

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

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Independent Auditor's Report

To the Board of Education of  
Garner-Hayfield Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Garner-Hayfield Community School District, Garner, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Garner-Hayfield Community School District at June 30, 2006, 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 10, 2006, on our consideration of Garner-Hayfield Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 39 through 40 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Garner-Hayfield Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005, (which are not presented herein) For 2005 and 2004 we expressed unqualified opinions on the governmental activities, the business type activities, each major fund and the aggregate remaining fund information and we did not issue an opinion on the discretely presented component unit. Our opinion for 2003 was unqualified. The supplemental information included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BURTON E. TRACY & CO., P.C.  
Certified Public Accountants

October 10, 2006

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The Garner-Hayfield Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,908,604 in fiscal 2005 to \$6,190,790 in fiscal 2006, while General Fund expenditures increased from \$6,038,441 in fiscal 2005 to \$6,329,446 in fiscal 2006. The District's General Fund balance decreased from \$328,559 in fiscal 2005 to \$205,304 in fiscal 2006, a 38% decrease.
- The increase in General Fund revenues was attributable to an increase in state foundation aid, local property taxes, and state and federal grant revenue in fiscal 2006. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and increased spending to purchase new social studies textbooks K-12. Many things combined to cause the decrease in the General Fund balance. The negotiated salary and benefits settlement combined with higher heating and transportation costs, as well as the purchase of the new social studies textbooks, and increases in all supplies in general impacted the total spent for expenditures for fiscal 2006. As a result, the District funded a portion of the current year General Fund salaries and benefits from the carryover fund balance.
- SILO monies were used to decrease the property tax rate for the K-8 Building Addition bond issue and to fund the new all weather track debt payments that were approved in fiscal year 2004.

### USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

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

Figure A-1

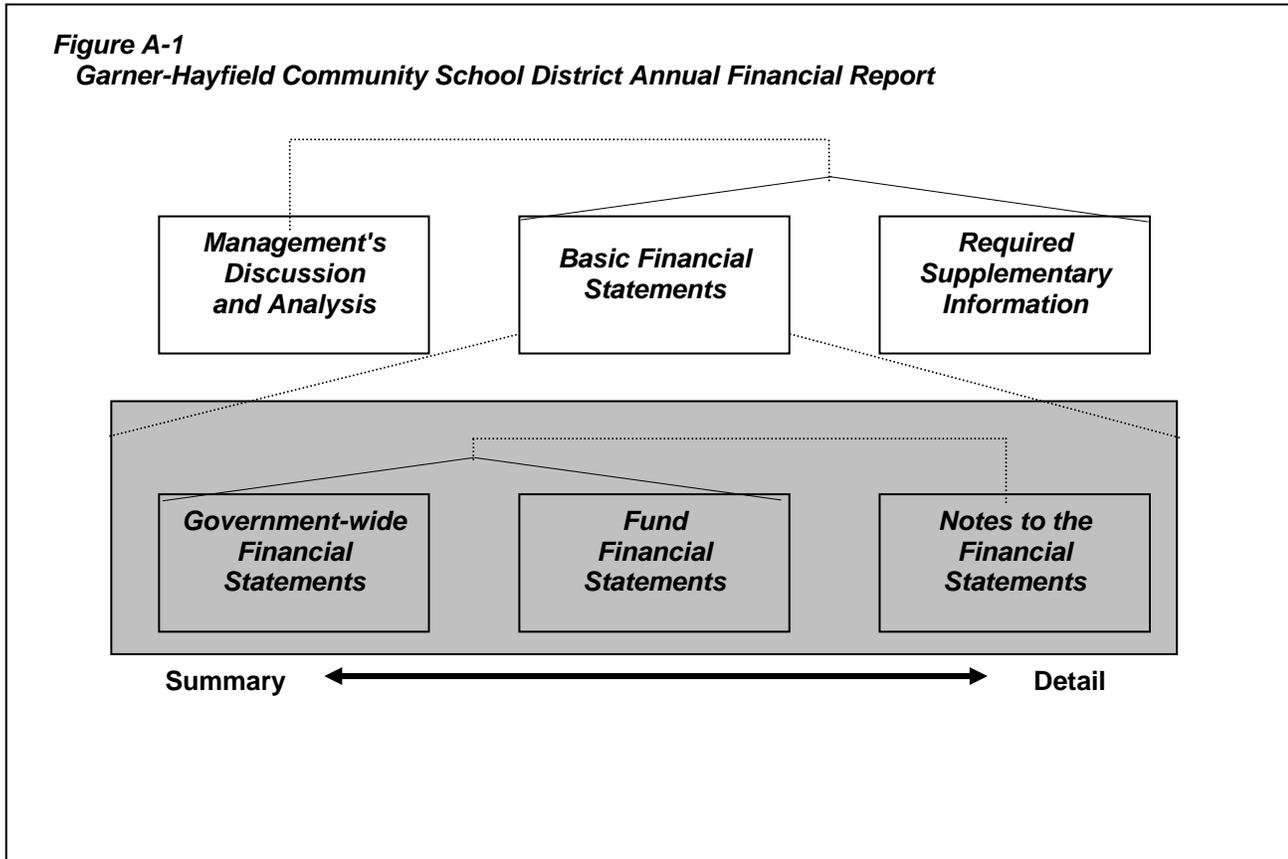


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

## **REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statements*

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

The two government-wide financial statements report the District’s net assets and how they have changed. Net assets – the difference between the District’s assets and liabilities – are one way to measure the District’s

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

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

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

### *Fund Financial Statements*

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

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

The District has three kinds of funds:

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

The District's governmental funds include the General Fund, Special Revenue Funds that consist of Activity, Management, District Support Trust and Physical Plant and Equipment Levy funds, Debt Service Fund and Capital Projects Fund.

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

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

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

- 3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Funds.
  - Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2005-2006
	Governmental Activities		Business-type Activities		Total School District		
	2006	2005	2006	2005	2006	2005	
	\$	\$	\$	\$	\$	\$	
Current and other assets	4,190,935	3,424,933	182,446	169,082	4,373,381	3,594,015	+21.7%
Capital assets	4,730,197	4,775,397	27,045	26,254	4,757,242	4,801,651	-1.0%
<b>Total assets</b>	<b>8,921,132</b>	<b>8,200,330</b>	<b>209,491</b>	<b>195,336</b>	<b>9,130,623</b>	<b>8,395,666</b>	<b>+8.8%</b>
Long-term liabilities	1,791,051	1,903,356	0	0	1,791,051	1,903,356	-5.9%
Other liabilities	2,886,684	2,248,648	4,200	4,015	2,890,884	2,252,663	+28.7%
<b>Total liabilities</b>	<b>4,677,735</b>	<b>4,152,004</b>	<b>4,200</b>	<b>4,015</b>	<b>4,681,935</b>	<b>4,156,019</b>	<b>+12.7%</b>
Net Assets:							
Invested in capital assets, net of related debt	3,460,209	3,207,562	27,045	26,254	3,487,254	3,233,816	+7.8%
Restricted*	794,887	561,911	0	0	794,887	561,911	+41.5%
Unrestricted*	-11,699	278,853	178,246	165,067	166,547	443,920	-62.5%
<b>TOTAL NET ASSETS</b>	<b>4,243,397</b>	<b>4,048,326</b>	<b>205,291</b>	<b>191,321</b>	<b>4,448,688</b>	<b>4,239,647</b>	<b>+4.9%</b>

\*2005 Restricted and Unrestricted net assets have been restated. Restricted net assets have been increased by \$66,698 and unrestricted net assets have been decreased by \$66,698.

The District's combined net assets increased by nearly 4.9%, or approximately \$400,362, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. The biggest items to impact this amount were the construction of the concession stand and the lease of computers.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$232,976 or 41.5% over the prior year. The increase was primarily a result of decreased expenditures in the Physical Plant and Equipment Levy Fund and SILO tax revenues significantly higher than anticipated and not expended.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$277,373, or 62.5%. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

Figure A-4 shows the change in net assets for the years ended June 30, 2006 and 2005.

Figure A-4

	Change in Net Assets						Percentage Change 2005-2006
	Governmental Activities		Business-type Activities		Total School District		
	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	
Revenues							
Program Revenues:							
Charges for services	786,831	851,052	380,991	353,345	1,167,822	1,204,397	-3.0%
Operating grants & contributions	762,708	662,486	125,876	126,952	888,584	789,438	+12.6%
Capital grants & contributions	72,634	3,300	0	0	72,634	3,300	+2201%
General Revenues:							
Property taxes	1,974,896	1,856,277	0	0	1,974,896	1,856,277	+6.4%
Income Surtax	228,826	237,070	0	0	228,826	237,070	-3.5%
Local option sales tax	443,781	344,480	0	0	443,781	344,480	+28.8%
Unrestricted state grants	3,083,232	3,033,787	0	0	3,083,232	3,033,787	+1.6%
Unrestricted investment earnings	19,630	12,734	148	169	19,778	12,903	+53.3%
Other revenue	7,019	13,788	0	0	7,019	13,788	-49.9%
<b>Total Revenues</b>	<b>\$7,379,557</b>	<b>\$7,014,974</b>	<b>\$507,015</b>	<b>\$480,466</b>	<b>\$7,886,572</b>	<b>\$7,495,440</b>	<b>+5.2%</b>
Expenses:							
Instruction	4,754,018	4,556,014	0	0	4,754,018	4,556,014	+4.3%
Support services	1,946,505	1,719,097	0	0	1,946,505	1,719,097	+13.2%
Non-instructional programs	0	0	478,669	455,494	478,669	455,494	+5.1%
Other expenditures	498,339	453,573	0	0	498,339	453,573	+9.9%
<b>Total expenses</b>	<b>\$7,198,862</b>	<b>\$6,728,684</b>	<b>\$478,669</b>	<b>\$455,494</b>	<b>\$7,677,531</b>	<b>\$7,184,178</b>	<b>+6.9%</b>
<b>Change in net assets before transfers</b>	<b>\$180,695</b>	<b>\$286,290</b>	<b>\$28,346</b>	<b>\$24,972</b>	<b>\$209,041</b>	<b>\$311,262</b>	
Transfers	14,376	-7,585	-14,376	7,585	0	0	0%
<b>CHANGE IN NET ASSETS</b>	<b>195,071</b>	<b>278,705</b>	<b>13,970</b>	<b>32,557</b>	<b>209,041</b>	<b>311,262</b>	
Net assets beginning of year	4,048,326	3,769,621	191,321	158,764	4,239,647	3,928,385	+7.9%
Net assets end of year	4,243,397	4,048,326	205,291	191,321	4,448,688	4,239,647	+4.9%

Property tax and unrestricted state grants account for 64.1% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 87.3% of the total expenses.

The decrease in charges for services are due to a decrease in the tuition paid to the district for special education students and open enrollment students. These students vary some every year as we gain a new group of students in kindergarten and graduate a class. Also, people move during the year and that affects our income.

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

The change of +6.9% in total expenditures was mainly due to increases due to employee contract settlements and increases in heating and fuel expenses. The district is exploring ways to curb increases in expenditures for future years.

## Governmental Activities

Revenues for governmental activities were \$7,379,557 and expenses were \$7,198,862. In a difficult budget year, the District was required to use some of the cash on hand to finance the general fund, but other governmental funds such as the PPEL and Construction Funds had excess revenue which explains why these figures indicate a positive balance.

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

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

Figure A-5

**Total and Net Cost of Governmental Activities**

	<b>Total Cost of Services 2006</b>	<b>Total Cost of Services 2005</b>	<b>Net Cost of Services 2006</b>	<b>Net Cost of Services 2005</b>
	\$	\$	\$	\$
Instruction	4,754,018	4,556,014	3,475,988	3,277,074
Support Services	1,946,505	1,719,097	1,913,887	1,715,076
Other Expenses	498,339	453,573	186,814	219,696
<b>TOTAL</b>	<b><u>7,198,862</u></b>	<b><u>6,728,864</u></b>	<b><u>5,576,689</u></b>	<b><u>5,211,846</u></b>

- The cost of all governmental activities this year was \$7,198,862.
- The cost financed by users of the District's programs was \$786,831.
- The federal and state governments and private contributors subsidized certain programs with grants and contributions \$835,342.
- The net cost of governmental activities was financed with \$2,647,503 in property and other local taxes and \$3,109,881 in unrestricted state grants, investment earnings and miscellaneous revenues.

## Business Type Activities

Revenues for business type activities were \$507,015 and expenses were \$478,669. The District's business type activities include the School Nutrition Fund and the House Construction Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, investment income, and proceeds from the sale of the school built house.

During the year ended June 30, 2006, the District kept meal prices the same as the prior year.

## INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$979,794, above last

year's ending fund balances of \$865,290. However, the primary reason for the increase in combined fund balances in fiscal 2006 is due to the increase in the fund balance in the Capital Projects Local Option Sales Tax Fund.

### **Governmental Fund Highlights**

- The District's deteriorating General Fund financial position is the result of many factors. Growth during the year in state aid and grants resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures requiring the District to use carryover fund balance to meet its financial obligations during the year.
- The General Fund balance decreased from \$328,599 to \$205,304, due in part to the negotiated salary and benefits settlement and existing expenditure commitments of the District as well as increased costs for normal supplies and the purchase of social studies textbooks district wide.
- The Capital Projects Fund balance increased from \$315,473 in 2005 to \$532,423 in 2006 mainly due to revenue being significantly higher than projected from county wide sales. The district is also planning a major roof replacement project over the next few years, hoping to replace all of the roofs in the next 10 years. We have limited expenditures from this fund for that reason.
- The Nonmajor Governmental (Management and Activity) Funds balance changed from \$106,504 to \$122,198 due to the increase in the Activity Fund due to revenues exceeding expenditures.
- The Nonmajor Physical Plant and Equipment Levy (PEEL) Fund balance increased from \$90,053 in fiscal 2005 to \$93,673 in fiscal 2006. This fund remained relatively unchanged.

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

### **Proprietary Fund Highlights**

The School Nutrition Fund and the House Construction Fund net assets increased from \$191,131 at June 30, 2005 to \$205,291 at June 30, 2006, representing an increase of approximately 7.4%. The House Construction Fund balance increase of \$23,993 is due to the sale and related profit of the latest student built house. The School Nutrition Fund balance decreased \$10,023; revenues remained steady while labor and food costs increased.

### **BUDGETARY HIGHLIGHTS**

The District's revenues were \$406,732 more than budgeted revenues. Most of this difference is due to sales tax revenues being higher than anticipated.

Total expenditures were \$92,318 less than budgeted. The District manages or controls General Fund spending through its line-item budget. The District's certified budget should always exceed actual expenditures for the year and we budget between what we think we will actually spend and the maximum authorized spending authority for the General Fund.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services and non-instructional programs areas due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget and the state having us put expenditures from one of the major grants into the support services area when we recoded the account numbers.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2006, the District had invested \$4,757,242, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 1% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$233,633. The district still owes \$100,000 against anticipated SILO revenues for the prior year construction of the all weather track. During 2006 capital assets were purchased as revenue became available and totaled approximately \$188,000 for a concession stand, telephone systems for 2 buildings, computers, a pickup truck, a wrestling mat, and musical instruments.

The original cost of the District's capital assets was \$7,961,587. Governmental funds account for \$4,730,197, with the remainder of \$27,045 accounted for in the Proprietary, School Nutrition Fund after depreciation.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$0 at June 30, 2006, compared to \$31,458 reported at June 30, 2005. This change is reflected in the value of the buildings increasing from \$6,123,895 to \$6,236,441 as the construction fund project for the concession stand was completed. The lease of more new computers using PPEL money impacted the Equipment and Furniture category.

Figure A-6

Capital Assets (net of depreciation)

	Governmental Activities		Business type Activities		Total School District		Percentage Change 2005-2006
	2006	2005	2006	2005	2006	2005	
	\$	\$	\$	\$	\$	\$	
Land	48,803	48,803	0	0	48,803	48,803	0%
Construction in progress	0	31,458	0	0	0	31,458	-100%
Buildings	3,862,452	3,879,294	0	0	3,862,452	3,879,294	-5.5%
Improvements	548,980	580,964	0	0	548,980	580,964	-5.5%
Equipment & Furniture	269,962	234,878	27,045	26,254	297,007	261,132	+13.7%
<b>TOTAL</b>	<b>4,730,197</b>	<b>4,775,397</b>	<b>27,045</b>	<b>26,254</b>	<b>4,757,242</b>	<b>4,801,651</b>	<b>-1%</b>

### Long-Term Debt

At June 30, 2006 the District had \$1,791,051 in general obligation, revenue and other long-term debt outstanding. This represents a decrease of 5.9% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

The District has \$100,000 in Revenue bond anticipation notes outstanding. These notes were taken out for the construction of the new all weather track. There is also a Capital Lease outstanding in the amount of \$59,948 for the new computers leased from Apple Computer. The early retirement debt increased \$172,147 due to additional early retirements. Compensated absences increased slightly to \$13,530 due to the increases in wages.

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

	<b>Total School District</b>		<b>Percentage</b>
	<b>2006</b>	<b>2005</b>	<b>Change</b>
			<b>2005-2006</b>
	\$	\$	
General Obligation Bonds	1,110,000	1,305,000	-14.9%
Local Option Sales and Services Tax Revenue Bonds	100,000	200,000	-50.0%
Equipment Loans – Computers	15,722	4,932	+218.8%
Energy Loan	0	832	-100.0%
Capital Leases	59,948	62,003	-3.3%
Early Retirement	491,851	319,704	+53.8%
Compensated Absences	13,530	10,885	+24.3%
	<u>1,791,051</u>	<u>1,903,356</u>	<u>-5.9%</u>

## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

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

- School financing is highly dependent upon student enrollment. The District's September 2006 enrollment increased by 5 students. This increase in enrollment will increase the District's funding for fiscal year 2008.
- Although the District has experienced declining enrollment for eight of the past ten years with a net effect of being down 92 students, the District expects a slight increase in future enrollment due to three new housing developments in progress within the District.
- The District will negotiate a new contract with the Garner-Hayfield Education Association (GHEA) and the Garner-Hayfield Education Services Association (GHESA) during fiscal 2007. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.

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

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Tyler Williams, Superintendent, Garner-Hayfield Community School District, 605 Lyon St., Garner, Iowa, 50438.

## BASIC FINANCIAL STATEMENTS

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total	Component Unit Garner-Hayfield Community School District Education Foundation
	\$	\$	\$	\$
<b>Assets</b>				
Cash and cash equivalents:				
ISCAP	365,491	-	365,491	-
Other	1,197,874	154,845	1,352,719	4,236
Investments	-	-	-	577,308
Receivables:				
Property tax:				
Delinquent	25,134	-	25,134	-
Succeeding year	2,229,759	-	2,229,759	-
Accounts	889	1,149	2,038	-
Accrued interest:				
ISCAP	114	-	114	-
Other	329	-	329	-
Due from other governments	355,623	-	355,623	-
Inventories	-	26,452	26,452	-
Notes receivable	15,722	-	15,722	-
Capital assets, net of accumulated depreciation	4,730,197	27,045	4,757,242	-
<b>Total assets</b>	<b>8,921,132</b>	<b>209,491</b>	<b>9,130,623</b>	<b>581,544</b>
<b>Liabilities</b>				
Accounts payable	239,571	748	240,319	-
Salaries and benefits payable	41,660	-	41,660	-
Accrued interest payable	6,816	-	6,816	-
Deferred revenue:				
Succeeding year property tax	2,229,759	-	2,229,759	-
Other	-	3,452	3,452	-
ISCAP warrants payable	366,000	-	366,000	-
ISCAP accrued interest payable	93	-	93	-
ISCAP premium	2,785	-	2,785	-
Long-term liabilities:				
Portion due within one year:				
General obligation bonds payable	205,000	-	205,000	-
Revenue bond anticipation note	100,000	-	100,000	-
Capital lease	28,747	-	28,747	-
Equipment note payable	7,872	-	7,872	-
Termination benefits	82,929	-	82,929	-
Compensated absences	13,530	-	13,530	-
Portion due after one year:				
General obligation bonds payable	905,000	-	905,000	-
Capital lease	31,201	-	31,201	-
Equipment note payable	7,850	-	7,850	-
Termination benefits	408,922	-	408,922	-
<b>Total liabilities</b>	<b>4,677,735</b>	<b>4,200</b>	<b>4,681,935</b>	<b>-</b>

See notes to financial statements.

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total	Component Unit Garner-Hayfield Community School District Education Foundation
	\$	\$	\$	\$
<b>Net assets</b>				
Invested in capital assets, net of related debt	3,460,209	27,045	3,487,254	-
Restricted for:				
Endowment by donors	-	-	-	470,000
Physical plant and equipment levy	160,641	-	160,641	-
Other special revenue purposes	92,249	-	92,249	-
Local option sales tax capital projects	532,423	-	532,423	-
Debt service	9,574	-	9,574	-
Unrestricted	<u>(11,699)</u>	<u>178,246</u>	<u>166,547</u>	<u>111,544</u>
<b>Total net assets</b>	<u><u>4,243,397</u></u>	<u><u>205,291</u></u>	<u><u>4,448,688</u></u>	<u><u>581,544</u></u>

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Statement of Activities  
Year ended June 30, 2006

<b>Functions/Programs</b>	<u>Program Revenues</u>			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
<b>Governmental activities:</b>				
<b>Instruction:</b>				
Regular instruction	3,038,124	446,361	386,539	-
Special instruction	809,777	6,851	40,569	-
Other instruction	906,117	332,569	65,141	-
	<u>4,754,018</u>	<u>785,781</u>	<u>492,249</u>	<u>-</u>
<b>Support services:</b>				
Student services	246,198	-	31,568	-
Instructional staff services	59,516	-	-	-
Administration services	731,337	-	-	-
Operation and maintenance of plant services	719,280	1,050	-	-
Transportation services	190,174	-	-	-
	<u>1,946,505</u>	<u>1,050</u>	<u>31,568</u>	<u>-</u>
<b>Other expenditures:</b>				
Facilities acquisition	36,419	-	-	72,634
Long-term debt interest	61,884	-	227	-
AEA flowthrough	238,664	-	238,664	-
Depreciation (unallocated)*	161,372	-	-	-
	<u>498,339</u>	<u>-</u>	<u>238,891</u>	<u>72,634</u>
<b>Total governmental activities</b>	<u>7,198,862</u>	<u>786,831</u>	<u>762,708</u>	<u>72,634</u>
<b>Business type activities:</b>				
<b>Non-instructional programs:</b>				
Food service operations	355,185	219,138	125,876	-
Student house construction project	123,484	161,853	-	-
<b>Total business-type activities</b>	<u>478,669</u>	<u>380,991</u>	<u>125,876</u>	<u>-</u>
<b>Total primary government</b>	<u>7,677,531</u>	<u>1,167,822</u>	<u>888,584</u>	<u>72,634</u>
<b>Component Units</b>				
Garner-Hayfield Community School				
District Education Foundation	26,139	-	-	-
<b>Total</b>	<u>7,703,670</u>	<u>1,167,822</u>	<u>888,584</u>	<u>72,634</u>
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes				
Debt service				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
<b>Total general revenues</b>				
<b>Transfers</b>				
<b>Total general revenues and transfers</b>				

**Change in net assets**

Net assets beginning of year, as restated  
Net assets end of year

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business Type Activities	Total	Component Unit
\$	\$	\$	\$
(2,205,224)	-	(2,205,224)	-
(762,357)	-	(762,357)	-
(508,407)	-	(508,407)	-
<u>(3,475,988)</u>	<u>-</u>	<u>(3,475,988)</u>	<u>-</u>
(214,630)	-	(214,630)	-
(59,516)	-	(59,516)	-
(731,337)	-	(731,337)	-
(718,230)	-	(718,230)	-
(190,174)	-	(190,174)	-
<u>(1,913,887)</u>	<u>-</u>	<u>(1,913,887)</u>	<u>-</u>
36,215	-	36,215	-
(61,657)	-	(61,657)	-
-	-	-	-
<u>(161,372)</u>	<u>-</u>	<u>(161,372)</u>	<u>-</u>
<u>(186,814)</u>	<u>-</u>	<u>(186,814)</u>	<u>-</u>
<u>(5,576,689)</u>	<u>-</u>	<u>(5,576,689)</u>	<u>-</u>
-	(10,171)	(10,171)	-
-	38,369	38,369	-
-	28,198	28,198	-
<u>(5,576,689)</u>	<u>28,198</u>	<u>(5,548,491)</u>	<u>-</u>
-	-	-	(26,139)
<u>(5,576,689)</u>	<u>28,198</u>	<u>(5,548,491)</u>	<u>(26,139)</u>
1,783,906	-	1,783,906	-
123,523	-	123,523	-
67,467	-	67,467	-
228,826	-	228,826	-
443,781	-	443,781	-
3,083,232	-	3,083,232	-
19,630	148	19,778	49,912
7,019	-	7,019	-
<u>5,757,384</u>	<u>148</u>	<u>5,757,532</u>	<u>49,912</u>
14,376	(14,376)	-	-
<u>5,771,760</u>	<u>(14,228)</u>	<u>5,757,532</u>	<u>49,912</u>
195,071	13,970	209,041	23,773
<u>4,048,326</u>	<u>191,321</u>	<u>4,239,647</u>	<u>557,771</u>
<u>4,243,397</u>	<u>205,291</u>	<u>4,448,688</u>	<u>581,544</u>

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2006

	General Fund	Capital Projects Local Option Sales Tax	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
<b>Assets</b>				
Cash and pooled investments:				
ISCAP	365,491	-	-	365,491
Other	269,442	423,034	226,912	919,388
Receivables:				
Property tax:				
Delinquent	21,120	-	4,014	25,134
Succeeding year	1,857,337	-	372,422	2,229,759
Accounts	889	-	-	889
Accrued interest - ISCAP	114	-	-	114
Accrued interest - other	-	270	59	329
Due from other governments	160,239	109,119	86,265	355,623
Notes receivable	15,722	-	-	15,722
<b>Total assets</b>	<b>2,690,354</b>	<b>532,423</b>	<b>689,672</b>	<b>3,912,449</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	67,518	-	8,215	75,733
Salaries and benefits payable	41,660	-	-	41,660
ISCAP warrants payable	366,000	-	-	366,000
ISCAP accrued interest payable	93	-	-	93
ISCAP premium	2,785	-	-	2,785
Deferred revenue:				
Succeeding year property tax	1,857,337	-	372,422	2,229,759
Other	149,657	-	66,968	216,625
Total liabilities	2,485,050	-	447,605	2,932,655
Fund balances:				
Reserved for:				
Debt service	-	-	16,390	16,390
Unreserved reported in:				
General fund	205,304	-	-	205,304
Special revenue funds	-	-	225,677	225,677
Capital projects funds	-	532,423	-	532,423
Total fund balances	205,304	532,423	242,067	979,794
<b>Total liabilities and fund balances</b>	<b>2,690,354</b>	<b>532,423</b>	<b>689,672</b>	<b>3,912,449</b>

See notes to financial statements.

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

	\$
<b>Total fund balances of governmental funds (Exhibit C)</b>	979,794
<b><i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i></b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	4,730,197
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	216,625
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.	(6,816)
An internal service fund is used by the District's management to charge the costs health insurance and health insurance deductible reimbursements to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	114,648
Long-term liabilities, including bonds payable, notes payable, capital leases, termination benefits and compensated absences are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(1,791,051)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>4,243,397</u></u>

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	General Fund	Capital Projects Local Option Sales Tax	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,814,051	443,781	392,444	2,650,276
Tuition	466,075	-	-	466,075
Other	107,909	2,446	332,843	443,198
State sources	3,646,188	-	234	3,646,422
Federal sources	156,567	-	17,006	173,573
Total revenues	<u>6,190,790</u>	<u>446,227</u>	<u>742,527</u>	<u>7,379,544</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	2,780,079	-	68,959	2,849,038
Special instruction	809,777	-	-	809,777
Other instruction	652,277	-	251,028	903,305
	<u>4,242,133</u>	<u>-</u>	<u>319,987</u>	<u>4,562,120</u>
Support services:				
Student services	246,198	-	-	246,198
Instructional staff services	59,516	-	26,678	86,194
Administration services	718,069	-	10,623	728,692
Operation and maintenance of plant services	669,619	-	40,486	710,105
Transportation services	155,247	-	17,618	172,865
	<u>1,848,649</u>	<u>-</u>	<u>95,405</u>	<u>1,944,054</u>
Other expenditures:				
Facilities acquisition	-	-	173,524	173,524
Long-term debt:				
Principal	-	-	324,565	324,565
Interest and fiscal charges	-	-	63,180	63,180
AEA flowthrough	238,664	-	-	238,664
	<u>238,664</u>	<u>-</u>	<u>561,269</u>	<u>799,933</u>
Total expenditures	<u>6,329,446</u>	<u>-</u>	<u>976,661</u>	<u>7,306,107</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(138,656)</u>	<u>446,227</u>	<u>(234,134)</u>	<u>73,437</u>
Other financing sources (uses):				
Proceeds from long-term debt	-	-	26,678	26,678
Sales of materials and equipment	13	-	-	13
Operating transfers in	16,180	-	263,567	279,747
Operating transfers out	(832)	(229,277)	(35,262)	(265,371)
Total other financing sources (uses)	<u>15,361</u>	<u>(229,277)</u>	<u>254,983</u>	<u>41,067</u>
Net change in fund balances	(123,295)	216,950	20,849	114,504
Fund balances beginning of year	<u>328,599</u>	<u>315,473</u>	<u>221,218</u>	<u>865,290</u>
Fund balances end of year	<u>205,304</u>	<u>532,423</u>	<u>242,067</u>	<u>979,794</u>

See notes to financial statements.

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		114,504
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital expenditures in the year as follows:		
Expenditures for capital assets	184,384	
Depreciation expense	<u>(229,584)</u>	(45,200)
funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		324,565
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities interest expense is recognized as the interest accrues, regardless of when it is due.		1,296
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Termination benefits	(172,147)	
Compensated absences	<u>(2,645)</u>	(174,792)
Proceeds from issuing long-term liabilities are included in the governmental funds but increase long-term liabilities in the Statement of Net Assets.		(26,678)
An internal service fund is used by the District's management to charge the costs of the health insurance premiums and health insurance deductible reimbursements to the individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.		<u>1,376</u>
<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>195,071</u></u>

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Funds

June 30, 2006

	Enterprise Nonmajor Funds	Governmental Activities - Internal Service Fund
	\$	\$
<b>Assets</b>		
Cash and cash equivalents	154,845	278,486
Accounts receivable	1,149	-
Inventories	26,452	-
Capital assets, net of accumulated depreciation	27,045	-
	<u>209,491</u>	<u>278,486</u>
<b>Total assets</b>	<u>209,491</u>	<u>278,486</u>
<b>Liabilities</b>		
Accounts payable	748	163,838
Deferred revenue	3,452	-
<b>Total liabilities</b>	<u>4,200</u>	<u>163,838</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	27,045	-
Unrestricted	178,246	114,648
	<u>205,291</u>	<u>114,648</u>
<b>Total net assets</b>	<u><u>205,291</u></u>	<u><u>114,648</u></u>

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Enterprise Nonmajor Funds	Governmental Activities - Internal Service Fund
	\$	\$
Operating revenue:		
Local sources:		
Sale of student constructed home	161,853	-
Charges for service	219,138	1,000,680
	<u>380,991</u>	<u>1,000,680</u>
Operating expenses:		
Non-instructional programs:		
Salaries	134,738	-
Benefits	17,797	999,304
Purchased services	2,451	-
Supplies	319,634	-
Depreciation	4,049	-
	<u>478,669</u>	<u>999,304</u>
Operating gain (loss)	<u>(97,678)</u>	<u>1,376</u>
Non-operating revenue:		
State sources	4,934	-
Federal sources	120,942	-
Interest income	148	-
Total non-operating revenue	<u>126,024</u>	<u>-</u>
Gain (loss) before contributions and transfers	28,346	1,376
Transfers in (out)	<u>(14,376)</u>	<u>-</u>
Change in net assets	13,970	1,376
Net assets beginning of year	<u>191,321</u>	<u>113,272</u>
Net assets end of year	<u><u>205,291</u></u>	<u><u>114,648</u></u>

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2006

	Enterprise Nonmajor Funds \$	Governmental Activities - Internal Service Fund \$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	219,259	-
Cash payments from sale of house	161,853	-
Cash payments from services to other funds	-	1,011,760
Cash payments to employees for services	(152,535)	(989,457)
Cash payments to suppliers for goods or services	(302,153)	-
Net cash used by operating activities	<u>(73,576)</u>	<u>22,303</u>
Cash flows from non-capital financing activities:		
Transfers (to) from General Fund	(14,376)	-
State grants received	4,934	-
Federal grants received	94,849	-
Net cash provided by non-capital financing activities	<u>85,407</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(4,840)	-
Cash flows from investing activities:		
Interest on investments	148	-
Net increase (decrease) in cash and cash equivalents	7,139	22,303
Cash and cash equivalents at beginning of year	147,706	256,183
Cash and cash equivalents at end of year	<u>154,845</u>	<u>278,486</u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>		
Operating gain (loss)	(97,678)	1,376
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	26,093	-
Depreciation	4,049	-
Decrease (increase) in inventories	(5,874)	-
Decrease (increase) in accounts receivable	(351)	11,080
(Decrease) increase in accounts payable	(287)	9,847
(Decrease) increase in deferred revenue	472	-
Net cash provided by (used in) operating activities	<u>(73,576)</u>	<u>22,303</u>

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

During the year ended June 30, 2006, the District received \$26,093 of federal commodities.

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Funds

June 30, 2006

	Private Purpose Trust Scholarship <u>          </u> \$
<b>Assets</b>	
Cash and pooled investments	9,315
Accrued interest receivable	<u>29</u>
<b>Total Assets</b>	9,344
<b>Liabilities</b>	
	<u>-</u>
<b>Net Assets</b>	
Reserved for scholarships	<u><u>9,344</u></u>

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2006

	Private Purpose Trust Scholarship <u>          </u> \$
Additions:	
Local sources:	
Gifts and contributions	4,050
Interest	<u>119</u>
Total additions	4,169
Deductions:	
Support services:	
Scholarships awarded	<u>4,500</u>
Change in net assets	(331)
Net assets beginning of year	<u>9,675</u>
Net assets end of year	<u><u>9,344</u></u>

# GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2006

### 1. Summary of Significant Accounting Policies

Garner-Hayfield Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Garner and Hayfield, Iowa and the predominately agricultural territory in a portion of Hancock County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

#### A. Reporting Entity

For financial reporting purposes, Garner-Hayfield Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) The potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The Garner-Hayfield Community School District Education Foundation has been included in the financial statements as a discretely presented component unit.

The Garner-Hayfield Community School District Education Foundation was established for charitable, educational, and scientific purposes which benefit the Garner-Hayfield Community School District. Foundation financial statements are shown in the Statement of Net Assets and the Statement of Activities in separate columns.

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

#### B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental fund:

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

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

The District's had two proprietary enterprise funds during the year ended June 30, 2006. The School Nutrition Fund is used to account for the food service operations of the District. The Student Construction Fund is used to account for the proceeds from the sale of and the costs of the construction of a house.

The District's internal service fund is also reported as a proprietary fund. The internal service fund is used to account for the District's health insurance plan premiums and medical deductible reimbursement plan.

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

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

#### C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

#### D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005, through June 30, 2006, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

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

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

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

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	20-50 years
Improvements other than buildings	20 years
Furniture and equipment	5-12 years

The District's collection of library books and other similar materials are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to District policy that requires proceeds from the sale of these items, if any, to be used to acquire other collection items.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds, amounts received in advance for meal sales and succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for vacation time that has been used. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General fund.

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

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

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

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements in the support services and non-instructional programs functions exceeded the amounts budgeted.

## 2. **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at

federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

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

### 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
		\$
Debt Service	Capital Projects: Local Option Sales Tax	229,277
Debt Service	General Fund	832
Debt Service	Nonmajor Governmental Funds: Physical Plant and Equipment Levy	33,458
General Fund	Nonmajor Governmental Funds: Student Activity Fund	1,804
General Fund	Enterprise: Student Construction Fund	14,376

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

The transfers to the General Fund from the Activity Fund closed Activity Fund accounts that should be in the General Fund.

The transfer from the Student Construction Fund to the General Fund was made to cover house construction costs paid from the General Fund.

### 4. Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
			\$	\$	\$	\$
2006-07A	6/28/06	6/28/07	<u>365,491</u>	<u>114</u>	<u>366,000</u>	<u>93</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006, is as follows:

Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
\$	\$	\$	\$
-	-	-	-

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants %	Interest Rates on Investments %
2006-07A	4.500	5.676

## 5. Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Construction in progress	31,458	-	31,458	-
Land	48,803	-	-	48,803
Total capital assets not being deprec.	<u>80,261</u>	<u>-</u>	<u>31,458</u>	<u>48,803</u>
Capital assets being depreciated:				
Buildings	6,123,895	112,546	-	6,236,441
Improvements other than buildings	644,175	-	-	644,175
Furniture and equipment	791,813	103,296	-	895,109
Total capital assets being deprec.	<u>7,559,883</u>	<u>215,842</u>	<u>-</u>	<u>7,775,725</u>
Less accumulated depreciation for:				
Buildings	2,244,601	129,388	-	2,373,989
Improvements other than buildings	63,211	31,984	-	95,195
Furniture and equipment	556,935	68,212	-	625,147
Total accumulated depreciation	<u>2,864,747</u>	<u>229,584</u>	<u>-</u>	<u>3,094,331</u>
Total capital assets being depreciated, net	<u>4,695,136</u>	<u>(13,742)</u>	<u>-</u>	<u>4,681,394</u>
Governmental activities capital assets, net	<u>4,775,397</u>	<u>(13,742)</u>	<u>31,458</u>	<u>4,730,197</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Business type activities:</b>				
Furniture and equipment	132,219	4,840	-	137,059
Less accumulated depreciation	<u>105,965</u>	<u>4,049</u>	<u>-</u>	<u>110,014</u>
Business type activities capital assets, net	<u>26,254</u>	<u>791</u>	<u>-</u>	<u>27,045</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	32,666
Other	2,812
Support Services:	
Operation and maintenance of plant services	9,175
Transportation	<u>23,559</u>
	68,212
Unallocated depreciation	<u>161,372</u>
Total depreciation expense – governmental activities	<u>229,584</u>
Business type activities:	
Food services	<u>4,049</u>

## 6. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
General obligation bonds	1,305,000	-	195,000	1,110,000	205,000
Revenue bond anticipation note	200,000	-	100,000	100,000	100,000
Capital lease	62,003	26,678	28,733	59,948	28,747
Energy loan notes	832	-	832	-	-
Equipment loans	4,932	14,350	3,560	15,722	7,872
Termination benefits	319,704	226,138	53,991	491,851	82,929
Compensated absences	<u>10,885</u>	<u>13,530</u>	<u>10,885</u>	<u>13,530</u>	<u>13,530</u>
Total	<u>1,903,356</u>	<u>280,696</u>	<u>393,001</u>	<u>1,791,051</u>	<u>438,078</u>

### Termination Benefits

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least ten years of service to the District and must be between the ages of fifty-five and sixty on or before June 30 in the calendar year in which early retirement commences. The application

for early retirement is subject to approval by the Board of Education and no more than five employees per year will be granted benefits under the policy.

Early retirement benefits consist of the school paying portion of the health insurance benefits until age sixty-five and a cash payment of up to \$2,500 for unused sick leave days.

At June 30, 2006, the District has obligations to twenty-two participants with a total liability of \$491,851. Actual early retirement expenditures for the year ended June 30, 2006 totaled \$53,991.

General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of December 1, 1998			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2007	4.00	205,000	44,755	249,755
2008	4.00	215,000	36,555	251,555
2009	4.00	220,000	27,955	247,955
2010	4.05	230,000	19,155	249,155
2011	4.10	240,000	9,840	249,840
		<u>1,110,000</u>	<u>138,260</u>	<u>1,248,260</u>

Revenue Bond Anticipation Notes

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

Year Ending June 30,	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2007	2.75	100,000	2,750	102,750

Capital Leases

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

	Year Ending June 30,	Amount
		\$
	2006	33,458
	2007	33,458
Minimum Lease Payments		<u>66,916</u>
Less Amount Representing Interest		<u>6,968</u>
Present Value of Minimum Lease Payments		<u>59,948</u>

Equipment Loans

The District has borrowed money, at interest rates of 2.91% to 3.99%, to purchase computers for resale to teachers. The District also has notes receivable from the teachers in the same amounts and

at the same interest rates as the notes payable. The teachers have agreed to have the monthly payments withheld from their payroll checks. Payment details are as follows:

Year Ending June 30,	Principal	Interest	Total
	\$	\$	\$
2007	7,872	487	8,359
2008	4,050	243	4,293
2009	3,800	118	3,918
	<u>15,722</u>	<u>848</u>	<u>16,570</u>

## 7. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$212,785, \$208,186 and \$200,730 respectively, equal to the required contributions for each year.

## 8. Risk Management

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

## 9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$238,664 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

## 10. Restatement of Net Assets Beginning of Year

The beginning net assets of the discretely presented component unit were increased by \$20,204 because the fair value of the investments was understated at June 30, 2005.

REQUIRED SUPPLEMENTARY INFORMATION

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures, and Changes in Balances -  
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2006

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Revenues:						
Local sources	3,559,549	381,139	3,940,688	3,623,262	3,623,262	317,426
State sources	3,646,422	4,934	3,651,356	3,629,565	3,629,565	21,791
Federal sources	173,573	120,942	294,515	227,000	227,000	67,515
Total revenues	<u>7,379,544</u>	<u>507,015</u>	<u>7,886,559</u>	<u>7,479,827</u>	<u>7,479,827</u>	<u>406,732</u>
Expenditures:						
Instruction	4,562,120	-	4,562,120	4,830,312	4,830,312	268,192
Support services	1,944,054	-	1,944,054	1,751,651	1,751,651	(192,403)
Non-instructional programs	-	478,669	478,669	370,000	370,000	(108,669)
Other expenditures	799,933	-	799,933	925,131	925,131	125,198
Total expenditures	<u>7,306,107</u>	<u>478,669</u>	<u>7,784,776</u>	<u>7,877,094</u>	<u>7,877,094</u>	<u>92,318</u>
Excess (deficiency) of revenues over (under) expenditures	73,437	28,346	101,783	(397,267)	(397,267)	314,414
Other financing sources (uses) net	<u>41,067</u>	<u>(14,376)</u>	<u>26,691</u>	<u>135,000</u>	<u>135,000</u>	<u>(108,309)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	114,504	13,970	128,474	(262,267)	(262,267)	206,105
Balance beginning of year	<u>865,290</u>	<u>191,321</u>	<u>1,056,611</u>	<u>984,261</u>	<u>984,261</u>	<u>72,350</u>
Balance end of year	<u><u>979,794</u></u>	<u><u>205,291</u></u>	<u><u>1,185,085</u></u>	<u><u>721,994</u></u>	<u><u>721,994</u></u>	<u><u>278,455</u></u>

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Internal Service, Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

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

During the year ended June 30, 2006, expenditures in the support services and non-instructional programs functions exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2006

Assets	Special Revenue Funds					Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	District Support Trust Funds	Debt Service	
	\$	\$	\$	\$	\$	
Cash and pooled investments	38,167	87,501	76,627	9,806	14,811	226,912
Receivables:						
Property tax:						
Delinquent	1,588	-	857	-	1,569	4,014
Succeeding year	160,000	-	87,545	-	124,877	372,422
Accrued interest	-	-	49	-	10	59
Due from other governments	-	-	86,265	-	-	86,265
<b>Total assets</b>	<b>199,755</b>	<b>87,501</b>	<b>251,343</b>	<b>9,806</b>	<b>141,267</b>	<b>689,672</b>
<b>Liabilities &amp; Fund Balances</b>						
Liabilities:						
Accounts payable	-	5,058	3,157	-	-	8,215
Deferred revenue:						
Succeeding year property tax	160,000	-	87,545	-	124,877	372,422
Other	-	-	66,968	-	-	66,968
Total liabilities	160,000	5,058	157,670	-	124,877	447,605
Fund balances:						
Reserved for debt service	-	-	-	-	16,390	16,390
Unreserved reported in:						
Special revenue funds	39,755	82,443	93,673	9,806	-	225,677
Total fund balances	39,755	82,443	93,673	9,806	16,390	242,067
<b>Total liabilities and fund balances:</b>	<b>199,755</b>	<b>87,501</b>	<b>251,343</b>	<b>9,806</b>	<b>141,267</b>	<b>689,672</b>

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Special Revenue Funds					Total
	Management	Student	Physical	District	Debt	
	Levy	Activity	Plant and	Support	Service	
	Fund	Equipment	Trust			
		Levy	Funds			
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	124,915	-	143,834	-	123,695	392,444
Other	5,404	268,784	55,962	2,466	227	332,843
State sources	93	-	50	-	91	234
Federal sources	-	-	17,006	-	-	17,006
Total revenues	<u>130,412</u>	<u>268,784</u>	<u>216,852</u>	<u>2,466</u>	<u>124,013</u>	<u>742,527</u>
Expenditures:						
Current:						
Instruction:						
Regular instruction	68,193	-	-	766	-	68,959
Other instruction	-	251,028	-	-	-	251,028
Support services:						
Instructional staff services	-	-	26,678	-	-	26,678
Administration services	10,623	-	-	-	-	10,623
Operation and maintenance of plant services	40,486	-	-	-	-	40,486
Transportation services	11,368	-	6,250	-	-	17,618
Other expenditures:						
Facilities acquisition	-	-	173,524	-	-	173,524
Long-term debt:						
Principal	-	-	-	-	324,565	324,565
Interest and fiscal charges	-	-	-	-	63,180	63,180
Total expenditures	<u>130,670</u>	<u>251,028</u>	<u>206,452</u>	<u>766</u>	<u>387,745</u>	<u>976,661</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(258)</u>	<u>17,756</u>	<u>10,400</u>	<u>1,700</u>	<u>(263,732)</u>	<u>(234,134)</u>
Other financing sources (uses):						
Proceeds from long-term debt	-	-	26,678	-	-	26,678
Operating transfers in	-	-	-	-	263,567	263,567
Operating transfers out	-	(1,804)	(33,458)	-	-	(35,262)
Total other financing sources (uses)	<u>-</u>	<u>(1,804)</u>	<u>(6,780)</u>	<u>-</u>	<u>263,567</u>	<u>254,983</u>
Net change in fund balance	(258)	15,952	3,620	1,700	(165)	20,849
Fund balances beginning of year	<u>40,013</u>	<u>66,491</u>	<u>90,053</u>	<u>8,106</u>	<u>16,555</u>	<u>221,218</u>
Fund balances end of year	<u>39,755</u>	<u>82,443</u>	<u>93,673</u>	<u>9,806</u>	<u>16,390</u>	<u>242,067</u>

## GARNER-HAYFIELD

Combining Schedule of Net Assets  
Nonmajor Enterprise Funds

June 30, 2006

	Enterprise		Total Nonmajor Funds
	School Nutrition	Student Construction	
	\$	\$	\$
<b>Assets</b>			
Cash and cash equivalents	20,296	134,549	154,845
Accounts receivable	1,149	-	1,149
Inventories	9,952	16,500	26,452
Capital assets, net of accumulated depreciation	27,045	-	27,045
<b>Total assets</b>	<b>58,442</b>	<b>151,049</b>	<b>209,491</b>
<b>Liabilities</b>			
Accounts payable	-	748	748
Deferred revenue	3,452	-	3,452
<b>Total liabilities</b>	<b>3,452</b>	<b>748</b>	<b>4,200</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	27,045	-	27,045
Unrestricted	27,945	150,301	178,246
<b>Total net assets</b>	<b>54,990</b>	<b>150,301</b>	<b>205,291</b>

## GARNER-HAYFIELD

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

Year ended June 30, 2006

	Enterprise		Total Nonmajor Funds
	School Nutrition	Student Construction	
	\$	\$	\$
Operating revenue:			
Local sources:			
Sale of student constructed home	-	161,853	161,853
Charges for service	219,138	-	219,138
	<u>219,138</u>	<u>161,853</u>	<u>380,991</u>
Operating expenses:			
Non-instructional programs:			
Salaries	134,738	-	134,738
Benefits	17,797	-	17,797
Purchased services	2,451	-	2,451
Supplies	196,150	123,484	319,634
Depreciation	4,049	-	4,049
	<u>355,185</u>	<u>123,484</u>	<u>478,669</u>
Operating gain (loss)	<u>(136,047)</u>	<u>38,369</u>	<u>(97,678)</u>
Non-operating revenue:			
State sources	4,934	-	4,934
Federal sources	120,942	-	120,942
Interest income	148	-	148
Total non-operating revenue	<u>126,024</u>	<u>-</u>	<u>126,024</u>
Gain (loss) before transfers	(10,023)	38,369	28,346
Transfers in (out)	<u>-</u>	<u>(14,376)</u>	<u>(14,376)</u>
Change in net assets	(10,023)	23,993	13,970
Net assets beginning of year	<u>65,013</u>	<u>126,308</u>	<u>191,321</u>
Net assets end of year	<u><u>54,990</u></u>	<u><u>150,301</u></u>	<u><u>205,291</u></u>

## GARNER-HAYFIELD

Combining Schedule of Cash Flows  
Nonmajor Enterprise Funds

Year ended June 30, 2006

	Enterprise		
	School Nutrition	Student Construction	Total Nonmajor Funds
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	219,259	-	219,259
Cash payments from sale of houses	-	161,853	161,853
Cash payments to employees for services	(152,535)	-	(152,535)
Cash payments to suppliers for goods or services	(174,544)	(127,609)	(302,153)
Net cash used by operating activities	(107,820)	34,244	(73,576)
Cash flows from non-capital financing activities:			
Transfer to General Fund	-	(14,376)	(14,376)
State grants received	4,934	-	4,934
Federal grants received	94,849	-	94,849
Net cash provided by non-capital financing activities	99,783	(14,376)	85,407
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(4,840)	-	(4,840)
Cash flows from investing activities:			
Interest on investments	148	-	148
Net increase (decrease) in cash and cash equivalents	(12,729)	19,868	7,139
Cash and cash equivalents at beginning of year	33,025	114,681	147,706
Cash and cash equivalents at end of year	20,296	134,549	154,845
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>			
Operating gain (loss)	(136,047)	38,369	(97,678)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:			
Commodities used	26,093	-	26,093
Depreciation	4,049	-	4,049
Decrease (increase) in inventories	(1,374)	(4,500)	(5,874)
Decrease (increase) in accounts receivable	(351)	-	(351)
(Decrease) increase in accounts payable	(662)	375	(287)
(Decrease) increase in deferred revenue	472	-	472
Net cash provided by (used in) operating activities	(107,820)	34,244	(73,576)

See accompanying independent auditor's report.

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Intra-Fund Transfers</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$	\$
Athletics	(9,362)	77,777	66,731	1,358	3,042
Athletic towel service	4,135	4,758	5,784	-	3,109
Fellowship of Christian Athletes	36	-	-	-	36
Girls basketball camp	168	-	-	(168)	-
HS Boys track	-	3,284	3,967	1,867	1,184
Roger Ginapp golf	56	-	-	(56)	-
HS girls golf	-	482	482	56	56
Paul Nelson wrestling	1,477	-	-	(1,477)	-
HS wrestling	-	2,840	4,297	1,477	20
Girls basketball	1,193	8,242	7,361	-	2,074
Eenhuis basketball	4,368	-	-	(4,368)	-
HS boys basketball	-	8,897	8,206	3,273	3,964
Girls volleyball	1,000	-	-	(1,000)	-
HS volleyball	-	2,792	3,821	1,000	(29)
Football	3,066	8,189	10,415	-	840
Girls track	216	1,788	1,741	-	263
Summer concessions	1,241	-	-	(1,241)	-
HS baseball	-	10,183	10,261	323	245
Girls softball	277	-	-	-	277
HS Boys golf	-	546	611	-	(65)
Softball concessions	2,924	-	-	(2,924)	-
HS softball	-	7,184	6,718	2,540	3,006
Cross country	184	2,388	2,425	-	147
Weight room	52	-	-	-	52
MS volleyball	38	-	-	-	38
Boys and girls junior basketball	313	-	-	-	313
Cheerleading fund	(106)	16,764	16,942	407	123
Pep club	600	-	49	-	551
Student council	7,302	3,559	2,978	(124)	7,759
Jr. Hi. student council	817	14,543	15,138	-	222
Curtain club	5	-	-	-	5
Peer helper association	824	-	-	-	824
Que pasa	254	2,134	1,408	-	980
Class of 2002	186	-	186	-	-
Class of 2003	1,619	-	1,619	-	-
Class of 2004	920	-	-	-	920
Class of 2005	1,671	-	254	-	1,417
Class of 2006	4,019	229	2,810	-	1,438
Class of 2007	4,390	6,997	6,461	(699)	4,227
Class of 2008	(75)	14,007	11,982	-	1,950
Class of 2009	-	39	75	-	(36)
Investments	9,267	325	-	-	9,592

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Intra-Fund Transfers</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$	\$
N.O.W. interest	10,838	481	-	-	11,319
FFA	1,120	35,330	32,584	-	3,866
FHA	1,159	-	-	(1,159)	-
FCCLA	-	5,409	4,167	1,159	2,401
National Honor Society	763	1,202	924	-	1,041
Retail marketing	1,150	1,187	633	-	1,704
NCIBA honor band	38	-	-	-	38
Band trip	742	4,748	4,902	10	598
Flag & rifle	2,559	1,919	3,861	-	617
HS solo & ensemble contest	108	2,020	1,305	-	823
Jr. Hi. solo & ens. contest	20	-	-	-	20
Impulse dance club	726	2,297	838	-	2,185
Annual	747	2,859	997	-	2,609
MS annual	971	1,867	1,763	-	1,075
HS concessions	5	1,687	1,350	-	342
K-8 concessions	(511)	3,434	2,206	(254)	463
Speech & drama	4,455	5,974	5,026	-	5,403
Musical productions	3,825	-	66	-	3,759
PSAT Testing	(4)	435	435	-	(4)
Video yearbook	698	-	-	-	698
June 30, 2006 accrual entries	-	-	5,058	-	(5,058)
June 30, 2005 accrual entries	(5,993)	(12)	(6,005)	-	-
<b>Total</b>	<b>66,491</b>	<b>268,784</b>	<b>252,832</b>	<b>-</b>	<b>82,443</b>

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2006	2005	2004	2003
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,650,276	2,412,741	2,459,892	2,208,268
Tuition	466,075	523,800	559,121	478,461
Other	443,198	349,782	359,797	408,208
State sources	3,646,422	3,579,099	3,138,599	3,412,053
Federal sources	173,573	116,954	103,229	89,908
Total revenues	<u>7,379,544</u>	<u>6,982,376</u>	<u>6,620,638</u>	<u>6,596,898</u>
Expenditures:				
Instruction:				
Regular instruction	2,849,038	3,067,644	2,849,646	2,777,927
Special instruction	809,777	769,429	779,172	672,171
Other instruction	903,305	782,127	770,275	749,012
Support services:				
Student services	246,198	116,368	98,749	118,092
Instructional staff services	86,194	63,959	103,534	95,914
Administration services	728,692	662,677	621,615	611,188
Operation and maintenance of plant services	710,105	708,915	589,586	556,617
Transportation services	172,865	181,687	158,696	201,110
Other expenditures:				
Facilities acquisition	173,524	321,837	165,657	197,631
Long-term debt:				
Principal	324,565	289,992	180,092	251,007
Interest and other charges	63,180	67,942	67,607	76,027
AEA flowthrough	238,664	230,357	225,158	243,027
Total expenditures	<u>7,306,107</u>	<u>7,262,934</u>	<u>6,609,787</u>	<u>6,549,723</u>

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

To the Board of Education of  
Garner-Hayfield Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Garner-Hayfield Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 10, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items 06-I-A and 06-I-B are material weaknesses.

## Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

BURTON E. TRACY & CO., P.C.  
Certified Public Accountants

October 10, 2006

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

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

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

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

Conclusion: Response accepted.

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

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

District Response: We will change our current procedures.

Conclusion: Response accepted.

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting:

06-II-A Certified Budget: Expenditures for the year ended June 30, 2006, exceeded the amounts budgeted in the support services and non-instructional programs functional areas.

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

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

Conclusion: Response accepted.

06-II-B Questionable Expenditures: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

06-II-C Travel Expenses: No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u> \$
David Zrostlik, board member and owner of Stellar Ind.	Supplies	181
William Paulus, board member and VP at local bank	School banking	

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

District Response: We will consult with our attorney.

Conclusion: Response accepted.

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

06-II-F Board Minutes: Except as explained in comment 06-II-J, we noted no transactions requiring Board approval that had not been approved by the Board.

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

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

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

06-II-H Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

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

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

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

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

Conclusion: Response accepted.

06-II-K Old Outstanding Checks: We noted that the District's bank reconciliations included approximately \$800 of old outstanding checks. Iowa Code Section 566 specifies that holders unclaimed property, which includes outstanding checks, must file a report with and send the unclaimed property to the Treasurer of Iowa.

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

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

Conclusion: Response accepted.