

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

JUNE 30, 2006

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GMG Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2006 election)</b>		
Rick Landt	President	2007
Merle Appelgate	Vice President	2007
Linda Havelka	Board Member	2005
Jim Fleming	Board Member	2005
Allen Burt	Board Member	2006
David Bacon	Board Member	2006
Kathy Beane	Board Member	2007
<b>Board of Education (After September 2006 election)</b>		
Merle Appelgate	President	2007
David Bacon	Vice President	2006
Allen Burt	Board Member	2006
Rick Landt	Board Member	2007
Kathy Beane	Board Member	2007
Linda Havelka	Board Member	2008
Jim Fleming	Board Member	2008
<b>School Officials</b>		
Michael Ashton	Superintendent	2006
Deb Stahl	Business Manager and District Secretary/Treasurer	2006
Roger Schoell	Attorney	2006

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
117 West 3rd Street North, Newton, Iowa 50208-3040  
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the GMG Community School District, Garwin, Iowa as of and for the year ended June 30, 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, each major fund and the aggregate remaining fund information of GMG Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 3, 2006 on our consideration of GMG Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 34 through 35 are not required parts of the basic financial statements, but are supplementary

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise GMG Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

August 3, 2006

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

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GMG Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 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 \$3,395,599 in fiscal 2005 to \$3,626,904 in fiscal 2006, while General Fund expenditures increased from \$3,426,591 in fiscal 2005 to \$3,566,462 in fiscal 2006. This resulted in an increase in the District's General Fund balance from \$701,805 in fiscal 2005 to a balance of \$762,247 in fiscal 2006, a 8.61% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in state sources in fiscal 2006. The increase in expenditures was due primarily to an increase in the instruction function area.
- The District performed a number of building and repair projects to its facilities in order to keep them in optimal condition. We are working on installing air conditioners in the high school building.
- We received a private donation of \$100,000 to go towards the construction of an early childhood learning center. In addition, we received a no interest loan from Consumers Energy, USDA Rural Development for \$275,000 for the Preschool.
- A new bus was purchased in October 2005 for \$56,005. A new van was purchased in July 2005 for \$17,897.
- The District had two teachers that took early retirement at the end of the 05-06 school year.
- The District began receiving the Local Option Sales and Services Tax from all the resident counties beginning July 1, 2004. The Board is waiting to see the outcome of the state-wide tax before they make any major decisions.

### **USING THIS ANNUAL REPORT**

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

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

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

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report GMG Community School District's operations in more detail than the government-wide

statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which GMG Community School District acts solely as an agent or custodial for the benefit of those outside of District government.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

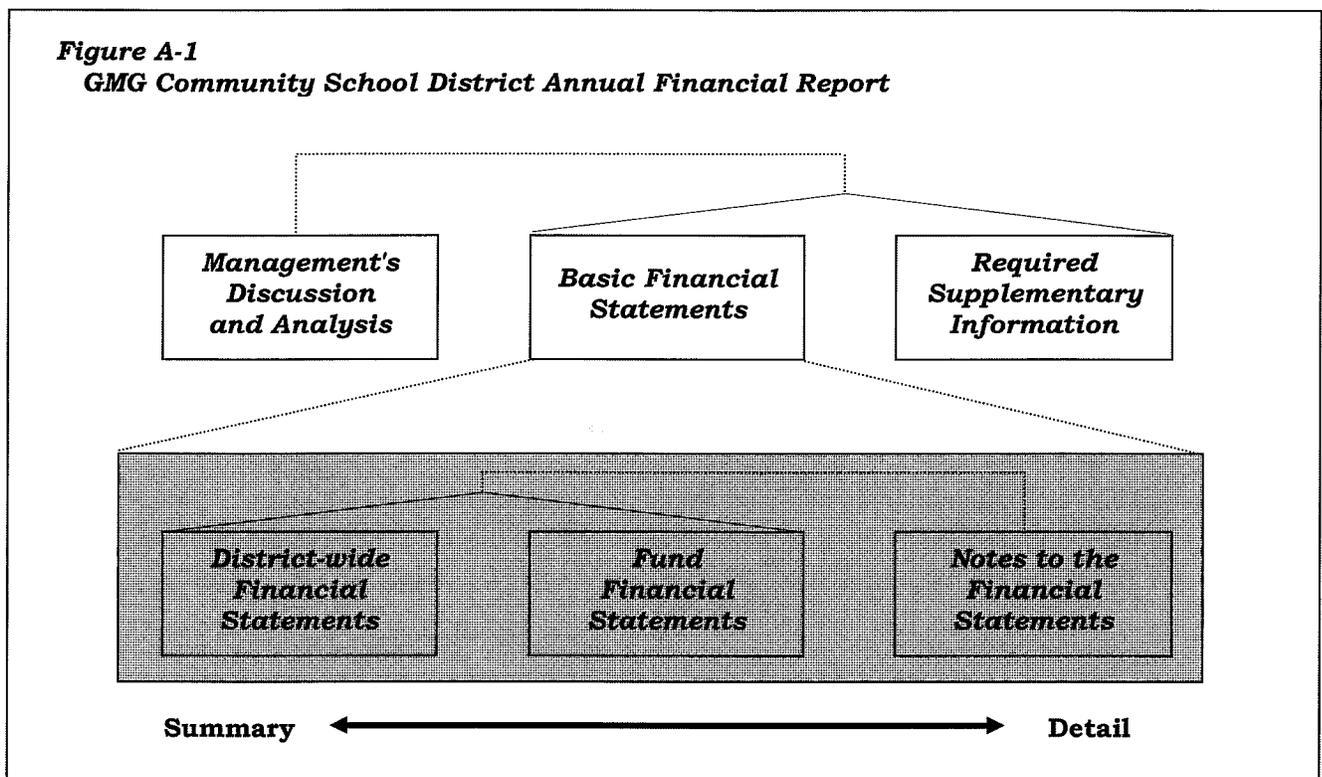


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

## **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.

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

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

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

### **Fund Financial Statements**

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

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

The District has three kinds of funds:

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

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

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

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise funds, the School Nutrition Fund.

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

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

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

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 3,626,381	3,070,689	44,519	58,855	3,670,900	3,129,544	17.30%
Capital assets	4,054,877	3,782,869	70,307	72,597	4,125,184	3,855,466	7.00%
Total assets	<u>7,681,258</u>	<u>6,853,558</u>	<u>114,826</u>	<u>131,452</u>	<u>7,796,084</u>	<u>6,985,010</u>	<u>11.61%</u>
Long-term obligations	2,934,941	3,098,759	0	0	2,934,941	3,098,759	-5.29%
Other liabilities	2,644,711	1,984,533	13,334	11,533	2,658,045	1,996,066	33.16%
Total liabilities	<u>5,579,652</u>	<u>5,083,292</u>	<u>13,334</u>	<u>11,533</u>	<u>5,592,986</u>	<u>5,094,825</u>	<u>9.78%</u>
Net assets:							
Invested in capital assets, net of related debt	1,120,372	686,978	70,307	72,597	1,190,679	759,575	56.76%
Restricted	156,441	302,606	0	0	156,441	302,606	-48.30%
Unrestricted	824,793	780,682	31,185	47,322	855,978	828,004	3.38%
Total net assets	<u>\$ 2,101,606</u>	<u>1,770,266</u>	<u>101,492</u>	<u>119,919</u>	<u>2,203,098</u>	<u>1,890,185</u>	<u>16.55%</u>

The District's combined net assets increased by 16.55%, or \$312,193, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$146,165, or 48.30% over the prior year. The decrease was primarily a result of the decrease in the Capital Projects Fund balance.

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 – increased \$27,974, or 3.38%. This decrease is due to the decrease in net assets in the Enterprise, School Nutrition Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
<b>Revenues:</b>							
<b>Program revenues:</b>							
Charges for services	\$ 840,485	697,432	94,583	96,958	935,068	794,390	17.71%
Operating grants and contributions and restricted interest	432,884	410,266	92,440	84,617	525,324	494,883	6.15%
Capital grants and contributions and restricted interest	100,000	0	0	0	100,000	0	100.00%
<b>General revenues:</b>							
Property tax	1,572,304	1,522,412	0	0	1,572,304	1,522,412	3.28%
Local option sales and services tax	205,953	194,548	0	0	205,953	194,548	5.86%
Unrestricted state grants	1,308,033	1,272,830	0	0	1,308,033	1,272,830	2.77%
Other	69,462	24,462	154	231	69,616	24,693	181.93%
<b>Total revenues</b>	<b>4,529,121</b>	<b>4,121,950</b>	<b>187,177</b>	<b>181,806</b>	<b>4,716,298</b>	<b>4,303,756</b>	<b>9.59%</b>
<b>Program expenses:</b>							
<b>Governmental activities:</b>							
Instructional	2,604,216	2,474,736	0	0	2,604,216	2,474,736	5.23%
Support services	1,036,163	1,023,682	0	0	1,036,163	1,023,682	1.22%
Non-instructional programs	2,400	0	205,604	195,184	208,004	195,184	6.57%
Other expenses	555,002	587,312	0	0	555,002	587,312	-5.50%
<b>Total expenses</b>	<b>4,197,781</b>	<b>4,085,730</b>	<b>205,604</b>	<b>195,184</b>	<b>4,403,385</b>	<b>4,280,914</b>	<b>2.86%</b>
<b>Changes in net assets</b>	<b>331,340</b>	<b>36,220</b>	<b>(18,427)</b>	<b>(13,378)</b>	<b>312,913</b>	<b>22,842</b>	<b>1269.90%</b>
<b>Beginning net assets</b>	<b>1,770,266</b>	<b>1,734,046</b>	<b>119,919</b>	<b>133,297</b>	<b>1,890,185</b>	<b>1,867,343</b>	<b>1.22%</b>
<b>Ending net assets</b>	<b>\$ 2,101,606</b>	<b>1,770,266</b>	<b>101,492</b>	<b>119,919</b>	<b>2,203,098</b>	<b>1,890,185</b>	<b>16.55%</b>

Property tax and unrestricted state grants account for 65% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 83% of the total expenses.

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

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

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

### **Governmental Activities**

Revenues for governmental activities were \$4,529,121 and expenses were \$4,197,781. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 2,604,216	1,446,278
Support services	1,036,163	1,035,684
Non-instructional programs	2,400	2,400
Other expenses	555,002	340,050
Totals	<u>\$ 4,197,781</u>	<u>2,824,412</u>

- The cost financed by users of the District's programs was \$840,485.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$432,884.
- The District received \$100,000 donation for the capital construction of the Child Development Center.
- The net cost of governmental activities was financed with \$1,572,304 in property tax, \$205,953 in local option sales and services tax, \$1,308,033 in state foundation aid, \$27,480 in interest income, \$715 in gain on sale of capital assets and \$41,267 in other general miscellaneous sources.

### **Business-Type Activities**

Revenues of the District's business-type activities were \$187,177 and expenses were \$205,604. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

### **INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$898,365, below last year's ending fund balances of a \$1,019,980. However, the primary reason for the decrease in combined fund balances in fiscal 2006 is that the local option sales and services tax monies received was more than offset by the increase in expenditures in the Capital Projects Fund.

### **Governmental Fund Highlights**

- The District's General Fund financial position is the product of many factors. Increase in state aid grants during the year resulted in an increase in revenues. The increase in revenues was partially offset by the District's increase in General Fund expenditures, but the net result was an increase in fund balance from \$701,805 to \$762,247.
- The Capital Projects Fund balance decreased from \$90,467 in fiscal 2005 to a deficit \$32,660 in fiscal 2006. This decrease in fund balance was due to the increase in capital construction expenditures for the Child Development Center.

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### **Proprietary Fund Highlights**

The Proprietary Fund net assets decreased from \$119,919 at June 30, 2005 to \$101,492 at June 30, 2006, representing a decrease of 15.37%. For fiscal 2006, the District had an increase in expenditures.

### **BUDGETARY HIGHLIGHTS**

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

The District's revenues were \$315,254 more than budgeted revenues, a variance of 7.19%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

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

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

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

At June 30, 2006, the District had invested \$4,125,184, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 6.54% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$252,403.

The original cost of the District's capital assets was \$7,570,036. Governmental funds account for \$7,441,526 with the remainder of \$128,840 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$309,769 at June 30, 2006, compared to \$0 reported at June 30, 2005. This increase resulted from the construction of the Child Development Center that not completed at June 30, 2006.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 54,500	54,500	0	0	54,500	54,500	0.00%
Construction in progress	309,769	0	0	0	309,769	0	100.00%
Buildings	3,542,032	3,624,454	0	0	3,542,032	3,624,454	-2.33%
Machinery and equipment	148,576	103,915	70,307	72,597	218,883	176,512	19.36%
Total	\$ 4,054,877	3,782,869	70,307	72,597	4,125,184	3,855,466	6.54%

### Long-Term Debt

At June 30, 2006, the District had \$2,934,941 in general obligation and other long-term debt outstanding. This represents a decrease of 5.3% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding general obligation bonds of \$2,930,000 at June 30, 2006.

The District had total outstanding Early Retirement payable from the Special Revenue, Management Fund of \$4,941 at June 30, 2006.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	2006	2005	
General obligation bonds	\$ 2,930,000	3,090,000	-5.2%
Early Retirement	4,941	8,759	-43.6%
Totals	\$ 2,934,941	3,098,759	-5.3%

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

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

- The SILO Tax helps to keep the District's facilities in good shape and so we can continue to purchase new and safe vehicles for our students.
- With the budget guarantee being phased out, if we continue to have a decline in enrollment we will be forced to trim costs even more.
- Although the District has experienced steady enrollment the past several years, enrollment numbers decreased in September 2005.
- Health insurance continues to be a very costly item to the District. We have been very fortunate to be considered in the low bracket for claims. This is something that is unpredictable. The skyrocketing cost of health care and the insurance to cover the cost will soon be unattainable by many.
- Unfunded mandates are stretching limits of not only the financial health of the District, but also the human resources aspect of the District, "No Child Left Behind", "Student Achievement and Teacher Quality Act", and "GASB 34" to name a few.

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- The School District has completed its fourth year of participation in the Lighthouse Study. The District has seen increased student achievement and continues to focus on quality staff development.

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

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



BASIC FINANCIAL STATEMENTS



GMG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments			
ISCAP (Note 3)	\$ 573,748	0	573,748
Other	1,193,354	31,641	1,224,995
Receivables:			
Property tax:			
Delinquent	24,561	0	24,561
Succeeding year	1,598,468	0	1,598,468
Income surtax	95,206	0	95,206
Accounts	24,448	0	24,448
Accrued ISCAP interest (Note 3)	178	0	178
Due from other governments	116,418	0	116,418
Inventories	0	12,878	12,878
Capital assets, net of accumulated depreciation (Note 4)	4,054,877	70,307	4,125,184
<b>TOTAL ASSETS</b>	<b>7,681,258</b>	<b>114,826</b>	<b>7,796,084</b>
<b>LIABILITIES</b>			
Accounts payable	125,046	0	125,046
Salaries and benefits payable	330,786	12,112	342,898
ISCAP warrants payable (Note 3)	574,000	0	574,000
ISCAP accrued interest payable (Note 3)	142	0	142
ISCAP unamortized premium	4,368	0	4,368
Interest payable	11,901	0	11,901
Deferred revenue:			
Succeeding year property tax	1,598,468	0	1,598,468
Unearned revenue	0	1,222	1,222
Long-term liabilities (Note 5):			
Portion due within one year:			
General obligation bonds payable	170,000	0	170,000
Early retirement payable	2,470	0	2,470
Portion due after one year:			
General obligation bonds payable	2,760,000	0	2,760,000
Early retirement payable	2,471	0	2,471
<b>TOTAL LIABILITIES</b>	<b>5,579,652</b>	<b>13,334</b>	<b>5,592,986</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	1,120,372	70,307	1,190,679
Restricted for:			
Management levy	117,687	0	117,687
Physical plant and equipment levy	12,263	0	12,263
Other special revenue purposes	26,491	0	26,491
Unrestricted	824,793	31,185	855,978
<b>TOTAL NET ASSETS</b>	<b>\$ 2,101,606</b>	<b>101,492</b>	<b>2,203,098</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

GMG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Charges for Expenses	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities		
Functions/Programs							
Governmental activities:							
Instruction:							
Regular instruction	\$ 1,653,032	549,813	295,405	0	(807,814)	0	(807,814)
Special instruction	339,103	175,838	22,048	0	(141,217)	0	(141,217)
Other instruction	612,081	114,834	0	0	(497,247)	0	(497,247)
	<u>2,604,216</u>	<u>840,485</u>	<u>317,453</u>	<u>0</u>	<u>(1,446,278)</u>	<u>0</u>	<u>(1,446,278)</u>
Support services:							
Student services	0	0	0	0	0	0	0
Instructional staff services	106,456	0	0	0	(106,456)	0	(106,456)
Administration services	323,318	0	0	0	(323,318)	0	(323,318)
Operation and maintenance of plant services	306,398	0	0	0	(306,398)	0	(306,398)
Transportation services	299,991	0	479	0	(299,512)	0	(299,512)
	<u>1,036,163</u>	<u>0</u>	<u>479</u>	<u>0</u>	<u>(1,035,684)</u>	<u>0</u>	<u>(1,035,684)</u>
Non-instructional programs:							
Food service operations	2,400	0	0	0	(2,400)	0	(2,400)
Other expenditures:							
Facilities and acquisitions	205,621	0	0	100,000	(105,621)	0	(105,621)
Long-term debt interest	152,007	0	0	0	(152,007)	0	(152,007)
AEA flowthrough	114,952	0	114,952	0	0	0	0
Depreciation(unallocated) *	82,422	0	0	0	(82,422)	0	(82,422)
	<u>555,002</u>	<u>0</u>	<u>114,952</u>	<u>100,000</u>	<u>(340,050)</u>	<u>0</u>	<u>(340,050)</u>
Total governmental activities	4,197,781	840,485	432,884	100,000	(2,824,412)	0	(2,824,412)
Business-Type activities:							
Non-instructional programs:							
Nutrition services	205,604	94,583	92,440	0	0	(18,581)	(18,581)
Total business-type activities	<u>205,604</u>	<u>94,583</u>	<u>92,440</u>	<u>0</u>	<u>0</u>	<u>(18,581)</u>	<u>(18,581)</u>
Total	\$ 4,403,385	935,068	525,324	100,000	(2,824,412)	(18,581)	(2,842,993)
General Revenues:							
Local tax for:							
General purposes				\$ 1,158,937	0	1,158,937	
Debt Service				313,308	0	313,308	
Capital outlay				100,059	0	100,059	
Local option sales and services tax				205,953	0	205,953	
Unrestricted state grants				1,308,033	0	1,308,033	
Unrestricted investment earnings				27,480	154	27,634	
Gain on sale of capital assets				715	0	715	
Miscellaneous				41,267	0	41,267	
Total general revenues				<u>3,155,752</u>	<u>154</u>	<u>3,155,906</u>	
Change in net assets				331,340	(18,427)	312,913	
Net assets beginning of year				1,770,266	119,919	1,890,185	
Net assets end of year				<u>\$ 2,101,606</u>	<u>101,492</u>	<u>2,203,098</u>	

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

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

GMG COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>ASSETS</b>				
Cash and pooled investments				
ISCAP (Note 3)	\$ 573,748	0	0	573,748
Other	1,020,267	11,416	161,671	1,193,354
Receivables:				
Property tax:				
Delinquent	17,187	0	7,374	24,561
Succeeding year	1,156,812	0	441,656	1,598,468
Income surtax	95,206	0	0	95,206
Accounts	24,448	0	0	24,448
Accrued ISCAP interest (Note 3)	178	0	0	178
Due from other governments	44,640	71,778	0	116,418
<b>TOTAL ASSETS</b>	<b>\$ 2,932,486</b>	<b>83,194</b>	<b>610,701</b>	<b>3,626,381</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 8,925	115,854	267	125,046
Salaries and benefits payable	330,786	0	0	330,786
ISCAP warrants payable (Note 3)	574,000	0	0	574,000
ISCAP accrued interest payable (Note 3)	142	0	0	142
ISCAP unamortized premium	4,368	0	0	4,368
Deferred revenue:				
Succeeding year property tax	1,156,812	0	441,656	1,598,468
Income surtax	95,206	0	0	95,206
Total liabilities	2,170,239	115,854	441,923	2,728,016
Fund balances:				
Reserved for:				
Debt service	0	0	7,396	7,396
Unreserved:				
General	762,247	0	0	762,247
Capital Projects	0	(32,660)	0	(32,660)
Management levy	0	0	122,628	122,628
Physical plant and equipment levy	0	0	12,263	12,263
Other special revenue purposes	0	0	26,491	26,491
Total fund balances	762,247	(32,660)	168,778	898,365
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,932,486</b>	<b>83,194</b>	<b>610,701</b>	<b>3,626,381</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

GMG 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 (page 16)</b>	\$	898,365
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.		4,054,877
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.		95,206
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.		(11,901)
Long-term liabilities, including general obligation bonds and early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(2,934,941)</u>
<b>Net assets of governmental activites (page 14)</b>	<b>\$</b>	<b><u>2,101,606</u></b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

GMG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 1,115,743	160,817	438,407	1,714,967
Tuition	715,953	0	0	715,953
Other	55,030	208	238,701	293,939
State sources	1,619,141	45,136	119	1,664,396
Federal sources	120,997	0	0	120,997
Total revenues	<u>3,626,864</u>	<u>206,161</u>	<u>677,227</u>	<u>4,510,252</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular instruction	1,603,109	0	41,977	1,645,086
Special instruction	339,103	0	0	339,103
Other instruction	488,553	0	118,528	607,081
	<u>2,430,765</u>	<u>0</u>	<u>160,505</u>	<u>2,591,270</u>
Support services:				
Instructional staff services	105,812	0	0	105,812
Administration services	443,976	0	8,937	452,913
Operation and maintenance of plant services	270,130	0	36,268	306,398
Transportation services	200,827	0	29,138	229,965
	<u>1,020,745</u>	<u>0</u>	<u>74,343</u>	<u>1,095,088</u>
Non-instructional programs:				
Food service operations	0	0	2,400	2,400
Other expenditures:				
Facilities acquisitions	0	329,288	186,102	515,390
Long-term debt:				
Principal	0	0	160,000	160,000
Interest and fiscal charges	0	0	152,807	152,807
AEA flowthrough	114,952	0	0	114,952
	<u>114,952</u>	<u>329,288</u>	<u>498,909</u>	<u>943,149</u>
Total expenditures	<u>3,566,462</u>	<u>329,288</u>	<u>736,157</u>	<u>4,631,907</u>
Excess(deficiency) of revenues over(under) expenditures	60,402	(123,127)	(58,930)	(121,655)
Other financing sources:				
Sale of equipment	40	0	0	40
Total other financing sources	<u>40</u>	<u>0</u>	<u>0</u>	<u>40</u>
Net change in fund balances	60,442	(123,127)	(58,930)	(121,615)
Fund balance beginning of year	701,805	90,467	227,708	1,019,980
Fund balance end of year	<u>\$ 762,247</u>	<u>(32,660)</u>	<u>168,778</u>	<u>898,365</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

GMG COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2006

Net change in fund balances - total governmental funds (page 18) \$ (121,615)

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

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

Capital outlays	\$ 512,591	
Depreciation expense	<u>(240,583)</u>	272,008

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets 160,000

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 18,154

Net change in the Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. (1,825)

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. 800

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement	\$ 3,818	<u>3,818</u>
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Changes in net assets of governmental activities (page 15) \$ 331,340

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

GMG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2006

	School Nutrition
ASSETS	
Cash and pooled investments	\$ 31,641
Inventories	12,878
Capital assets, net of accumulated depreciation (Note 4)	70,307
TOTAL ASSETS	114,826
LIABILITIES	
Salaries and benefits payable	12,112
Unearned revenue	1,222
TOTAL LIABILITIES	13,334
NET ASSETS	
Investment in capital assets, net of related debt	70,307
Unrestricted	31,185
TOTAL NET ASSETS	\$ 101,492

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

GMG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2006

	<u>Business-Type Activities:</u>	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 94,583	247
TOTAL OPERATING REVENUES	<u>94,583</u>	<u>247</u>
OPERATING EXPENSES:		
Support services:		
Administration services:		
Benefits	0	2,072
Non-instructional programs:		
Food service operations:		
Salaries	66,210	0
Benefits	21,121	0
Services	3,671	0
Supplies	103,457	0
Depreciation	11,145	0
	<u>205,604</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>205,604</u>	<u>2,072</u>
OPERATING LOSS	<u>(111,021)</u>	<u>(1,825)</u>
NON-OPERATING REVENUES:		
State sources	2,855	0
Federal sources	89,585	0
Interest on investments	154	0
TOTAL NON-OPERATING REVENUES	<u>92,594</u>	<u>0</u>
Change in net assets	(18,427)	(1,825)
Net assets beginning of year	<u>119,919</u>	<u>1,825</u>
Net assets end of year	<u>\$ 101,492</u>	<u>0</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

GMG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2006

	Business-Type Activities: Enterprise Fund	Governmental Activities: Internal Service Fund
	School Nutrition	
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 89,074	0
Cash received from miscellaneous	6,081	247
Cash payments to employees for services	(86,102)	(2,072)
Cash payments to suppliers for goods or services	(95,230)	0
Net cash used in operating activities	(86,177)	(1,825)
Cash flows from non-capital financing activities:		
State grants received	2,855	0
Federal grants received	75,946	0
Net cash provided by non-capital financing activities	78,801	0
Cash flows from capital and related financing activities:		
Purchase of capital assets	(8,855)	0
Net cash used in capital and related financing activities	(8,855)	0
Cash flows from investing activities:		
Interest on investments	154	0
Net cash provided by investing activities	154	0
Net decrease in cash and cash equivalents	(16,077)	(1,825)
Cash and cash equivalents at beginning of year	47,718	1,825
Cash and cash equivalents at end of year	\$ 31,641	0
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (111,021)	(1,825)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Commodities consumed	13,639	0
Depreciation	11,145	0
Increase in inventories	(1,741)	0
Increase in salaries and benefits payable	1,229	0
Increase in unearned revenue	572	0
Net cash used in operating activities	\$ (86,177)	(1,825)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:		
Current assets:		
Cash and pooled investments	\$ 31,641	0

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$13,639.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

GMG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2006

	Agency
ASSETS	
Cash and pooled investments	\$ 1,182
TOTAL ASSETS	\$ 1,182
LIABILITIES	
Due to other groups	\$ 1,182
TOTAL LIABILITIES	\$ 1,182

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

GMG COMMUNITY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2006

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

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

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

**A. Reporting Entity**

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

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

**B. Basis of Presentation**

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

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District reports the following proprietary funds:

The District's proprietary funds are the School Nutrition Fund and the Internal Service Fund. The Nutrition fund is used to account for the food service operations of the

District. The Internal Service Fund is used to account for the self-funded insurance plan of the District. The Internal Service Fund is charged back to the Governmental Funds and shown combined in the Statement of Net Assets and the Statement of Activities.

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested.

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 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, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

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

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

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

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

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current

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

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

Unearned Revenue - Unearned revenues are monies collected for student fees and lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the balance sheet in the Enterprise, School Nutrition 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, expenditures in the non-instructional programs and other expenditures functions exceeded the amounts budgeted.

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

The District's deposits 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 and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint

investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2006.

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

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

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2005-06A	6/28/2005	6/28/2006	\$ 546	0	0	0
2006-07A	6/28/2006	6/28/2007	573,202	178	574,000	142
<b>Total</b>			<b>\$ 573,748</b>	<b>178</b>	<b>574,000</b>	<b>142</b>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no advance activity during the year ended June 30, 2006.

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

Series	Interest Rates on Warrants	Interest Rates on Investments
2005-06A	3.500%	3.903%
2006-07A	4.500%	5.676%

**(4) 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
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 54,500	0	0	54,500
Construction in progress	0	309,769	0	309,769
Total capital assets not being depreciated	<u>54,500</u>	<u>309,769</u>	<u>0</u>	<u>364,269</u>
Capital assets being depreciated:				
Buildings	6,091,075	0	0	6,091,075
Machinery and equipment	833,685	203,497	51,000	986,182
Total capital assets being depreciated	<u>6,924,760</u>	<u>203,497</u>	<u>51,000</u>	<u>7,077,257</u>
Less accumulated depreciation for:				
Buildings	2,466,621	82,422	0	2,549,043
Machinery and equipment	729,770	158,836	51,000	837,606
Total accumulated depreciation	<u>3,196,391</u>	<u>241,258</u>	<u>51,000</u>	<u>3,386,649</u>
Total capital assets being depreciated, net	<u>3,728,369</u>	<u>(37,761)</u>	<u>0</u>	<u>3,690,608</u>
Governmental activities capital assets, net	<u>\$ 3,782,869</u>	<u>272,008</u>	<u>0</u>	<u>4,054,877</u>
Business-type activities:				
Machinery and equipment	\$ 124,471	8,855	4,486	128,840
Less accumulated depreciation	51,874	11,145	4,486	58,533
Business-type activities capital assets, net	<u>\$ 72,597</u>	<u>(2,290)</u>	<u>0</u>	<u>70,307</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 9,939
Other		5,000
Support services:		
Instructional staff		644
Transportation		143,253
		<u>158,836</u>
Unallocated depreciation		<u>82,422</u>
Total governmental activities depreciation expense		<u>\$ 241,258</u>
Business-type activities:		
Food services		\$ 11,145
Total business-type activities depreciation expense		<u>\$ 11,145</u>

#### (5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 3,090,000	0	160,000	2,930,000	170,000
Early Retirement	8,759	31,279	35,097	4,941	2,470
Total	\$ 3,098,759	31,279	195,097	2,934,941	172,470

#### General Obligation Bonds Payable

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

Year Ending June 30,	Bond issued dated July 1, 1999			
	Interest Rates	Principal	Interest	Total
2007	4.90 %	\$ 170,000	142,804	312,804
2008	4.50	175,000	134,476	309,476
2009	4.65	185,000	126,515	311,515
2010	4.70	195,000	117,939	312,939
2011	4.75	205,000	108,748	313,748
2012	4.80	215,000	99,010	314,010
2013	4.85	220,000	88,690	308,690
2014	4.85	230,000	78,020	308,020
2015	4.90	245,000	66,750	311,750
2016	5.00	255,000	54,500	309,500
2017	5.00	265,000	41,750	306,750
2018	5.00	280,000	28,500	308,500
2019	5.00	290,000	14,500	304,500
Total		\$ 2,930,000	1,102,202	4,032,202

#### Early Retirement

The District offers a voluntary early retirement plan to its Certified employees, classified employees and administrative staff. Eligible employees must have completed seventeen or fifteen years of service to the District in order to qualify for supplemental benefits. Employees desiring to elect early retirement under this program must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is on the "per diem" basis based on the current contract at the time of retirement. "Per diem" is defined as per day pay based upon contract days and annual salary. Early retirement benefits paid during the year ended June 30, 2006 totaled \$35,097. A liability has been recorded in the District's commitment to fund non-current early retirement.

#### **(6) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial

statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual 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 contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$126,503, \$124,076, and \$116,138 respectively, equal to the required contributions for each year.

**(7) Risk Management**

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

**(8) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$114,952 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.

**(9) Budget Overexpenditure**

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, expenditures in the non-instruction programs and other expenditures functions exceeded the amounts budgeted.

**(10) Construction Commitment**

The District has entered into contracts totaling \$423,570 for the construction of a Child Development Center. As of June 30, 2006, costs of \$309,769 had been incurred against the contracts. The balance of \$113,801 remaining at June 30, 2006 will be paid as work on the project progresses.

**(11) Deficit Undesignated Fund Balance**

The Capital Projects Fund had a deficit undesignated fund balance of \$32,660 at June 30, 2006.

REQUIRED SUPPLEMENTARY INFORMATION



GMG COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2006

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
<b>Revenues:</b>						
Local sources	\$ 2,724,859	94,737	2,819,596	2,477,612	2,477,612	341,984
State sources	1,664,396	2,855	1,667,251	1,677,563	1,677,563	(10,312)
Federal sources	120,997	89,585	210,582	227,000	227,000	(16,418)
Total revenues	<u>4,510,252</u>	<u>187,177</u>	<u>4,697,429</u>	<u>4,382,175</u>	<u>4,382,175</u>	<u>315,254</u>
<b>Expenditures:</b>						
Instruction	2,591,270	0	2,591,270	2,643,450	2,700,000	108,730
Support services	1,095,088	0	1,095,088	1,042,333	1,400,000	304,912
Non-instructional programs	2,400	205,604	208,004	169,200	200,000	(8,004)
Other expenditures	943,149	0	943,149	622,258	770,000	(173,149)
Total expenditures	<u>4,631,907</u>	<u>205,604</u>	<u>4,837,511</u>	<u>4,477,241</u>	<u>5,070,000</u>	<u>232,489</u>
Deficiency of revenues under expenditures	(121,655)	(18,427)	(140,082)	(95,066)	(687,825)	(547,743)
Other financing sources, net	40	0	40	0	0	(40)
Deficiency of revenues and other financing sources under expenditures	(121,615)	(18,427)	(140,042)	(95,066)	(687,825)	(547,783)
Balance beginning of year	<u>1,019,980</u>	<u>119,919</u>	<u>1,139,899</u>	<u>1,280,232</u>	<u>1,280,232</u>	<u>(140,333)</u>
Balance end of year	<u>\$ 898,365</u>	<u>101,492</u>	<u>999,857</u>	<u>1,185,166</u>	<u>592,407</u>	<u>407,450</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

GMG 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 Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the 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 that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year the District adopted one budget amendment increasing budgeted expenditures by \$592,759.

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

OTHER SUPPLEMENTARY INFORMATION

GMG COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2006

	Special Revenue Funds					Total
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
<b>ASSETS</b>						
Cash and pooled investments	\$ 122,207	26,758	10,580	159,545	2,126	161,671
Receivables:						
Property tax:						
Current year delinquent	421	0	1,683	2,104	5,270	7,374
Succeeding year	25,000	0	103,448	128,448	313,208	441,656
<b>TOTAL ASSETS</b>	<b>\$ 147,628</b>	<b>26,758</b>	<b>115,711</b>	<b>290,097</b>	<b>320,604</b>	<b>610,701</b>
<b>LIABILITIES AND FUND EQUITY</b>						
Liabilities:						
Accounts payable	\$ 0	267	0	267	0	267
Deferred revenue:						
Succeeding year property tax	25,000	0	103,448	128,448	313,208	441,656
	25,000	267	103,448	128,715	313,208	441,923
Fund equity:						
Fund balances:						
Reserved for:						
Debt Service	0	0	0	0	7,396	7,396
Unreserved:						
Undesignated	122,628	26,491	12,263	161,382	0	161,382
Total fund balances	122,628	26,491	12,263	161,382	7,396	168,778
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 147,628</b>	<b>26,758</b>	<b>115,711</b>	<b>290,097</b>	<b>320,604</b>	<b>610,701</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

GMG COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2006

	Special Revenue Funds					Total
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
REVENUES:						
Local sources:						
Local tax	\$ 25,040	0	100,059	125,099	313,308	438,407
Other	14,577	114,827	109,297	238,701	0	238,701
State sources	7	0	27	34	85	119
TOTAL REVENUES	39,624	114,827	209,383	363,834	313,393	677,227
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	41,977	0	0	41,977	0	41,977
Other instruction	0	118,528	0	118,528	0	118,528
Support services:						
Administration services	8,937	0	0	8,937	0	8,937
Operation and maintenance of plant services	36,268	0	0	36,268	0	36,268
Student transportation	11,241	0	17,897	29,138	0	29,138
Non-instructional programs:						
Food service operations	2,400	0	0	2,400	0	2,400
Other expenditures:						
Facilities acquisitions	0	0	186,102	186,102	0	186,102
Long-term debt:						
Principal	0	0	0	0	160,000	160,000
Interest and fiscal charges	0	0	0	0	152,807	152,807
TOTAL EXPENDITURES	100,823	118,528	203,999	423,350	312,807	736,157
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(61,199)	(3,701)	5,384	(59,516)	586	(58,930)
FUND BALANCE BEGINNING OF YEAR	183,827	30,192	6,879	220,898	6,810	227,708
FUND BALANCE END OF YEAR	\$ 122,628	26,491	12,263	161,382	7,396	168,778

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

GMG COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 301	330	248	383
Vocal	1,359	69	279	1,149
Band	174	133	120	187
HS Cheerleading	165	2,170	2,319	16
Future Teacher	35	0	0	35
Spanish Club	335	545	839	41
Class of 2005	(29)	0	(29)	0
Class of 2006	1,170	444	1,614	0
Class of 2007	1,265	11,919	12,104	1,080
Class of 2008	723	1,132	140	1,715
Class of 2009	589	196	(1)	786
Interest	16	174	190	0
HS Student Council	862	14,037	14,130	769
JH Student Council	270	472	527	215
National Honor Society	452	1,481	1,375	558
Yearbook	(11,504)	7,401	(1,357)	(2,746)
Athletics	22,457	55,596	63,525	14,528
Dance Team	3,041	7,411	8,131	2,321
HS SADD	0	3,517	3,413	104
Volleyball	3,240	3,219	5,001	1,458
Art	0	90	90	0
District Football	0	528	528	0
Elementary	5,196	3,963	5,342	3,817
Elementary Student Council	75	0	0	75
<b>Total</b>	<b>\$ 30,192</b>	<b>114,827</b>	<b>118,528</b>	<b>26,491</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

GMG COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
 AGENCY FUND  
 YEAR ENDED JUNE 30, 2006

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
<b>ASSETS</b>				
Cash and pooled investments	\$ 2,379	9,217	10,414	1,182
TOTAL ASSETS	<u>\$ 2,379</u>	<u>9,217</u>	<u>10,414</u>	<u>1,182</u>
<b>LIABILITIES</b>				
Due to other groups	\$ 2,379	9,217	10,414	1,182
TOTAL LIABILITIES	<u>\$ 2,379</u>	<u>9,217</u>	<u>10,414</u>	<u>1,182</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2006	2005	2004	2003
<b>Revenues:</b>				
Local sources:				
Local tax	\$ 1,714,967	1,716,960	1,639,511	1,639,770
Tuition	715,953	560,856	514,681	522,976
Other	293,939	159,301	178,438	229,726
State sources	1,664,396	1,560,545	1,447,237	1,442,940
Federal sources	120,997	124,088	126,711	116,125
<b>Total</b>	<b>\$ 4,510,252</b>	<b>4,121,750</b>	<b>3,906,578</b>	<b>3,951,537</b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular instruction	\$ 1,645,086	1,619,810	1,546,023	1,471,625
Special instruction	339,103	481,758	456,354	361,392
Other instruction	607,081	363,209	333,746	316,894
Support services:				
Student services	0	0	0	72,896
Instructional staff services	105,812	108,056	128,468	108,724
Administration services	452,913	426,146	420,295	380,672
Operation and maintenance of plant services	306,398	304,610	299,448	293,022
Transportation services	229,965	183,904	147,865	169,306
Other support services	0	8,006	11,193	8,739
Non-instructional programs	2,400	0	0	0
Other expenditures:				
Facilities acquisitions	515,390	211,660	170,629	163,976
Long-term debt:				
Principal	160,000	150,000	145,000	140,000
Interest	152,807	161,808	170,408	178,806
AEA flow-through	114,952	112,048	110,391	113,434
<b>Total</b>	<b>\$ 4,631,907</b>	<b>4,131,015</b>	<b>3,939,820</b>	<b>3,779,486</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

## **Certified Public Accountants**

(a professional corporation)

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

Telephone (641) 792-1910

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

### Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of GMG Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 3, 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 GMG Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

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

#### Compliance and Other Matters

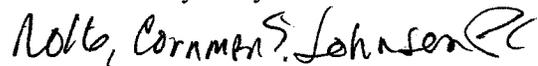
As part of obtaining reasonable assurance about whether GMG Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct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

Members American Institute & Iowa Society of Certified Public Accountants

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

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

  
NOLTE, CORNMAN & JOHNSON, P.C.

August 3, 2006

GMG COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted in the Student Activity Fund that the cash receipts and bank deposits were done by the same person.

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

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

Conclusion - Response accepted.

I-B-06 Farmland - We noted during the audit that the district owns farmland, which was donated to them. The farmland is currently rented and maintained in an agency fund on the District's books. The farmland is not located within the geographical area of the school district. The proceeds from the farmland is used for scholarships.

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

Response - We do not intend to sell the farmland.

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

I-C-06 Supporting Documents for Payments to Officials/Entry Fees - Payments made to officials from the Student Activity fund do not have supporting documentation. Payments made for entry fees from the Student Activity Fund do not have supporting documentation. Officials and entry fees are being paid from a listing.

Recommendation - The copy of the contract made for each official should be used as the support for payment. Original source documentation from the District hosting the event should be made available for entry fees as support for payment. The District should review procedures.

Response - We are working on improving internal controls and have access to all the coaches contracts to use for support if we question any payment made to an official.

Conclusion - Response accepted.

GMG COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

II-A-06 Certified Budget - District disbursements for the year ended June 30, 2006, exceeded the amended certified budget amounts in the non-instructional programs and other expenditures functions.

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

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

Conclusion - Response accepted.

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

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

II-D-06 Business Transactions - No business transactions between the District and District officials or employees were noted.

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

II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-06 Certified Enrollment - We noted no variance in the basic enrollment data certified to the Department of Education.

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

II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

II-J-06 Financial Condition - The District had accounts in the Student Activity Fund with deficit balances at June 30, 2006. The District had a deficit fund balance in the Capital Projects Fund of \$32,660 at June 30, 2006.

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

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

Conclusion - Response accepted.