected in Poweshiek County in 2003 and in Jasper County in 2004. Tax revenues are currently pledged for repayment of SILO debt incurred for construction and renovation projects at the high school.
- District enrollment for 2004-05 was 1733, a decrease of approximately 120 students from the average enrollment of the 1980's and 1990's. Enrollment increased to 1751 students in 2005-06.

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 Don Longhurst, District Secretary/Business Manager, Grinnell-Newburg Community School District, 927 4th Avenue, Grinnell, Iowa 50112.

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Basic Financial Statements

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2005

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Assets			
Cash and pooled investments	\$ 10,958,442	\$ 100,779	\$ 11,059,221
Receivables:			
Property tax:			
Current year	74,584	-	74,584
Succeeding year	5,134,000	-	5,134,000
Income surtax	598,927	-	598,927
Accrued interest	88,099	53	88,152
Accounts	8,828	530	9,358
Interfund receivable (payable) (note 3)	15,988	(15,988)	-
Due from other governments	384,465	4,142	388,607
Inventories	-	10,178	10,178
Capital assets, net of accumulated depreciation (note 5)	13,346,254	37,207	13,383,461
	<hr/>	<hr/>	<hr/>
Total assets	30,609,587	136,901	30,746,488
Liabilities			
Accounts payable	935,083	3,736	938,819
Salaries and benefits payable	643,336	50,843	694,179
Accrued interest payable	157,552	-	157,552
Compensated absences payable	70,327	-	70,327
Deferred revenue:			
Succeeding year property tax	5,134,000	-	5,134,000
Long-term liabilities (note 6):			
Portion due within one year:			
Early retirement	283,170	16,722	299,892
Bonds payable	895,000	-	895,000
Portion due after one year:			
Early retirement	186,400	1,800	188,200
Bonds payable	13,850,000	-	13,850,000
	<hr/>	<hr/>	<hr/>
Total liabilities	22,154,868	73,101	22,227,969

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2005

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 4,461,922	\$ 37,207	\$ 4,499,129
Restricted for:			
Physical plant and equipment levy	672,603	-	672,603
Other special revenue purposes	195,768	-	195,768
Debt service	493,705	-	493,705
Unrestricted	<u>2,630,721</u>	<u>26,593</u>	<u>2,657,314</u>
Total net assets	<u>\$ 8,454,719</u>	<u>\$ 63,800</u>	<u>\$ 8,518,519</u>

See notes to financial statements.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities:				
Instruction:				
Regular instruction	\$ 5,614,351	\$ 297,691	\$ 556,134	\$ -
Special instruction	1,976,920	89,980	293,433	-
Other instruction	1,273,941	499,992	60,458	-
	<u>8,865,212</u>	<u>887,663</u>	<u>910,025</u>	<u>-</u>
Support services:				
Student services	393,872	66,934	288,480	-
Instructional staff services	332,472	1,915	73,821	-
Administration services	1,518,347	-	-	-
Operation and maintenance of plant services	1,272,037	-	-	-
Transportation services	457,740	19,317	3,655	-
	<u>3,974,468</u>	<u>88,166</u>	<u>365,956</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	37,197	-	-	62,838
Long-term debt interest and fiscal charges	501,629	-	-	-
AEA flowthrough	513,154	-	513,154	-
Depreciation (unallocated) *	294,417	-	-	-
	<u>1,346,397</u>	<u>-</u>	<u>513,154</u>	<u>62,838</u>
Total governmental activities	14,186,077	975,829	1,789,135	62,838
Business-Type Activities:				
Non-instructional programs:				
Food service operations	708,357	478,816	240,082	-
Childcare operations	58,768	32,903	-	-
	<u>767,125</u>	<u>511,719</u>	<u>240,082</u>	<u>-</u>
Total	\$ <u>14,953,202</u>	\$ <u>1,487,548</u>	\$ <u>2,029,217</u>	\$ <u>62,838</u>

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (4,760,526)	\$ -	\$ (4,760,526)
(1,593,507)	-	(1,593,507)
(713,491)	-	(713,491)
(7,067,524)	-	(7,067,524)
(38,458)	-	(38,458)
(256,736)	-	(256,736)
(1,518,347)	-	(1,518,347)
(1,272,037)	-	(1,272,037)
(434,768)	-	(434,768)
(3,520,346)	-	(3,520,346)
25,641	-	25,641
(501,629)	-	(501,629)
-	-	-
(294,417)	-	(294,417)
(770,405)	-	(770,405)
(11,358,275)	-	(11,358,275)
-	10,541	10,541
-	(25,865)	(25,865)
-	(15,324)	(15,324)
(11,358,275)	(15,324)	(11,373,599)

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

Functions/Programs

General Revenues:

Property tax 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

Change in net assets

Net assets beginning of year, as restated (note 11)

Net assets end of year

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

See notes to financial statements.

Net (Expense) Revenue
and Changes in Net Assets

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$	4,704,419	\$ -	\$ 4,704,419
	825,546	-	825,546
	169,092	-	169,092
	652,047	-	652,047
	1,094,772	-	1,094,772
	6,275,866	-	6,275,866
	243,486	487	243,973
	68,042	-	68,042
	<hr/> 14,033,270	487	14,033,757
	2,674,995	(14,837)	2,660,158
	<hr/> 5,779,724	78,637	5,858,361
\$	<u><u>8,454,719</u></u>	<u><u>\$ 63,800</u></u>	<u><u>\$ 8,518,519</u></u>

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and pooled investments	\$ 3,089,321	\$ 261,510	\$ 6,804,843	\$ 802,768	\$ 10,958,442
Receivables:					
Property tax:					
Current year	58,103	10,628	-	5,853	74,584
Succeeding year	3,764,000	750,000	-	620,000	5,134,000
Income surtax	449,195	-		149,732	598,927
Accrued interest	-	1,619	86,192	288	88,099
Interfund receivable (note 3)	15,988	-	-	-	15,988
Accounts	8,328	-	-	500	8,828
Due from other governments	148,434	-	173,193	62,838	384,465
 Total assets	 <u>\$ 7,533,369</u>	 <u>\$ 1,023,757</u>	 <u>\$ 7,064,228</u>	 <u>\$ 1,641,979</u>	 <u>\$ 17,263,333</u>

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	General	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 104,124	\$ -	\$ 826,060	\$ 4,899	\$ 935,083
Salaries and benefits payable	643,336	-	-	-	643,336
Deferred revenue:					
Succeeding year property tax	3,764,000	750,000	-	620,000	5,134,000
Other	449,195	-	-	149,732	598,927
Compensated absences	70,327	-	-	-	70,327
Total liabilities	<u>5,030,982</u>	<u>750,000</u>	<u>826,060</u>	<u>774,631</u>	<u>7,381,673</u>
Fund balance:					
Reserved for:					
Fees and charges	85,905	-	-	-	85,905
Bond reserve funds	-	-	377,500	-	377,500
Debt service	-	273,757	-	-	273,757
Unreserved:					
Reported in nonmajor Special Revenue Funds	-	-	-	867,348	867,348
Undesignated	2,416,482	-	5,860,668	-	8,277,150
Total fund balances	<u>2,502,387</u>	<u>273,757</u>	<u>6,238,168</u>	<u>867,348</u>	<u>9,881,660</u>
Total liabilities and fund balances	<u>\$ 7,533,369</u>	<u>\$ 1,023,757</u>	<u>\$ 7,064,228</u>	<u>\$ 1,641,979</u>	<u>\$ 17,263,333</u>

See notes to financial statements.

GRINNELL-NEWBURG 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	\$ 9,881,660
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	13,346,254
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	598,927
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.	(157,552)
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(15,214,570)</u>
Net assets of governmental activities	<u>\$ 8,454,719</u>

See notes to financial statements.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	General	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total
Revenues:					
Local sources:					
Local tax	\$ 4,872,251	\$ 824,953	\$ 1,094,772	\$ 598,246	\$ 7,390,222
Tuition	325,740	-	-	-	325,740
Other	255,463	4,762	195,671	505,721	961,617
State sources	7,283,925	593	-	333	7,284,851
Federal sources	784,513	-	-	62,838	847,351
Total revenues	13,521,892	830,308	1,290,443	1,167,138	16,809,781
Expenditures:					
Current:					
Instruction:					
Regular instruction	5,470,290	-	-	110,665	5,580,955
Special instruction	1,976,920	-	-	-	1,976,920
Other instruction	834,074	-	-	439,867	1,273,941
	8,281,284	-	-	550,532	8,831,816
Support services:					
Student services	392,525	-	-	1,347	393,872
Instructional staff services	328,209	-	-	4,263	332,472
Administration services	1,388,834	-	-	109,604	1,498,438
Operation and maintenance of plant services	1,198,122	-	-	70,381	1,268,503
Transportation services	419,399	-	-	70,063	489,462
	3,727,089	-	-	255,658	3,982,747
Other expenditures:					
Facilities acquisition	-	-	3,821,903	63,943	3,885,846
Long term debt:					
Principal	-	795,000	-	-	795,000
Interest and fiscal charges	-	455,785	-	-	455,785
AEA flowthrough	513,154	-	-	-	513,154
	513,154	1,250,785	3,821,903	63,943	5,649,785
Total expenditures	12,521,527	1,250,785	3,821,903	870,133	18,464,348
Excess (deficiency) of revenues over (under) expenditures	1,000,365	(420,477)	(2,531,460)	297,005	(1,654,567)

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Other financing sources (uses):					
Interfund transfers in	\$ -	\$ 484,685	\$ -	\$ -	\$ 484,685
Interfund transfers out	-	-	(484,685)	-	(484,685)
General obligation bonds issued	-	-	2,815,000	-	2,815,000
Total other financing sources (uses)	<u>-</u>	<u>484,685</u>	<u>2,330,315</u>	<u>-</u>	<u>2,815,000</u>
Net change in fund balances	1,000,365	64,208	(201,145)	297,005	1,160,433
Fund balances beginning of year	<u>1,502,022</u>	<u>209,549</u>	<u>6,439,313</u>	<u>570,343</u>	<u>8,721,227</u>
Fund balances end of year	<u>\$ 2,502,387</u>	<u>\$ 273,757</u>	<u>\$ 6,238,168</u>	<u>\$ 867,348</u>	<u>\$ 9,881,660</u>

See notes to financial statements.

GRINNELL-NEWBURG 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 \$ 1,160,433

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	\$ 3,935,265	
	Depreciation expense	<u>(363,787)</u>	3,571,478

Certain income surtax not received until several months after the District's fiscal year ends is not considered available revenue in the governmental funds and is deferred. It is, however, recorded as revenue in the statement of activities. 51,291

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets. 795,000

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, however, interest expense is recognized as the interest accrues, regardless of when it is due. (45,844)

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 governmental funds. (42,363)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds but increase long-term liabilities in the statement of net assets and do not affect the statement of activities. (2,815,000)

Change in net assets of governmental activities \$ 2,674,995

See notes to financial statements.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

PROPRIETARY FUND

June 30, 2005

	<u>School Nutrition</u>	<u>Nonmajor Enterprise</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 100,779	\$ -	\$ 100,779
Receivables:			
Accrued interest	53	-	53
Accounts receivable	530	-	530
Due from other governments	4,142	-	4,142
Inventories	10,178	-	10,178
Capital assets, net of accumulated depreciation	37,207	-	37,207
Total assets	<u>152,889</u>	<u>-</u>	<u>152,889</u>
Liabilities			
Accounts payable	3,572	164	3,736
Salaries and benefits payable	46,950	3,893	50,843
Interfund payable (note 3)	-	15,988	15,988
Long-term liabilities (note 6):			
Portion due within one year:			
Early retirement	16,722	-	16,722
Portion due after one year:			
Early retirement	1,800	-	1,800
Total liabilities	<u>69,044</u>	<u>20,045</u>	<u>89,089</u>
Net Assets			
Invested in capital assets, net of related debt	37,207	-	37,207
Unrestricted	46,638	(20,045)	26,593
Total net assets	<u>\$ 83,845</u>	<u>\$ (20,045)</u>	<u>\$ 63,800</u>

See notes to financial statements.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
Year Ended June 30, 2005

	<u>School Nutrition</u>	<u>Nonmajor Enterprise</u>	<u>Total</u>
Operating revenues:			
Local sources:			
Charges for services	\$ 478,816	\$ 32,903	\$ 511,719
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries	315,460	35,855	351,315
Benefits	91,783	5,149	96,932
Purchased services	3,874	5,131	9,005
Supplies	288,914	12,633	301,547
Depreciation	8,326	-	8,326
	<u>708,357</u>	<u>58,768</u>	<u>767,125</u>
Operating loss	<u>(229,541)</u>	<u>(25,865)</u>	<u>(255,406)</u>
Non-operating revenues:			
Interest on investments	477	10	487
State sources	8,435	-	8,435
Federal sources	231,647	-	231,647
Total non-operating revenues	<u>240,559</u>	<u>10</u>	<u>240,569</u>
Change in net assets	11,018	(25,855)	(14,837)
Net assets beginning of year	<u>72,827</u>	<u>5,810</u>	<u>78,637</u>
Net assets end of year	<u>\$ 83,845</u>	<u>\$ (20,045)</u>	<u>\$ 63,800</u>

See notes to financial statements.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2005

	School Nutrition	Nonmajor Enterprise	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 476,118	\$ -	\$ 476,118
Cash received from miscellaneous operating activities	6,644	34,903	41,547
Cash payments to employees for services	(406,094)	(37,111)	(443,205)
Cash payments to suppliers for goods or services	(263,073)	(17,600)	(280,673)
Net cash used in operating activities	<u>(186,405)</u>	<u>(19,808)</u>	<u>(206,213)</u>
Cash flows from non-capital financing activities:			
State grants received	8,435	-	8,435
Federal grants received	204,941	-	204,941
Increase in amounts due to other funds	-	15,988	15,988
Net cash provided by non-capital financing activities	<u>213,376</u>	<u>15,988</u>	<u>229,364</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	<u>(5,778)</u>	-	<u>(5,778)</u>
Cash flows from investing activities:			
Interest on investments	<u>424</u>	<u>10</u>	<u>434</u>
Net increase (decrease) in cash and cash equivalents	21,617	(3,810)	17,807
Cash and cash equivalents beginning of year	<u>79,162</u>	<u>3,810</u>	<u>82,972</u>
Cash and cash equivalents end of year	<u>\$ 100,779</u>	<u>\$ -</u>	<u>\$ 100,779</u>

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2005

	<u>School Nutrition</u>	<u>Nonmajor Enterprise</u>	<u>Total</u>
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	\$ (229,541)	\$ (25,865)	\$ (255,406)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation	8,326	-	8,326
Commodities used	22,564	-	22,564
Decrease in accounts receivable	3,946	2,000	5,946
Decrease in inventories	721	-	721
Increase (decrease) in accounts payable	(2,948)	164	(2,784)
Increase in salaries and benefits payable	1,149	3,893	5,042
Increase in early retirement payable	9,378	-	9,378
Net cash used in operating activities	\$ <u>(186,405)</u>	\$ <u>(19,808)</u>	\$ <u>(206,213)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received \$22,564 of federal commodities.

See notes to financial statements.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 June 30, 2005

	<u>Private Purpose Trust</u>	<u>Scholarship</u>
Assets:		
Cash and pooled investments	\$ 580,389	
Accrued interest receivable		<u>31</u>
Total assets		<u>580,420</u>
Liabilities:		
None		<u>-</u>
Net assets:		
Reserved for scholarships	\$	<u><u>580,420</u></u>

See notes to financial statements.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 Year Ended June 30, 2005

		Private Purpose Trust
		<u>Scholarship</u>
Additions:		
Local sources:		
Gifts and contributions	\$	3,546
Interest		<u>24,884</u>
Total additions		<u>28,430</u>
Deductions:		
Support services:		
Scholarships awarded		<u>34,434</u>
Change in net assets		(6,004)
Net assets beginning of year		<u>586,424</u>
Net assets end of year	\$	<u><u>580,420</u></u>

See notes to financial statements.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies

Grinnell-Newburg 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 Grinnell and Newburg, Iowa, and agricultural territory in Poweshiek and Jasper 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, Grinnell-Newburg 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. Grinnell-Newburg Community School District has one component unit which meets the Governmental Accounting Standards Board criteria.

The Greater Poweshiek Community Foundation, a discretely presented component unit, has been omitted from the financial statements. The financial statements presented include only the primary government of the Grinnell-Newburg Community School District.

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 Poweshiek County Assessor's Conference Board.

B. Basis of Presentation

District-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.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

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 which can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are 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 District-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 main 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 expenses, including instructional, support and other costs.

The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

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

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements with restrictions of income earned to be used to benefit individuals through scholarship awards.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

The District-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and 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.

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

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

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

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the statement of net assets and 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 that the tax asking is certified by the Board of Education to the County Board of Supervisors. Current year property tax receivable represents unpaid taxes from the current year. 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 to the County Auditor by April 15 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 District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

The property tax revenue recognized in these funds becomes 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.

Interfund Receivables and Payables – During the course of its operations, the District may have certain transactions between funds or pooled cash balances. To the extent that these transactions between funds had not been paid or received as of June 30, 2005, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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 contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Capital Assets – Capital assets, which include property, furniture, and equipment are reported in the applicable governmental or business-type activities columns in the District-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	\$ 5,000
Buildings	20,000
Improvements other than buildings	20,000
Furniture and equipment:	
School Nutrition Fund Equipment	500
Other furniture and equipment	5,000

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

Asset Class	Estimated Useful Lives
Buildings	40 years
Improvements other than buildings	20 years
Furniture and equipment	4-12 years

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

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible 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 represents 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, the succeeding year property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in 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.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the District-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only if they have matured as a result of employee resignations or retirements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities – In the District-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 Balances – 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.

Invested in capital assets, net of related debt – In the District-wide statement of net assets, the net asset balance invested in capital assets, net of related debt is equal to the capital assets balances, including restricted capital assets, less accumulated depreciation and the outstanding balances of any bonds, notes, or other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets – In the District-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. Budgets and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements did not exceed the amounts budgeted in any of the four functional areas.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2005 were not 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 had approved all but one depositories as required. However, no dollar limit was approved. The District had deposits totaling \$10,430,384, of which \$9,930,384 was uninsured.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 2. Cash and Pooled Investments (continued)

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2005, the District had investments as follows:

		<u>Fair Value</u>
United States Treasury Bill	\$	1,489,668
Goldman Sachs Financial Square Treasury Obligations Fund		<u>177,730</u>
	\$	<u><u>1,667,398</u></u>

The investments are valued at fair value according to U.S. generally accepted accounting principles.

Interest rate risk – The District’s investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit Risk – The investments in the Goldman Sachs Financial Square Treasury Obligation Fund were rated Aaa by Moody’s Investors Service. The investment in the U.S. Treasury Bill is not subject to credit risk.

Note 3. Interfund Receivables/Payables

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

<u>Due to</u>	<u>Due from</u>	<u>Amount</u>
General Fund	Enterprise Fund, Daycare	\$ <u><u>15,988</u></u>

The interfund receivable and payable is the result of pooled cash transactions.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 4. Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	\$ <u>484,685</u>

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

Note 5. Capital Assets

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

	<u>Balance Beginning of Year, as Restated</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 52,500	\$ -	\$ -	\$ 52,500
Construction in progress	1,386,534	3,677,910	-	5,064,444
Total capital assets not being depreciated	<u>1,439,034</u>	<u>3,677,910</u>	-	<u>5,116,944</u>
Capital assets being depreciated:				
Buildings	12,520,488	155,414	-	12,675,902
Improvements other than buildings	120,982	8,325	-	129,307
Furniture and equipment	963,381	93,616	26,742	1,030,255
Total capital assets being depreciated	<u>13,604,851</u>	<u>257,355</u>	<u>26,742</u>	<u>13,835,464</u>
Less accumulated depreciation for:				
Buildings	4,480,623	287,773	-	4,768,396
Improvements other than buildings	27,864	6,644	-	34,508
Furniture and equipment	760,622	69,370	26,742	803,250
Total accumulated depreciation	<u>5,269,109</u>	<u>363,787</u>	<u>26,742</u>	<u>5,606,154</u>
Total capital assets being depreciated, net	<u>8,335,742</u>	<u>(106,432)</u>	-	<u>8,229,310</u>
Governmental activities capital assets, net	\$ <u>9,774,776</u>	\$ <u>3,571,478</u>	\$ <u>-</u>	\$ <u>13,346,254</u>

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 5. Capital Assets (continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	\$ 127,469	\$ 5,778	\$ -	\$ 133,247
Less accumulated depreciation	87,714	8,326	-	96,040
Business-type activities capital assets, net	\$ 39,755	\$ (2,548)	\$ -	\$ 37,207

Depreciation expense was charged by the District to the following functions:

Governmental activities:

Support services:

Administration	\$ 10,942
Operation and maintenance of plant services	3,534
Transportation	54,894
	69,370
Unallocated depreciation	294,417
Total governmental activities depreciation expense	\$ 363,787

Business-type activities:

Food service operations	\$ 8,326
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GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 6. Long-Term Liabilities

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

	Early Retirement	General Obligation Bonds	School Infrastructure Sales and Services Tax Revenue Bonds	Total
Balance beginning of year, as restated	\$ 436,351	\$ 9,075,000	\$ 3,650,000	\$ 13,161,351
Additions	180,600	-	2,815,000	2,995,600
Reductions	128,859	445,000	350,000	923,859
Balance end of year	<u>\$ 488,092</u>	<u>\$ 8,630,000</u>	<u>\$ 6,115,000</u>	<u>\$ 15,233,092</u>
Due within one year	<u>\$ 299,892</u>	<u>\$ 530,000</u>	<u>\$ 365,000</u>	<u>\$ 1,194,892</u>

Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must be at least age fifty-five and must have completed ten years of service and continuously worked a minimum of the most previous five years for the District. Employees must complete an application which is required to be approved by the Board of Education. Early retirement incentives are based on salary and length of service for certified employees and length of service for support employees. Early retirement expenditures for the year ended June 30, 2005 totaled \$128,859. Early retirement is recorded as a long-term liability of the Governmental Activities in the District-wide financial statements.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 6. Long-Term Liabilities (continued)

Bonds Payable

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

Year Ending June 30,	General Obligation Refunding Bonds Issue dated October 1, 2002		
	Interest Rate	Principal	Interest
2006	2.50-2.50 %	\$ 400,000	\$ 146,375
2007	2.50-2.75	375,000	136,688
2008	2.75-3.00	400,000	126,250
2009	3.00-3.10	400,000	114,500
2010	3.10-3.25	400,000	102,200
2011	3.25-3.35	400,000	89,350
2012	3.35-3.45	400,000	76,050
2013	3.45-3.60	400,000	62,350
2014	3.60-3.75	430,000	48,100
2015	3.75-3.875	450,000	31,656
2016	3.875-4.00	475,000	14,359
2017	-	-	-
2018	-	-	-
2019	-	-	-
2020	-	-	-
2021	-	-	-
2022	-	-	-
2023	-	-	-
		<u>\$ 4,530,000</u>	<u>\$ 947,878</u>

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 6. Long-Term Liabilities (continued)

Bonds Payable (continued)

Year Ending June 30,	General Obligation Bond Issue dated November 1, 2003			Total	
	Interest Rate	Principal	Interest	Principal	Interest
2006	1.50 %	\$ 130,000	\$ 154,230	\$ 530,000	\$ 300,605
2007	2.00	170,000	152,280	545,000	288,968
2008	2.30	160,000	148,880	560,000	275,130
2009	2.65	170,000	145,200	570,000	259,700
2010	3.00	185,000	140,696	585,000	242,896
2011	3.35	190,000	135,146	590,000	224,496
2012	3.55	205,000	128,780	605,000	204,830
2013	3.70	225,000	121,502	625,000	183,852
2014	3.85	220,000	113,178	650,000	161,278
2015	3.90	230,000	104,708	680,000	136,364
2016	3.95	235,000	95,738	710,000	110,097
2017	4.05	250,000	86,456	250,000	86,456
2018	4.15	260,000	76,330	260,000	76,330
2019	4.25	270,000	65,540	270,000	65,540
2020	4.35	280,000	54,066	280,000	54,066
2021	4.45	295,000	41,866	295,000	41,866
2022	4.55	305,000	28,758	305,000	28,758
2023	4.65	320,000	14,880	320,000	14,880
		<u>\$ 4,100,000</u>	<u>\$ 1,808,234</u>	<u>\$ 8,630,000</u>	<u>\$ 2,756,112</u>

During the year ended June 30, 2005, the District retired \$445,000 in general obligation bonds. The District has \$670,000 of defeased general obligation bonds still outstanding.

During the year ended June 30, 2005, the District issued \$2,815,000 in Subordinate School Infrastructure Local Option Sales and Services Tax Revenue Bonds. The revenue bonds mature through February 1, 2013, and have interest rates ranging from 3.125% to 4.050%. The bonds are payable solely from the District's collections of local option sales and services taxes and are subordinate to all other debt issued by the District.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 6. Long-Term Liabilities (continued)

Bonds Payable (continued)

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

Year Ending June 30,	School Infrastructure Local Option Sales and Services Tax Revenue Bonds Issue dated September 1, 2002			School Infrastructure Sales and Services Tax Revenue Bonds Issue dated December 1, 2003		
	Interest		Interest	Interest		Interest
	Rate	Principal		Rate	Principal	
2006	3.20 %	\$ 100,000	\$ 30,800	2.75 %	\$ 265,000	\$ 91,580
2007	3.50	100,000	27,600	3.25	275,000	84,293
2008	3.75	100,000	24,100	3.50	290,000	75,355
2009	4.00	100,000	20,350	3.75	300,000	65,205
2010	4.00	100,000	16,350	4.00	315,000	53,955
2011	4.05	100,000	12,350	3.80	335,000	41,355
2012	4.10	100,000	8,300	3.95	350,000	28,623
2013	4.20	100,000	4,200	4.00	370,000	14,800
		<u>\$ 800,000</u>	<u>\$ 144,050</u>		<u>\$ 2,500,000</u>	<u>\$ 455,166</u>

Year Ending June 30,	Subordinate School Infrastructure Local Option Sales and Services Tax Revenue Bonds Issue dated February 1, 2005			Total	
	Interest		Interest	Principal	Interest
	Rate	Principal			
2006	3.125 %	\$ -	\$ 107,192	\$ 365,000	\$ 229,572
2007	3.125	160,000	103,505	535,000	215,398
2008	3.300	495,000	98,436	885,000	197,891
2009	3.500	575,000	82,098	975,000	167,653
2010	3.700	500,000	61,470	915,000	131,775
2011	3.800	465,000	42,713	900,000	96,418
2012	3.900	435,000	24,797	885,000	61,720
2013	4.050	185,000	7,617	655,000	26,617
		<u>\$ 2,815,000</u>	<u>\$ 527,828</u>	<u>\$ 6,115,000</u>	<u>\$ 1,127,044</u>

During the year ended June 30, 2005, the District retired \$350,000 in revenue bonded indebtedness.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 6. Long-Term Liabilities (continued)

Bonds Payable (continued)

The school infrastructure local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

The resolutions providing for the issuance of the local option sales and services tax revenue bonds included the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the local option sales and service tax revenues received by the District, and the bond holders hold a lien on the future revenues received.
- (b) Sufficient semi-annual deposits shall be made to the debt service sinking account for the purpose of making the bond principal and interest payments when due.
- (c) Separate bond reserve funds will be maintained in the amount of \$377,500 to be used solely for the purpose of paying principal and interest in the event the District does not have sufficient local option sales and services tax revenue for that purpose.

Note 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. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$460,503, \$471,163, and \$485,826 respectively, equal to the required contributions for each year.

Note 8. Risk Management

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

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 8. Risk Management (continued)

In July 2004, ISEBA converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members continuing membership in the Association had their deficit recovery assessment included in their annual premium for the 2004-2005 and 2005-2006 plan years. The deficit recovery is equal to 2% of the annual premium. The total amount of the deficit recoveries of current members is estimated to be \$2.2 million. Since the program is now fully insured, there will be no additional assessments due to claims exceeding premiums charged to members.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2005 were \$1,639,187.

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

Grinnell-Newburg 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.

Note 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 \$513,154 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.

Note 10. Construction Commitments

The District entered into contracts totaling \$8,540,586, including change orders, for various District projects. In addition, the District had carryover contracts from the prior year totaling \$1,121,597. At June 30, 2005 \$3,120,051 of the contracts were completed and paid, \$810,541 was recorded in accounts payable, and the remainder of the contracts will be paid as work on the projects progresses.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 11. Restatement of Balances

The balances of the District's financial statements for the year ended June 30, 2004 have been restated for the omission from those financial statements of \$111,708 of accrued interest payable on long-term debt and for recognition of the income surtax improperly deferred in the District's governmental activities. The effects of these changes are as follows:

	<u>Net Assets, Governmental Activities</u>
Balance as previously reported at June 30, 2004	\$ 5,343,796
Less: Unrecorded accrued interest payable on long-term debt	(111,708)
Add: Income surtax revenue improperly deferred in the full accrual basis government-wide financial statements	<u>547,636</u>
Balance as restated on July 1, 2004	<u><u>\$ 5,779,724</u></u>

In addition, the early retirement liability was improperly classified as short-term in the financial statements for the business-type activities. The effects of this change are as follows:

	<u>Early Retirement</u>	<u>Total Long-term Liabilities</u>
Early retirement liability as previously reported at June 30, 2004	\$ 427,207	\$ 13,152,207
Reclassification of business-type early retirement liability from short-term to long-term	<u>9,144</u>	<u>9,144</u>
Early retirement liability as restated on July 1, 2004	<u><u>\$ 436,351</u></u>	<u><u>\$ 13,161,351</u></u>

Note 12. Pledges

The District solicited contributions for a portion of the cost of the additions and renovations at the high school. A total of \$3,833,841 was pledged by local businesses and individuals.

The District entered into a 28E agreement with the Greater Poweshiek Community Foundation to administer and accept funds on behalf of the school. A total of approximately \$1,700,000 had been collected as of June 30, 2005.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 13. Greater Poweshiek Community Foundation

The District's agreement with the Greater Poweshiek Community Foundation, formed under Chapter 28E of the Code of Iowa, is subject to an annual audit because receipts for the organization exceeded \$100,000 for the organization's fiscal year. Governmental Accounting Standards Board Statement numbers 14 and 39 require that the audited financial statements of this organization be presented with the District's audited financial statements as a discretely presented component unit. The Greater Poweshiek Community Foundation has not had a financial audit as of the date of this report; thus, the District elected to receive an adverse opinion on the component unit due to the omission of the discrete presentation of the Greater Poweshiek Community Foundation's financial information from the District's audited financial statements.

Required Supplementary Information

GRINNELL-NEWBURG 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 Funds - Actual	Proprietary Fund - Actual	Total Actual	Budgeted Amounts Original and Final	Final to Actual Variance
RECEIPTS:					
Local sources	\$ 8,554,220	\$ 518,099	\$ 9,072,319	\$ 12,214,436	\$ (3,142,117)
State sources	7,352,442	8,435	7,360,877	7,375,715	(14,838)
Federal sources	813,835	227,505	1,041,340	875,000	166,340
Total receipts	16,720,497	754,039	17,474,536	20,465,151	(2,990,615)
DISBURSEMENTS:					
Instruction	8,869,752	-	8,869,752	9,633,438	763,686
Support services	4,001,528	-	4,001,528	4,285,000	283,472
Non-instructional programs	-	752,220	752,220	1,495,000	742,780
Other expenditures	5,119,496	-	5,119,496	10,323,448	5,203,952
Total disbursements	17,990,776	752,220	18,742,996	25,736,886	6,993,890
Excess (deficiency) of receipts over (under) disbursements	(1,270,279)	1,819	(1,268,460)	(5,271,735)	4,003,275
Other financing sources, net	2,815,000	-	2,815,000	-	2,815,000
Excess (deficiency) of receipts and other financing sources over (under) disbursements	1,544,721	1,819	1,546,540	(5,271,735)	6,818,275
Balance beginning of year	9,429,709	82,972	9,512,681	7,820,411	1,692,270
Balance end of year	<u>\$ 10,974,430</u>	<u>\$ 84,791</u>	<u>\$ 11,059,221</u>	<u>\$ 2,548,676</u>	<u>\$ 8,510,545</u>

See accompanying independent auditor's report.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule – Budget to GAAP Reconciliation
 Required Supplementary Information
 Year Ended June 30, 2005

	Governmental Funds		
	Cash	Accrual	Modified
	Basis	Adjust- ments	Accrual Basis
Revenues	\$ 16,720,497	\$ 89,284	\$ 16,809,781
Expenditures	17,990,776	473,572	18,464,348
Net	(1,270,279)	(384,288)	(1,654,567)
Other financing sources (uses)	2,815,000	-	2,815,000
Beginning fund balances	9,429,709	(708,482)	8,721,227
Ending fund balances	<u>\$ 10,974,430</u>	<u>\$ (1,092,770)</u>	<u>\$ 9,881,660</u>
	Proprietary Fund		
	Enterprise		
	Cash	Accrual	Accrual
	Basis	Adjust- ments	Basis
Revenues	\$ 754,039	\$ (1,751)	\$ 752,288
Expenses	752,220	14,905	767,125
Net	1,819	(16,656)	(14,837)
Beginning net assets	82,972	(4,335)	78,637
Ending net assets	<u>\$ 84,791</u>	<u>\$ (20,991)</u>	<u>\$ 63,800</u>

See accompanying independent auditor's report.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

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 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 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 fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2005, disbursements did not exceed the amounts budgeted in any of the four functional areas.

Other Supplementary Information

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2005

	Special Revenue			Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	
Assets				
Cash and pooled investments	\$ 149,359	\$ 195,683	\$ 457,726	\$ 802,768
Receivables:				
Property tax:				
Current year	3,715	-	2,138	5,853
Succeeding year	479,000	-	141,000	620,000
Income surtax	-	-	149,732	149,732
Accrued interest	34	85	169	288
Accounts	500	-	-	500
Due from other governments	-	-	62,838	62,838
Total assets	\$ 632,608	\$ 195,768	\$ 813,603	\$ 1,641,979
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	\$ 4,899	\$ -	\$ -	\$ 4,899
Deferred revenue:				
Succeeding year property tax	479,000	-	141,000	620,000
Other	-	-	149,732	149,732
Total liabilities	483,899	-	290,732	774,631
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	148,709	195,768	522,871	867,348
Total liabilities and fund equity	\$ 632,608	\$ 195,768	\$ 813,603	\$ 1,641,979

See accompanying independent auditor's report.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	Special Revenue			Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	
Revenues:				
Local sources:				
Local tax	\$ 279,081	\$ -	\$ 319,165	\$ 598,246
Other	282	500,996	4,443	505,721
State sources	217	-	116	333
Federal sources	-	-	62,838	62,838
Total revenues	<u>279,580</u>	<u>500,996</u>	<u>386,562</u>	<u>1,167,138</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	110,665	-	-	110,665
Other instruction	-	439,867	-	439,867
Support services:				
Student services	1,347	-	-	1,347
Instructional staff services	4,263	-	-	4,263
Administration services	109,604	-	-	109,604
Operation and maintenance of plant services	70,381	-	-	70,381
Transportation services	19,782	-	50,281	70,063
Other expenditures:				
Facilities acquisition	-	-	63,943	63,943
Total expenditures	<u>316,042</u>	<u>439,867</u>	<u>114,224</u>	<u>870,133</u>
Excess (deficiency) of revenues over (under) expenditures	(36,462)	61,129	272,338	297,005
Fund balances beginning of year	<u>185,171</u>	<u>134,639</u>	<u>250,533</u>	<u>570,343</u>
Fund balances end of year	<u>\$ 148,709</u>	<u>\$ 195,768</u>	<u>\$ 522,871</u>	<u>\$ 867,348</u>

See accompanying independent auditor's report.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
District-Wide:				
Choir Robes	\$ -	\$ 880	\$ -	\$ 880
Gifts and Donations	-	5,000	-	5,000
Student Activities	6,256	1,633	1,316	6,573
Pop Machine	-	119	494	(375)
Fine Arts	4,448	12,776	14,388	2,836
High School:				
Plays and Productions	(1,997)	7,008	5,695	(684)
Curtain Club	2,632	3,625	3,315	2,942
Speech	(761)	1,456	1,445	(750)
Vocal Music	3,652	2,059	2,989	2,722
Music Trip	3	-	-	3
Choir Robes	1,458	10	1,016	452
Band	820	5,545	5,425	940
Band Trip	660	679	1,218	121
Band Uniforms	598	1,020	1,118	500
Coaches Club	(196)	734	659	(121)
Wellness Equip Fund	10,000	5,980	-	15,980
Track Club	468	6,749	5,908	1,309
Cross Country	41	285	224	102
Weightlifting Club	4,786	10,262	9,943	5,105
Boys Basketball	5,415	2,571	3,692	4,294
Boys Soccer	2,771	2,912	1,887	3,796
Boys Golf	235	3,715	924	3,026
Boys Swimming	147	-	147	-
Girls Basketball	1,402	4,195	3,174	2,423
Girls Soccer	2,739	2,683	2,793	2,629
Softball	3,470	4,915	2,443	5,942
Girls Swimming	53	3,293	2,746	600
Special Ed	104	-	-	104
Partners	5,034	9,264	7,522	6,776
Art Club	981	2,416	1,896	1,501
Chess Club	(42)	-	-	(42)
Cheerleaders	1,025	6,172	5,446	1,751
Graduates	948	-	-	948
Freshman Class	-	500	-	500
Sophomore Class	500	-	-	500
Junior Class	475	5,497	5,741	231
Senior Class	411	-	-	411
Debate	266	100	707	(341)

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
High School (continued):				
FFA	\$ 1,948	\$ 4,930	\$ 5,797	\$ 1,081
Tiger Paws	3,378	10,312	13,510	180
Social Studies Trip	(321)	-	-	(321)
A.I.A.S.A.	290	-	-	290
International Club	463	-	110	353
Model u.N.	(267)	817	174	376
National Honor Society	(226)	600	350	24
Pep Club	(1,469)	-	-	(1,469)
Science Club	128	-	-	128
Spanish Club	3,121	2,147	1,465	3,803
Student Council	2,557	4,235	4,267	2,525
S.A.D.D.	608	200	158	650
Diversity Alliance	(252)	400	170	(22)
Mock Trial	307	-	-	307
Snack Bar	3,293	8,672	7,908	4,057
Locker Pop Machine	74	-	-	74
Yearbook	(47,706)	24,927	27,352	(50,131)
Library	1,796	144	969	971
Baseball Club	2,835	3,795	4,415	2,215
Boys Tennis Club	295	215	426	84
Wrestling Club	754	8,276	8,526	504
Volleyball Club	(443)	8,094	4,776	2,875
Girls Tennis Club	(69)	2,329	2,014	246
Girls Golf Club	26	120	208	(62)
Student Activities	2,175	11,777	12,016	1,936
Landscaping Fund	1,000	-	-	1,000
Building Fund - Bricks	-	14,000	-	14,000
Building Fund - Aud Seat	-	28,250	5,746	22,504
High School Athletics:				
Concessions	(16)	-	156	(172)
Athletics	27,863	26,593	14,889	39,567
Cross Country	-	760	859	(99)
Boys Basketball	-	10,301	3,432	6,869
Football	-	16,566	12,619	3,947
Boys Soccer	-	978	2,098	(1,120)
Baseball	-	8,281	6,315	1,966
Boys Track	-	1,179	1,060	119
Boys Tennis	-	399	479	(80)
Boys Golf	-	385	1,020	(635)

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
High School Athletics (continued):				
Boys Swimming	\$ -	\$ 2,008	\$ 1,165	\$ 843
Wrestling	-	6,320	5,388	932
Girls Basketball	-	7,049	6,152	897
Girls Volleyball	-	1,778	875	903
Girls Soccer	-	2,372	3,365	(993)
Softball	-	7,160	7,804	(644)
Girls Track	-	1,585	1,824	(239)
Girls Tennis	-	478	767	(289)
Girls Golf	-	-	895	(895)
Girls Swimming	-	1,564	1,630	(66)
Middle School:				
Plays and Productions	980	931	811	1,100
Vocal Music	911	-	22	889
Band	1,897	3,195	2,206	2,886
Video Club	44	-	13	31
Chess Club	791	-	13	778
Campout	(355)	837	555	(73)
After School Program	12,093	764	12,857	-
Camp Grinnell	1,690	-	-	1,690
Science Club	525	60	167	418
Prairie Project	224	125	242	107
Student Council	14,655	47,911	48,063	14,503
S.A.D.D.	(100)	-	(300)	200
D.A.R.E.	4,237	1,689	1,353	4,573
Just Say No	160	1,692	1,978	(126)
Emergency Fund	172	-	-	172
Student Publication	304	-	-	304
Library	2,931	8,656	7,710	3,877
Student Activities	3,345	6,896	8,088	2,153
Principal's Account	6,196	5,119	3,741	7,574
PTO	-	1,831	753	1,078
Middle School Athletics:				
Concessions	24,861	30,300	21,226	33,935
Athletics	(19,094)	-	722	(19,816)
Boys Basketball	-	1,521	2,115	(594)
Football	-	1,859	8,174	(6,315)
Boys Track	-	414	631	(217)
Wrestling	-	582	3,344	(2,762)
Girls Basketball	-	1,114	1,565	(451)

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Middle School Athletics (continued):				
Girls Volleyball	\$ -	\$ 1,882	\$ 2,229	\$ (347)
Girls Track	-	661	356	305
Bailey Park Elementary:				
Elementary IBI	65	-	-	65
Youth Garden	1,644	-	608	1,036
Library	1,906	4,790	5,121	1,575
Student Activities	804	1,420	1,005	1,219
Principal's Account	4,829	683	5,653	(141)
Gifts and Donations	-	10,390	10,014	376
Davis Elementary:				
Just Say No	250	-	-	250
Emergency Fund	255	-	-	255
Adopt-A-Grandparent	1,103	-	-	1,103
Davis School Store	228	1,599	1,780	47
Library	655	7,738	6,506	1,887
Student Activities	1,690	1,712	1,637	1,765
Fairview Elementary:				
Library	2,242	6,547	7,808	981
Student Activities	1,557	1,175	1,432	1,300
Principal's Account	-	404	516	(112)
Gifts and Donations	-	2,450	1,733	717
 Total	 \$ 134,639	 \$ 500,996	 \$ 439,867	 \$ 195,768

See accompanying independent auditor's report.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	Modified Accrual Basis Years Ended June 30,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 7,390,222	\$ 6,208,776	\$ 5,967,082	\$ 5,124,457
Tuition	325,740	373,674	290,609	358,899
Other	961,617	1,350,233	926,377	1,153,120
Intermediate sources	-	9,000	19,986	13,178
State sources	7,284,851	6,982,825	7,993,539	6,905,169
Federal sources	847,351	1,159,702	1,187,926	855,196
Total revenues	<u>\$ 16,809,781</u>	<u>\$ 16,084,210</u>	<u>\$ 16,385,519</u>	<u>\$ 14,410,019</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 5,580,955	\$ 5,907,587	\$ 6,169,831	\$ 6,196,694
Special instruction	1,976,920	2,412,451	2,548,554	1,851,146
Other instruction	1,273,941	921,610	1,024,257	1,494,568
Support services:				
Student services	393,872	427,579	461,110	460,912
Instructional staff services	332,472	364,838	397,889	397,849
Administration services	1,498,438	1,434,235	1,333,321	1,226,703
Operation and maintenance of plant services	1,268,503	1,182,495	1,195,535	1,165,199
Transportation services	489,462	432,459	364,561	409,788
Central and other support services	-	-	-	93,646
Non-instructional programs	-	66,468	-	-
Other expenditures:				
Facilities acquisition	3,885,846	1,664,984	1,645,511	338,806
Long-term debt:				
Principal	795,000	435,000	5,345,000	235,000
Interest and fiscal charges	455,785	262,353	695,103	281,828
AEA flowthrough	513,154	511,812	533,451	524,725
Total expenditures	<u>\$ 18,464,348</u>	<u>\$ 16,023,871</u>	<u>\$ 21,714,123</u>	<u>\$ 14,676,864</u>

See accompanying independent auditor's report.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2005

Grantor / Program	CFDA Number	Grant Number	Expenditures
Direct:			
U. S. Department of Education:			
Twenty-First Century Community Learning Centers	84.287	FY 05	\$ <u>248,202</u>
Safe and Drug-Free Schools and Communities - National Programs	84.184	FY 05	<u>32,112</u>
National Endowment for the Humanities:			
Promotion of the Humanities - Teaching and Learning Resources Curriculum Development	45.162	EN-20077-02	<u>25,827</u>
			<u>306,141</u>
Indirect:			
U. S. Department of Agriculture:			
Iowa Department of Education:			
Food Donation (non-cash)	10.550	FY 05	<u>22,564</u>
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY 05	32,774
National School Lunch Program	10.555	FY 05	170,928
Summer Food Service Program for Children	10.559	FY 05	<u>5,381</u>
			<u>209,083</u>
			<u>231,647</u>
Corporation for National and Community Service:			
Iowa Department of Education:			
Learn and Serve America - School and Community Based Programs	94.004	FY 04	<u>250</u>
U. S. Department of Education:			
Iowa Department of Education:			
Title 1 Grants to Local Educational Agencies	84.010	2709-G-05	<u>175,489</u>
State Grants for Innovative Programs	84.298	FY 05	<u>6,324</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 05	<u>8,166</u>
Special Education - Grants to States	84.027	FY 05	<u>1,464</u>
Fund for the Improvement of Education	84.215(F)	FY 05	<u>73,787</u>

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2005

Grantor / Program	CFDA Number	Grant Number	Expenditures
Indirect (continued):			
U. S. Department of Education (continued):			
Iowa Department of Education (continued):			
Improving Teacher Quality State Grants	84.367	FY 05	\$ <u>63,423</u>
Grants for State Assessments and Related Activities	84.369	FY 05	<u>10,398</u>
School Renovation and Technology Grant	84.352	FY 02	<u>1,995</u>
			<u>341,046</u>
Area Education Agency #267:			
Special Education - Grants to States	84.027	FY 05	<u>87,465</u>
Vocational Education - Basic Grants to States	84.048	FY 05	<u>22,591</u>
English Language Acquisition Assistance	84.365	FY 05	<u>27,015</u>
			<u>137,071</u>
			<u>478,117</u>
Total			\$ <u><u>1,016,155</u></u>

Basis of Presentation –

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Grinnell-Newburg Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

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
Grinnell-Newburg 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 Grinnell-Newburg 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 14, 2005. In that report we expressed an adverse opinion on the discretely presented component due to the omission of financial information pertaining to the Greater Poweshiek Community Foundation. In addition, we expressed an unqualified opinion on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the District. 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 Grinnell-Newburg 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 II of the accompanying Schedule of Findings and Questioned Costs.

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 item II-A-05 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Grinnell-Newburg 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 grants, noncompliance 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 noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about Grinnell-Newburg Community School 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 Grinnell-Newburg Community School District and other parties to whom Grinnell-Newburg 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 Grinnell-Newburg 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.

Oskaloosa, Iowa
October 14, 2005

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

To the Board of Education of
Grinnell-Newburg Community School District:

Compliance

We have audited the compliance of Grinnell-Newburg Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Grinnell-Newburg Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Grinnell-Newburg Community School District's management. Our responsibility is to express an opinion on Grinnell-Newburg Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U. S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Grinnell-Newburg Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Grinnell-Newburg Community School District's compliance with those requirements.

In our opinion, Grinnell-Newburg Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Grinnell-Newburg Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Grinnell-Newburg Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect Grinnell-Newburg Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. Reportable conditions are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

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 non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program 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 compliance 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 III-A-04 is a material weakness.

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

Oskaloosa, Iowa
October 14, 2005

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

Part I: Summary of the Independent Auditor's Results:

- (a) We expressed an adverse opinion on the discretely presented component due to the omission of financial information pertaining to the Greater Poweshiek Community Foundation. In addition, we expressed an unqualified opinion on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the District.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.010 – Title I Grants to Local Educational Agencies
 - CFDA Number 84.287 – Twenty-First Century Community Learning Centers
 - Clustered programs:
 - CFDA Number 10.553 – School Breakfast Program
 - CFDA Number 10.555 – National School Lunch Program
 - CFDA Number 10.559 – Summer Food Service Program for Children
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Grinnell-Newburg Community School District did not qualify as a low-risk auditee.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

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

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

II-A-05 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person. In addition, processing vouchers, recording disbursements, and preparing checks are all 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 consider this. The reconciliation is now prepared by a person only marginally involved in cash receipting and disbursing. Additionally, the District secretary reviews reconciliations and warrants paid, and compares actual receipts to expected receipts.

Conclusion – Response accepted.

II-B-05 Activity Gate Admissions - Football and other activity gate admissions and the change box were not reconciled with prenumbered tickets. In addition, we noted that the District requires no reconciliations for fundraising activities in relation to the Special Revenue, Student Activity Fund.

Recommendation – The District should establish reconciliation procedures for all major gate admissions. The reconciliation should include the issuance of prenumbered tickets and the reconciling of the change box and admissions to the number of tickets issued. The District should also establish a reconciliation form to be completed by club sponsors which reconciles total receipts to total sales and bank deposits and calculates a projected profit margin which is compared to the actual profit margin recognized.

Response – Our field does not lend itself to such a procedure. However, we will review our present procedures and consider the recommended reconciliation procedures. We will investigate the institution of a fundraising reconciliation for all club fundraisers.

Conclusion – Response acknowledged. The District should establish procedures to permit the reconciliation of gate receipts to gate admission reports of tickets sold and fundraising reconciliations.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

Part II: Findings Related to the General Purpose Financial Statements (continued):

Reportable Conditions (continued):

- II-C-05 Disbursement Approval – The Board did not approve two disbursements out of 28 tested for the General Fund. In addition, we noted that the Board does not approve any disbursements made from the Special Revenue, Student Activity Fund and all Enterprise Funds.

Recommendation – This situation weakens the control that the Board has over District disbursements.

Chapter 279.29 of the Code of Iowa provides that “the Board shall audit and allow all just claims against the corporation and no order shall be drawn upon the treasury until the claim therefore has been audited and allowed.” In accordance with an Attorney General’s opinion dated July 12, 1979, “no claim can be paid until the Board has taken final action on the claim. Logically, no final action can be taken on the claim until all of the specifics of the claim have been examined and verified.”

Chapter 279.30 of the Code of Iowa allows payment of specific items, such as utilities, postage and printing, without prior Board approval. The Board may approve a resolution designating certain other disbursements that may be paid prior to a Board meeting with the approval of the Board President. The Board’s written policy should comply with Chapter 279.30 of the Code of Iowa. Then, except as expressly permitted, no checks should be prepared for claims that have not been properly audited and allowed.

Response – We will review and implement these recommendations as soon as possible.

Conclusion – Response accepted.

- II-D-05 Authorized Check Signers – We noted in our confirmations of personnel approved to sign District checks that some former employees were still authorized as check signers.

Recommendation – The District should update the authorized signature records on all accounts and maintain those records as currently as possible in the future for all personnel changes.

Response – We will make all necessary updates to authorized check signatures records and will maintain these records in the future.

Conclusion – Response accepted.

- II-E-05 Disbursement Support – We noted two disbursements out of forty tested that had no supporting invoice or other documentation indicating the purpose for the disbursement. We obtained an invoice for one of those disbursements upon request of the vendor at the time of the audit.

Recommendation – The District should implement procedures that require invoices, receipts, or other documentation supporting the purpose, date, and all details required to properly support all disbursements. Any disbursement request should be denied until all proper documentation is obtained.

Response – We will implement the required controls and will make no further disbursements without full support documentation in the future.

Conclusion – Response accepted.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

Part III: Findings and Questioned Costs for Federal Awards

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

CFDA Number 84.287: 21st Century Community Learning Centers
Federal Award Year: 2001-2005
U.S. Department of Education

CFDA Number 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program
CFDA Number 10.559: Summer Food Service Program for Children
Federal Award Year: 2005
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Educational Agencies
Agency Numbers: 9996 and 9997
Federal Award Year: 2005
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-05 Segregation of Duties – One important aspect of the internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

Response – We will continue to review our procedures and implement additional controls where possible. A person has been hired to assist in these areas. The reconciliation is now done by a person who is only marginally involved in cash receipts/disbursements. Additionally, the District secretary reviews reconciliations, warrants paid, and comparison of actual receipts to expected receipts.

Conclusion – Response accepted.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

Part IV: Other Findings Related to Statutory Reporting:

IV-A-05 Official Depositories – One depository holding District funds has not been approved by the District. In addition, the District has not approved maximum depository limits for any District depository. Therefore, the total uninsured deposits for the District totaled \$9,930,384 at June 30, 2005.

Recommendation – The District should adopt a resolution approving all depositories holding District funds and set depository limits for all depositories as required by Chapter 12C.2 of the Code of Iowa.

Response – The Board has approved a new depository limit resolution naming all depositories and setting dollar limits as of September, 2005.

Conclusion – Response accepted.

IV-B-05 Certified Budget – Disbursements for the year ended June 30, 2005, did not exceed the amount budgeted in any of the four functional areas.

IV-C-05 Questionable Expenditures – No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

IV-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.

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

IV-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.

IV-G-05 Board Minutes – Except as noted in item II-C-05, no transactions requiring Board approval which had not been approved by the Board were noted. The publications of bills allowed did not include School Nutrition or Daycare Funds or Student Activity Fund expenditures.

Recommendation – The District should insure that all bills allowed for School Nutrition, Daycare, and Student Activity Fund expenditures are included in future publications.

Response – School Nutrition Fund, Daycare Fund and Student Activity Fund expenditures will be included in the published listing of bills allowed.

Conclusion – Response accepted.

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

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

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

IV-I-05 Deposits and Investments – Except as previously noted, no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa were noted. However, the District has investments in a money market mutual fund which is unallowed by the District’s investment policy.

Recommendation – The District should either divest themselves of the unallowed investment or alter the District’s investment policy to allow such investments.

Response – We will adopt the necessary changes to our investment policy.

Conclusion – Response accepted.

IV-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.

IV-K-05 Deficit Balances – Several student activity accounts within the Special Revenue, Student Activity Fund had deficit balances at June 30, 2005. In addition, the Enterprise, Daycare Fund had a deficit balance of \$20,045 at June 30, 2005.

Recommendation – The District should continue to investigate alternatives to eliminate the deficits in the Activity Fund. The District should investigate various ways to return the Daycare fund to a sound condition.

Response – The District is continuing to investigate alternatives to eliminate deficits in the student activity accounts at the end of the fiscal year and we will analyze the Daycare fund problems and eliminate the deficit balance.

Conclusion – Response accepted.

IV-L-05 Special Revenue, Student Activity Fund – The Special Revenue, Student Activity Fund should account only for the cocurricular activities of students not directly related to instructional programs or related expenditures. We noted several non-cocurricular accounts being accounted for in this fund, including accounts for library, wellness, building fund donations, special education instruction and landscaping expenditures. We also noted that parent-teacher organizations funds are accounted for, which should be independent of the District’s records.

Recommendation – The District should analyze these accounts and transfer the balances to the proper fund as determined by the nature of the activity. These will include the General Fund, private purpose trust funds, and any other fund deemed applicable.

Response – We will consider this recommendation.

Conclusion – Response accepted.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

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

- IV-M-05 District Policies – We noted in our testing of capital assets and other disbursements that the District has no policies controlling capital assets or credit cards. In addition, the District’s disbursement policy does not include a requirement for Board approval of Special Revenue, Student Activity Fund or Enterprise Fund disbursements, as previously noted.

Recommendation – The District should adopt a capitalization policy which defines capitalization limits for buildings, other improvements and equipment, depreciable lives for all types of assets, and depreciation methods and conventions for each class of capital assets. The District should also adopt a credit card policy for guidelines on the use of District-issued credit cards to pay for actual and necessary expenditures incurred in relation to the performance of work-related duties in accordance with Chapter 279.8 of the Code of Iowa. In addition, the District should modify their disbursement policy to include Board approval for all Activity Fund and Enterprise Fund disbursements.

Response – We will discuss, prepare, and adopt the proper policies as required.

Conclusion – Response accepted.

- IV-N-05 School Meal Programs – In our testing of the National School Lunch Program and School Breakfast Program eligibility requirements, we noted that two free/reduced meal applications had been approved as eligible for reduced price meals but should have been ineligible for the program, and one application approved as eligible for free meals but qualified only for reduced price meals. The total federal questioned program costs for these errors are approximately \$1,267.

Recommendation – Several different District employees are allowed to review applications and determine eligibility. This process should be streamlined to one central person or one person per building who reviews and approves applications for eligibility. These people should be well-trained as to income guidelines and due care should be used in all decisions.

Response – We have more fully trained and educated the appropriate personnel for the 2006 fiscal year and all assigned personnel are aware of the importance of accurate decisions.

Conclusion – Response accepted.

- IV-O-05 Free/Reduced Price Application Verification – The District is required to obtain written verification of the participant’s household income for three percent of total approved free/reduced price applications. We noted that two of fifteen applications verified had inadequate or no support documentation proving household income of the family but the family’s benefits were allowed to continue.

Recommendation – Benefits should be stopped immediately for any family who does not respond fully with the required income documentation by the verification due date. The total federal questioned costs for these errors is \$1,131.

Response – We will be more diligent in the verification process in the future. We would like to point out that we verified more applications than actually required by the program.

Conclusion – Response accepted.

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