

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT
GRINNELL, IOWA

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

JUNE 30, 2006

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GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2005 Election)		
Kevin Kolbe	President	2007
Tom Dillman	Vice President	2006
Lori Brown	Board Member	2005
Randy Lidtka	Board Member	2005
Wanda Sims	Board Member	2006
Vicki DeAngelo	Board Member	2007
Doug Cutchins	Board Member	2007
<u>Board of Education</u>		
(After September 2005 Election)		
Doug Cutchins	President	2007
Kevin Kolbe	Vice President	2007
Tom Dillman	Board Member	2006
Wanda Sims	Board Member	2006
Vicki DeAngelo	Board Member	2007
Harriet Dickey-Chasins	Board Member	2008
Julie Tabatabai	Board Member	2008
<u>School Officials</u>		
David Stoakes	Superintendent	2006
Don Longhurst	District Secretary/Treasurer	2006
Donald L. Schild	Attorney	2006

INDEPENDENT AUDITOR'S REPORT

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

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

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

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 Grinnell-Newburg Community School District as of 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 Grinnell-Newburg Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 7 through 15 and 52 through 54 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Grinnell-Newburg Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2005 (none of which are presented herein). We expressed an adverse opinion on the aggregate discretely presented component unit due to the omission of that component unit from the District's financial statements. We expressed an unqualified opinion on the District's governmental activities, business-type activities, each major fund, and the aggregate remaining fund information. The financial statements for the two years ended June 30, 2004 (none of which are presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Oskaloosa, Iowa
October 10, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Grinnell-Newburg Community School District's comprehensive annual financial report presents management's discussion and analysis of the District's financial performance for the year ending June 30, 2006. Please read it in conjunction with the district's financial statements.

Financial Highlights

- General Fund revenues decreased from \$13,521,892 in FY05 to \$13,327,887 in FY06, while General Fund expenditures increased from \$12,521,527 in FY05 to \$13,263,713 in FY06. Revenues exceeded expenditures by \$64,174, the fourth consecutive year that revenues have exceeded expenditures.

The General Fund balance at June 30, 2006 was \$2,566,561, or 19% of general fund expenditures.

- The district is nearing completion of a \$13,000,000 upgrade to its high school facility. The project has been funded by general obligation debt, sales tax debt, and local pledges of approximately \$3,500,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

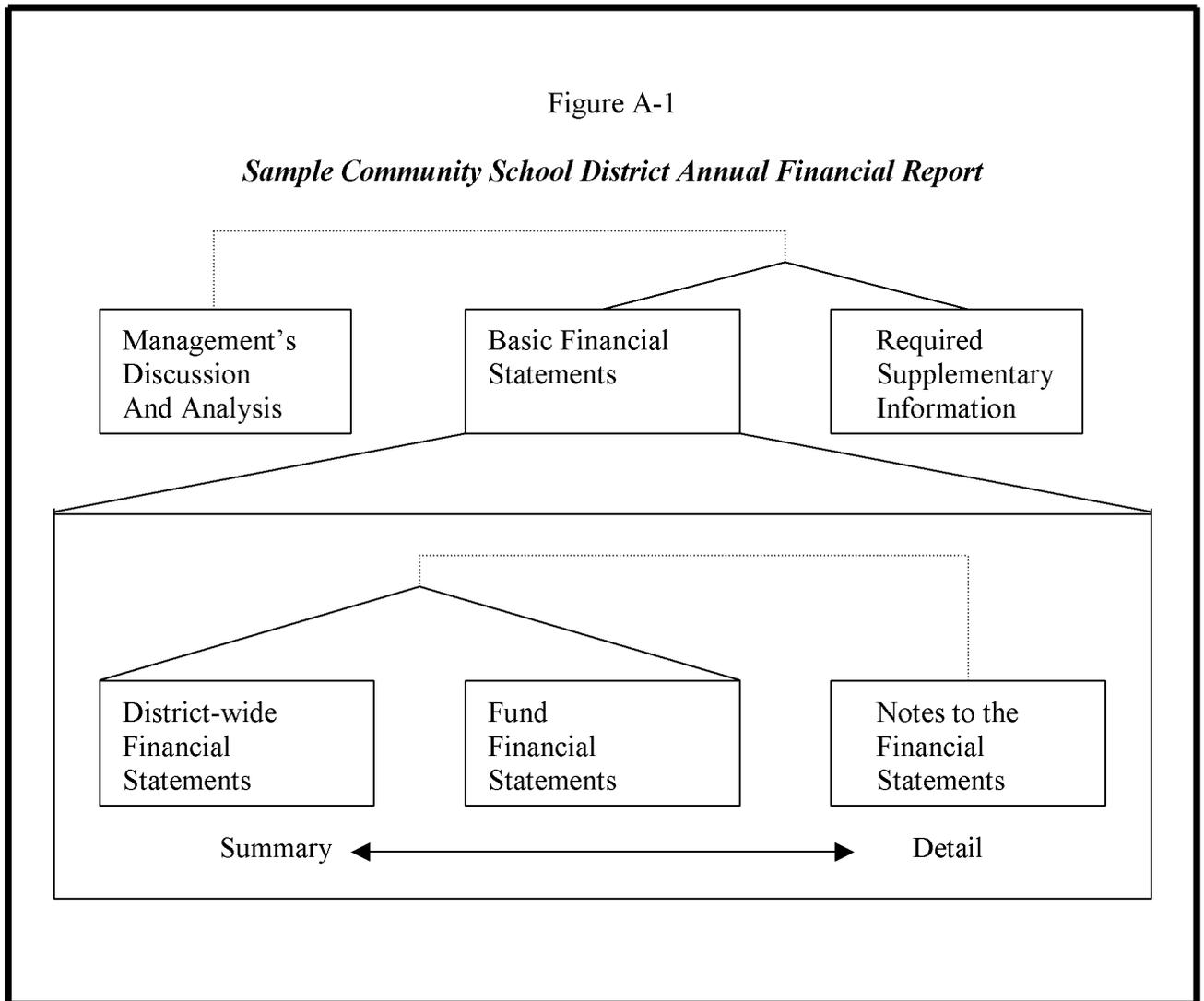


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights the structure and contents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

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

District-wide Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

The School District as a Whole

Net assets. A comparison of the District's combined net assets for 2005 and 2006 follows:

Figure A-3
Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total School District	
	2005	2006	2005	2006	2005	2006
Assets:						
Current and other Assets	\$17,263,333	\$14,055,402	\$ 99,694	\$75,264	\$17,363,027	\$14,130,666
Capital assets	<u>13,346,254</u>	<u>18,659,584</u>	<u>37,207</u>	<u>49,443</u>	<u>13,383,461</u>	<u>18,709,027</u>
Total assets	30,609,587	32,714,986	136,901	124,707	30,746,488	32,839,693
Long-term obligations	15,214,570	14,159,930	18,522	15,750	15,233,092	14,175,680
Other obligations	<u>6,940,298</u>	<u>6,233,691</u>	<u>54,579</u>	<u>44,356</u>	<u>6,994,877</u>	<u>6,278,047</u>
Total liabilities	22,154,868	20,393,621	73,101	60,106	22,227,969	20,453,727
Net assets						
Invested in capital assets net of related debt	4,461,922	4,809,584	37,207	49,443	4,499,129	4,859,027
Restricted	1,362,076	4,618,945	0	0	1,362,076	4,618,945
Unrestricted	<u>2,630,721</u>	<u>2,892,836</u>	<u>26,593</u>	<u>15,158</u>	<u>2,657,314</u>	<u>2,907,994</u>
Total net assets	<u>\$8,454,719</u>	<u>\$12,321,365</u>	<u>\$63,800</u>	<u>\$64,601</u>	<u>\$8,518,519</u>	<u>\$12,385,966</u>

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

Change in net assets – Figure A-4 shows a comparison of the changes in net assets for two years ending June 30, 2006.

Figure A-4

Changes in Net Assets

	Governmental Activities		Business-type Activities		Total School District	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Revenues:						
Program revenues:						
Charges for service & sales	\$ 975,829	\$1,181,691	\$ 511,719	\$ 591,138	\$ 1,487,548	\$ 1,772,829
Operating grants, contributions, and restricted interest	1,789,135	1,676,479	240,082	240,272	2,029,217	1,916,751
Capital grants, contributions and restricted interest	62,838	2,014,440	0	0	62,838	2,014,440
General revenues:						
Property tax	4,704,419	4,693,630	0	0	4,704,419	4,693,630
Debt Service	825,546	835,807	0	0	825,546	835,807
PPEL	169,092	156,216	0	0	169,092	156,216
Local Option Sales and Services tax	1,094,772	1,018,526	0	0	1,094,772	1,018,526
Income Surtax	652,047	636,561	0	0	652,047	636,561
Unrestricted state grants	6,275,866	6,245,268	0	0	6,275,866	6,245,268
Unrestricted interest earnings	243,486	305,191	487	2,618	243,973	307,809
Other	<u>68,042</u>	<u>95,008</u>	<u>0</u>	<u>0</u>	<u>68,042</u>	<u>95,008</u>
Total revenues	\$16,861,072	\$ 18,858,817	\$ 752,288	\$834,028	\$17,613,360	\$19,692,845
Program expenses:						
Governmental activities:						
Instruction	\$8,865,212	\$9,056,239	0	0	\$8,865,212	\$9,056,239
Support Services	3,974,468	4,598,047	0	0	3,974,468	4,598,047
Non-instructional programs			767,125	833,227	767,125	833,227
Other expenses	<u>1,346,397</u>	<u>1,337,885</u>	<u>0</u>	<u>0</u>	<u>1,346,397</u>	<u>1,337,885</u>
Total expenses	\$14,186,077	\$14,992,171	\$767,125	\$ 833,227	\$14,953,202	\$15,825,398
Change in net assets	\$2,674,995	\$3,866,646	\$(14,837)	\$ 801	\$ 2,660,158	\$ 3,867,447

The major sources of 2006 revenues for the District were property tax and unrestricted state grants, accounting for 61% of the 2006 revenues. Other revenue sources were charges for sales and services, 9%; operating grants, contributions, and restricted interest, 10%; capital contributions, 10%; sales and services tax, 5%; income surtax, 3%; and other sources, 2%.

The District's expenses primarily relate to instruction and support services, which have accounted for 86% of the total expenses each year.

Governmental Activities

Governmental activities revenues for 2006 were \$18,858,817 and expenses were \$14,992,171, resulting in a net asset increase of \$3,866,646.

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

Figure A-5

Total and Net Cost of Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2005	2006	2005	2006
Instruction	\$8,865,212	\$9,056,239	\$7,067,524	\$6,970,596
Support Services	3,974,468	4,598,047	3,520,346	4,341,196
Non-instructional programs				
Other expenses	<u>1,346,397</u>	<u>1,337,885</u>	<u>770,405</u>	<u><1,192,231></u>
Totals	\$14,186,077	\$14,992,171	\$11,358,275	\$10,119,561

- The cost financed by users of the District's programs was \$1,181,691 in 2006, compared to \$975,829 in 2005.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,676,479 in 2006, compared to \$1,851,973 in 2005. Capital grants and contributions provided an additional \$2,014,440 of funding in 2006.
- The net cost of governmental activities was financed with \$7,340,740 property and other taxes, \$6,245,268 in unrestricted state funds, \$305,191 in unrestricted investment earnings, and \$95,008 in other revenues.

Business-Type Activities

Revenues of the District's business-type activities were \$834,028 and expenses were \$833,227. The District's business-type activities include the School Nutrition Fund and after school and summer child care programs. Revenues of these activities were comprised of charges for service, federal and state reimbursements, and investment income.

Financial Analysis of the District's Funds

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District ended 2006, its governmental funds reported combined unrestricted fund balances of \$5,476,773.

Governmental Fund Highlights

The General Fund balance increased for the fourth consecutive year, as noted in the financial highlights at the beginning of the MD&A. The capital projects fund balance decreased by almost \$3,000,000 as the high school addition nears completion. Other fund balances remained relatively unchanged.

Proprietary Fund Highlights

The School Nutrition fund net assets increased from \$83,845 in 2005 to \$92,529 in 2006. The district's After School Enterprise Fund (child care) net assets decreased from (\$20,045) in 2005 to (27,928) in 2006.

Budgetary Highlights

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

Legal Budgetary Highlights

The District's total actual revenues were \$258,676 greater than the total projected certified budget revenues.

Total expenditures were \$2,962,899 less than budgeted. Budgeted expenses were overstated due to uncertainties in cash flow planning for an approximately \$13,000,000 capital project. Also, it is the practice of the District to budget expenditures at the maximum authorized spending authority for all funds. The district controls spending through the line-item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2006 the District's governmental activities had invested \$18,659,584, net of accumulated depreciation of \$5,923,790, in a broad range of governmental capital assets, including land, buildings and building improvements, ground improvements, vehicles, and furniture. Business-type activities had invested \$49,443, net of accumulated depreciation of \$104,982, in capital assets. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$345,697 for governmental activities, and \$8,942 for business-type activities.

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

Significant capital assets activities include the purchase of one bus and retirement of another, and the increase of \$5,570,656 in construction in progress for the high school addition and renovation project currently in process.

Figure A-6

Capital Assets, net of Depreciation

	Governmental Activities	Business-type Activities	Total School District
Land	\$ 52,500	\$ 0	\$ 52,500
Buildings, incl. Construction in process	18,297,204	0	18,297,204
Improvements, other than buildings	90,584	0	90,584
Furniture and equipment	<u>219,296</u>	<u>49,443</u>	<u>268,739</u>
Total	<u>18,659,584</u>	<u>\$49,443</u>	<u>18,709,027</u>

Long-Term Liabilities

At June 30, 2006 the District had long-term liabilities totaling \$14,175,680 of which \$325,680 was for early retirement benefits and compensated absences, and \$13,850,000 was for general obligation and sales tax revenue bond debt. More detailed information is available in Note 6 to the financial statements.

Factors Bearing on the District's Future

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

- School Infrastructure Local Option Sales tax was first collected in Poweshiek County in 2003 and in Jasper County in 2004. Tax revenues are currently pledged for repayment of SILO debt incurred for construction and renovation projects at the high school. Actual receipts are currently significantly higher than original estimates.
- District enrollment for 2005-06 was 1751, an increase of 18 over the prior year. Enrollment decreased to 1736 students in 2006-07. Enrollment is projected to decline by 69 students over the coming five year period.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Don Longhurst, District Secretary/Business Manager, Grinnell-Newburg Community School District, 927 4th Avenue, Grinnell, Iowa 50112.

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Basic Financial Statements

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
June 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	\$ 8,198,311	\$ 93,527	\$ 8,291,838
Receivables:			
Property tax:			
Current year	64,883	-	64,883
Succeeding year	4,853,000	-	4,853,000
Income surtax	616,944	-	616,944
Accrued interest	11,632	276	11,908
Interfund receivable (payable)	27,559	(27,559)	-
Accounts	2,815	88	2,903
Due from other governments	280,258	-	280,258
Inventories	-	8,932	8,932
Capital assets, net of accumulated depreciation (note 5)	18,659,584	49,443	18,709,027
Total assets	32,714,986	124,707	32,839,693
Liabilities			
Accounts payable	558,618	457	559,075
Salaries and benefits payable	674,828	43,899	718,727
Accrued interest payable	147,245	-	147,245
Deferred revenue:			
Succeeding year property tax	4,853,000	-	4,853,000
Long-term liabilities (note 6):			
Portion due within one year:			
Early retirement	205,137	15,750	220,887
Bonds payable	1,080,000	-	1,080,000
Compensated absences	13,997	-	13,997
Portion due after one year:			
Early retirement	90,796	-	90,796
Bonds payable	12,770,000	-	12,770,000
Total liabilities	20,393,621	60,106	20,453,727

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
June 30, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 4,809,584	\$ 49,443	\$ 4,859,027
Restricted for:			
Physical plant and equipment levy	950,948	-	950,948
Other special revenue purposes	241,684	-	241,684
Debt service	516,101	-	516,101
Capital projects	2,910,212	-	2,910,212
Unrestricted	<u>2,892,836</u>	<u>15,158</u>	<u>2,907,994</u>
Total net assets	<u>\$ 12,321,365</u>	<u>\$ 64,601</u>	<u>\$ 12,385,966</u>

See notes to financial statements.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities:				
Instruction:	\$ 9,056,239	\$ 1,128,995	\$ 956,648	\$ -
Support services:				
Student services	382,760	28,225	90,194	-
Instructional staff services	421,309	-	105,661	-
Administration services	1,825,489	-	-	-
Operation and maintenance of plant services	1,453,937	-	-	-
Transportation services	514,552	24,471	8,300	-
	<u>4,598,047</u>	<u>52,696</u>	<u>204,155</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	16,648	-	-	2,014,440
Long-term debt interest and fiscal charges	521,770	-	-	-
AEA flowthrough	515,676	-	515,676	-
Depreciation (unallocated) *	283,791	-	-	-
	<u>1,337,885</u>	<u>-</u>	<u>515,676</u>	<u>2,014,440</u>
Total governmental activities	<u>14,992,171</u>	<u>1,181,691</u>	<u>1,676,479</u>	<u>2,014,440</u>
Business-Type Activities:				
Non-instructional programs:				
Food service operations	747,055	512,849	240,272	-
Daycare operations	86,172	78,289	-	-
	<u>833,227</u>	<u>591,138</u>	<u>240,272</u>	<u>-</u>
Total	<u>\$ 15,825,398</u>	<u>\$ 1,772,829</u>	<u>\$ 1,916,751</u>	<u>\$ 2,014,440</u>

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (6,970,596)	\$ -	\$ (6,970,596)
(264,341)	-	(264,341)
(315,648)	-	(315,648)
(1,825,489)	-	(1,825,489)
(1,453,937)	-	(1,453,937)
(481,781)	-	(481,781)
(4,341,196)	-	(4,341,196)
1,997,792	-	1,997,792
(521,770)	-	(521,770)
-	-	-
(283,791)	-	(283,791)
1,192,231	-	1,192,231
(10,119,561)	-	(10,119,561)
-	6,066	6,066
-	(7,883)	(7,883)
-	(1,817)	(1,817)
(10,119,561)	(1,817)	(10,121,378)

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Functions/Programs

General Revenues:

Property tax levied for:

General purposes

Debt service

Capital outlay

Income surtax

Local option sales and services tax

Unrestricted state grants

Unrestricted investment earnings

Other

Total general revenues

Change in net assets

Net assets beginning of year

Net assets end of year

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

See notes to financial statements.

Net (Expense) Revenue
and Changes in Net Assets

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>		<u>Total</u>
\$	4,693,630	\$ -	\$	4,693,630
	835,807	-		835,807
	156,216	-		156,216
	636,561	-		636,561
	1,018,526	-		1,018,526
	6,245,268	-		6,245,268
	305,191	2,618		307,809
	95,008	-		95,008
	<hr/> 13,986,207	2,618		<hr/> 13,988,825
	3,866,646	801		3,867,447
	<hr/> 8,454,719	63,800		<hr/> 8,518,519
\$	<u>12,321,365</u>	<u>\$ 64,601</u>	\$	<u>12,385,966</u>

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	General	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and pooled investments	\$ 2,997,394	\$ 276,947	\$ 3,717,331	\$ 1,206,639	\$ 8,198,311
Receivables:					
Property tax:					
Current year	47,753	9,304	-	7,826	64,883
Succeeding year	3,438,000	713,000	-	702,000	4,853,000
Income surtax	462,708	-	-	154,236	616,944
Accrued interest	7,143	470	1,259	2,760	11,632
Interfund receivable (note 3)	27,559	-	-	-	27,559
Accounts	2,815	-	-	-	2,815
Due from other governments	184,550	-	95,708	-	280,258
	<u>\$ 7,167,922</u>	<u>\$ 999,721</u>	<u>\$ 3,814,298</u>	<u>\$ 2,073,461</u>	<u>\$ 14,055,402</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 25,825	\$ 875	\$ 526,586	\$ 5,332	\$ 558,618
Salaries and benefits payable	674,828	-	-	-	674,828
Deferred revenue:					
Succeeding year property tax	3,438,000	713,000	-	702,000	4,853,000
Other	462,708	-	-	154,236	616,944
Total liabilities	<u>4,601,361</u>	<u>713,875</u>	<u>526,586</u>	<u>861,568</u>	<u>6,703,390</u>
Fund balance:					
Reserved for:					
Bond reserve funds	-	-	377,500	-	377,500
Debt service	-	285,846	-	-	285,846
Unreserved:					
Reported in nonmajor Special Revenue Funds	-	-	-	1,211,893	1,211,893
Undesignated	2,566,561	-	2,910,212	-	5,476,773
Total fund balances	<u>2,566,561</u>	<u>285,846</u>	<u>3,287,712</u>	<u>1,211,893</u>	<u>7,352,012</u>
Total liabilities and fund balances	<u>\$ 7,167,922</u>	<u>\$ 999,721</u>	<u>\$ 3,814,298</u>	<u>\$ 2,073,461</u>	<u>\$ 14,055,402</u>

See notes to financial statements.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 June 30, 2006

Total fund balances of governmental funds	\$ 7,352,012
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	18,659,584
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	616,944
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.	(147,245)
Long-term liabilities, including early retirement, bonds payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(14,159,930)</u>
Net assets of governmental activities	<u>\$ 12,321,365</u>

See notes to financial statements.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	General	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total
Revenues:					
Local sources:					
Local tax	\$ 4,624,624	\$ 835,234	\$ 1,018,526	\$ 840,138	\$ 7,318,522
Tuition	464,648	-	-	-	464,648
Other	304,744	10,731	2,194,302	612,903	3,122,680
State sources	7,331,447	574	-	505	7,332,526
Federal sources	602,424	-	-	-	602,424
Total revenues	<u>13,327,887</u>	<u>846,539</u>	<u>3,212,828</u>	<u>1,453,546</u>	<u>18,840,800</u>
Expenditures:					
Current:					
Instruction:	8,409,251	-	-	791,828	9,201,079
Support services:					
Student services	380,345	-	-	2,415	382,760
Instructional staff services	421,309	-	-	-	421,309
Administration services	1,669,822	-	-	159,524	1,829,346
Operation and maintenance of plant services	1,361,435	-	-	84,578	1,446,013
Transportation services	505,875	-	-	19,835	525,710
	<u>4,338,786</u>	<u>-</u>	<u>-</u>	<u>266,352</u>	<u>4,605,138</u>
Other expenditures:					
Facilities acquisition	-	-	5,570,657	50,821	5,621,478
Long term debt:					
Principal	-	895,000	-	-	895,000
Interest and fiscal charges	-	532,077	-	-	532,077
AEA flowthrough	515,676	-	-	-	515,676
	<u>515,676</u>	<u>1,427,077</u>	<u>5,570,657</u>	<u>50,821</u>	<u>7,564,231</u>
Total expenditures	<u>13,263,713</u>	<u>1,427,077</u>	<u>5,570,657</u>	<u>1,109,001</u>	<u>21,370,448</u>
Excess (deficiency) of revenues over (under) expenditures	<u>64,174</u>	<u>(580,538)</u>	<u>(2,357,829)</u>	<u>344,545</u>	<u>(2,529,648)</u>

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Other financing sources (uses):					
Interfund transfers in (note 4)	\$ -	\$ 592,627	\$ -	\$ -	\$ 592,627
Interfund transfers out (note 4)	-	-	(592,627)	-	(592,627)
Total other financing sources (uses)	-	592,627	(592,627)	-	-
Net change in fund balances	64,174	12,089	(2,950,456)	344,545	(2,529,648)
Fund balances beginning of year	2,502,387	273,757	6,238,168	867,348	9,881,660
Fund balances end of year	<u>\$ 2,566,561</u>	<u>\$ 285,846</u>	<u>\$ 3,287,712</u>	<u>\$ 1,211,893</u>	<u>\$ 7,352,012</u>

See notes to financial statements.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

Net change in fund balances - total governmental funds \$ (2,529,648)

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:

Expenditures for capital assets	\$ 5,659,027	
Depreciation expense	<u>(345,697)</u>	5,313,330

Income surtax revenue not received until several months after the District's fiscal year ends is not considered available revenue in the governmental funds and is deferred. It is, however, recorded as revenue in the Statement of Activities. 18,017

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 895,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 10,307

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 159,640

Change in net assets of governmental activities \$ 3,866,646

See notes to financial statements.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2006

	<u>School Nutrition</u>	<u>Nonmajor Enterprise</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 93,527	\$ -	\$ 93,527
Receivables:			
Accrued interest	276	-	276
Accounts receivable	-	88	88
Inventories	8,932	-	8,932
Capital assets, net of accumulated depreciation	49,443	-	49,443
Total assets	<u>152,178</u>	<u>88</u>	<u>152,266</u>
Liabilities			
Accounts payable	-	457	457
Salaries and benefits payable	43,899	-	43,899
Interfund payable (note 3)	-	27,559	27,559
Long-term liabilities (note 6):			
Portion due within one year:			
Early retirement	15,750	-	15,750
Total liabilities	<u>59,649</u>	<u>28,016</u>	<u>87,665</u>
Net Assets			
Invested in capital assets	49,443	-	49,443
Unrestricted	43,086	(27,928)	15,158
Total net assets	<u>\$ 92,529</u>	<u>\$ (27,928)</u>	<u>\$ 64,601</u>

See notes to financial statements.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
Year Ended June 30, 2006

	<u>School Nutrition</u>	<u>Nonmajor Enterprise</u>	<u>Total</u>
Operating revenues:			
Local sources:			
Charges for services	\$ 512,849	\$ 78,289	\$ 591,138
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries	290,886	66,643	357,529
Benefits	88,070	8,444	96,514
Purchased services	9,873	4,931	14,804
Supplies	349,284	6,154	355,438
Depreciation	8,942	-	8,942
	<u>747,055</u>	<u>86,172</u>	<u>833,227</u>
Operating loss	<u>(234,206)</u>	<u>(7,883)</u>	<u>(242,089)</u>
Non-operating revenues:			
Interest on investments	2,618	-	2,618
State sources	7,799	-	7,799
Federal sources	232,473	-	232,473
Total non-operating revenues	<u>242,890</u>	<u>-</u>	<u>242,890</u>
Change in net assets	8,684	(7,883)	801
Net assets beginning of year	<u>83,845</u>	<u>(20,045)</u>	<u>63,800</u>
Net assets end of year	<u>\$ 92,529</u>	<u>\$ (27,928)</u>	<u>\$ 64,601</u>

See notes to financial statements.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2006

	School Nutrition	Nonmajor Enterprise	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 507,575	\$ -	\$ 507,575
Cash received from miscellaneous operating activities	5,804	78,289	84,093
Cash payments to employees for services	(384,779)	(78,980)	(463,759)
Cash payments to suppliers for goods or services	(333,857)	(10,880)	(344,737)
Net cash used in operating activities	<u>(205,257)</u>	<u>(11,571)</u>	<u>(216,828)</u>
Cash flows from non-capital financing activities:			
State grants received	7,799	-	7,799
Federal grants received	208,989	-	208,989
Increase in amounts due to other funds	-	11,571	11,571
Net cash provided by non-capital financing activities	<u>216,788</u>	<u>11,571</u>	<u>228,359</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	<u>(21,178)</u>	-	<u>(21,178)</u>
Cash flows from investing activities:			
Interest on investments	<u>2,395</u>	-	<u>2,395</u>
Net decrease in cash and cash equivalents	(7,252)	-	(7,252)
Cash and cash equivalents beginning of year	<u>100,779</u>	-	<u>100,779</u>
Cash and cash equivalents end of year	<u>\$ 93,527</u>	<u>\$ -</u>	<u>\$ 93,527</u>

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2006

	<u>School Nutrition</u>	<u>Nonmajor Enterprise</u>	<u>Total</u>
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	\$ (234,206)	\$ (7,883)	\$ (242,089)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation	8,942	-	8,942
Commodities used	27,626	-	27,626
(Increase) decrease in accounts receivable	530	(88)	442
Decrease in inventories	1,246	-	1,246
Increase (decrease) in accounts payable	(3,572)	293	(3,279)
(Decrease) in salaries and benefits payable	(3,051)	(3,893)	(6,944)
(Decrease) in early retirement payable	(2,772)	-	(2,772)
Net cash used in operating activities	<u>\$ (205,257)</u>	<u>\$ (11,571)</u>	<u>\$ (216,828)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received \$27,626 of federal commodities.

See notes to financial statements.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2006

	Private Purpose Trust	<u>Scholarship</u>
Assets:		
Cash and pooled investments	\$ 568,022	
Accrued interest receivable		<u>174</u>
Total assets		<u>568,196</u>
Liabilities:		
None		<u>-</u>
Net assets:		
Reserved for scholarships	\$	<u><u>568,196</u></u>

See notes to financial statements.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 Year Ended June 30, 2006

	<u>Private Purpose Trust</u>	<u>Scholarship</u>
Additions:		
Local sources:		
Gifts and contributions	\$ 2,947	
Interest	<u>22,529</u>	
Total additions		<u>25,476</u>
Deductions:		
Support services:		
Scholarships awarded		<u>37,700</u>
Change in net assets	(12,224)	
Net assets beginning of year		<u>580,420</u>
Net assets end of year	\$	<u><u>568,196</u></u>
See notes to financial statements.		

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies

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

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

A. Reporting Entity

For financial reporting purposes, Grinnell-Newburg Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. Grinnell-Newburg Community School District has 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 does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Poweshiek County Assessor's Conference Board.

B. Basis of Presentation

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

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

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt 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.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

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

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

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

The District reports the following major governmental funds:

The General Fund is the 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 expenses, including instructional, support and other costs.

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

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

The District reports the following major proprietary fund:

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

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

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

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the statement of net assets and the balance sheet:

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Current year property tax receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget 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 District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 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.

Interfund receivables and payables – During the course of its operations the District has transactions between funds. To the extent certain transactions between funds had not been repaid as of June 30, 2006, balances of interfund accounts receivable and payable have been recorded in the fund financial statements. These balances are eliminated on the face of the government-wide statement of net assets.

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

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

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

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

Asset Class	Amount
Land	\$ 5,000
Buildings	20,000
Improvements other than buildings	20,000
Furniture and equipment:	
School Nutrition Fund Equipment	500
Other furniture and equipment	5,000

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

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

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

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

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the District-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

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

E. Budgets and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted in any of the four functional areas.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 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.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 2. Cash and Pooled Investments (continued)

At June 30, 2006, the District had investments as follows:

	<u>Fair Value</u>
Goldman Sachs Financial Square Treasury Obligations Fund	\$ <u>181,733</u>

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

Credit Risk – The investment in the Goldman Sachs Financial Square Treasury Obligation Fund were rated Aaa by Moody’s Investors Service.

Note 3. Interfund Receivables/Payables

The detail of interfund receivables and payables at June 30, 2006 is as follows:

<u>Due to</u>	<u>Due from</u>	<u>Amount</u>
General Fund	Enterprise Fund, Daycare	\$ <u>27,559</u>

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

Note 4. Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital projects	\$ <u>592,627</u>

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

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 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
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 52,500	\$ -	\$ -	\$ 52,500
Construction in progress	5,064,444	5,570,657	-	10,635,101
Total capital assets not being depreciated	<u>5,116,944</u>	<u>5,570,657</u>	<u>-</u>	<u>10,687,601</u>
Capital assets being depreciated:				
Buildings	12,675,902	34,173	-	12,710,075
Improvements other than buildings	129,307	-	-	129,307
Furniture and equipment	1,030,255	54,197	28,061	1,056,391
Total capital assets being depreciated	<u>13,835,464</u>	<u>88,370</u>	<u>28,061</u>	<u>13,895,773</u>
Less accumulated depreciation for:				
Buildings	4,768,396	279,576	-	5,047,972
Improvements other than buildings	34,508	4,215	-	38,723
Furniture and equipment	803,250	61,906	28,061	837,095
Total accumulated depreciation	<u>5,606,154</u>	<u>345,697</u>	<u>28,061</u>	<u>5,923,790</u>
Total capital assets being depreciated, net	<u>8,229,310</u>	<u>(257,327)</u>	<u>-</u>	<u>7,971,983</u>
Governmental activities capital assets, net	<u>\$ 13,346,254</u>	<u>\$ 5,313,330</u>	<u>\$ -</u>	<u>\$ 18,659,584</u>

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 5. Capital Assets (continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	\$ 133,247	\$ 21,178	\$ -	\$ 154,425
Less accumulated depreciation	96,040	8,942	-	104,982
Business-type activities capital assets, net	<u>\$ 37,207</u>	<u>\$ 12,236</u>	<u>\$ -</u>	<u>\$ 49,443</u>

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

Governmental activities:	
Support services:	
Administration	\$ 10,943
Operation and maintenance of plant services	7,924
Transportation	43,039
	<u>61,906</u>
Unallocated depreciation	<u>283,791</u>
Total governmental activities depreciation expense	<u>\$ 345,697</u>
Business-type activities:	
Food service operations	<u>\$ 8,942</u>

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 6. Long-Term Liabilities

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

	Early Retirement, Governmental Activities	Early Retirement, Business-Type Activities	General Obligation Bonds	School Infrastructure Sales and Services Tax Revenue Bonds	Compensated Absences	Total
Balance beginning of year	\$ 469,570	\$ 18,522	\$ 8,630,000	\$ 6,115,000	\$ -	\$ 15,233,092
Additions	109,533	13,950	-	-	13,997	137,480
Reductions	283,170	16,722	530,000	365,000	-	1,194,892
Balance end of year	<u>\$ 295,933</u>	<u>\$ 15,750</u>	<u>\$ 8,100,000</u>	<u>\$ 5,750,000</u>	<u>\$ 13,997</u>	<u>\$ 14,175,680</u>
Due within one year	<u>\$ 205,137</u>	<u>\$ 15,750</u>	<u>\$ 545,000</u>	<u>\$ 535,000</u>	<u>\$ 13,997</u>	<u>\$ 1,314,884</u>

Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must be at least age fifty-five and must have completed ten years of service and continuously worked a minimum of the most previous five years for the District. Employees must complete an application which is required to be approved by the Board of Education. Early retirement incentives are based on a salary and length of service for certified employees and length of service for support employees.

At June 30, 2006, the District's Governmental Activities had obligations to 23 participants with a total liability of \$295,933, and the District's Business-type Activities had obligations to 2 participants with a total liability of \$15,750. The District paid early retirement benefits totaling \$283,170 for governmental activities and \$16,722 for business-type activities during the year ended June 30, 2006. Early retirement is recorded as a long-term liability of the Governmental Activities and Business-type Activities in the District-wide financial statements.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 6. Long-Term Liabilities (continued)

Bonds Payable

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

Year Ending June 30,	General Obligation Refunding Bonds Issue dated October 1, 2002		
	Interest Rate	Principal	Interest
2007	2.50-2.75 %	\$ 375,000	\$ 136,688
2008	2.75-3.00	400,000	126,250
2009	3.00-3.10	400,000	114,500
2010	3.10-3.25	400,000	102,200
2011	3.25-3.35	400,000	89,350
2012	3.35-3.45	400,000	76,050
2013	3.45-3.60	400,000	62,350
2014	3.60-3.75	430,000	48,100
2015	3.75-3.875	450,000	31,656
2016	3.875-4.00	475,000	14,359
2017	-	-	-
2018	-	-	-
2019	-	-	-
2020	-	-	-
2021	-	-	-
2022	-	-	-
2023	-	-	-
		<u>\$ 4,130,000</u>	<u>\$ 801,503</u>

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 6. Long-Term Liabilities (continued)

Bonds Payable (continued)

Year Ending June 30,	General Obligation Bond Issue dated November 1, 2003				Total	
	Interest	Principal	Interest	Principal	Interest	
	Rate					
2007	2.00 %	\$ 170,000	\$ 152,280	\$ 545,000	\$ 288,968	
2008	2.30	160,000	148,880	560,000	275,130	
2009	2.65	170,000	145,200	570,000	259,700	
2010	3.00	185,000	140,696	585,000	242,896	
2011	3.35	190,000	135,146	590,000	224,496	
2012	3.55	205,000	128,780	605,000	204,830	
2013	3.70	225,000	121,502	625,000	183,852	
2014	3.85	220,000	113,178	650,000	161,278	
2015	3.90	230,000	104,708	680,000	136,364	
2016	3.95	235,000	95,738	710,000	110,097	
2017	4.05	250,000	86,456	250,000	86,456	
2018	4.15	260,000	76,330	260,000	76,330	
2019	4.25	270,000	65,540	270,000	65,540	
2020	4.35	280,000	54,066	280,000	54,066	
2021	4.45	295,000	41,866	295,000	41,866	
2022	4.55	305,000	28,758	305,000	28,758	
2023	4.65	320,000	14,880	320,000	14,880	
		<u>\$ 3,970,000</u>	<u>\$ 1,654,004</u>	<u>\$ 8,100,000</u>	<u>\$ 2,455,507</u>	

During the year ended June 30, 2006, the District retired \$530,000 in general obligation bonds.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 6. Long-Term Liabilities (continued)

Bonds Payable (continued)

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

Year Ending June 30,	School Infrastructure Local Option Sales and Services Tax Revenue Bonds Issue dated September 1, 2002			School Infrastructure Sales and Services Tax Revenue Bonds Issue dated December 1, 2003		
	Interest Rate	Principal	Interest	Interest Rate	Principal	Interest
	2007	3.50 %	\$ 100,000	\$ 27,600	3.25 %	\$ 275,000
2008	3.75	100,000	24,100	3.50	290,000	75,355
2009	4.00	100,000	20,350	3.75	300,000	65,205
2010	4.00	100,000	16,350	4.00	315,000	53,955
2011	4.05	100,000	12,350	3.80	335,000	41,355
2012	4.10	100,000	8,300	3.95	350,000	28,623
2013	4.20	100,000	4,200	4.00	370,000	14,800
		<u>\$ 700,000</u>	<u>\$ 113,250</u>		<u>\$ 2,235,000</u>	<u>\$ 363,586</u>

Year Ending June 30,	Subordinate School Infrastructure Local Option Sales and Services Tax Revenue Bonds Issue dated February 1, 2005			Total	
	Interest Rate	Principal	Interest	Principal	Interest
	2007	3.125 %	\$ 160,000	\$ 103,505	\$ 535,000
2008	3.300	495,000	98,436	885,000	197,891
2009	3.500	575,000	82,098	975,000	167,653
2010	3.700	500,000	61,470	915,000	131,775
2011	3.800	465,000	42,713	900,000	96,418
2012	3.900	435,000	24,797	885,000	61,720
2013	4.050	185,000	7,617	655,000	26,617
		<u>\$ 2,815,000</u>	<u>\$ 420,636</u>	<u>\$ 5,750,000</u>	<u>\$ 897,472</u>

During the year ended June 30, 2006, the District retired \$365,000 in revenue bonded indebtedness.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 6. Long-Term Liabilities (continued)

Bonds Payable (continued)

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

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

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

Note 7. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$471,101, \$460,503, and \$471,163 respectively, equal to the required contributions for each year.

Note 8. Risk Management

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

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 8. Risk Management (continued)

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

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2006 were \$1,668,094.

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

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

Note 9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$515,676 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.

Note 10. Construction Commitments

The District entered into a contract totaling \$494,900 for a high school roof project. In addition, the District had \$6,316,878 in carryover contracts from the prior year, including change orders. As of June 30, 2006, costs of \$5,035,189 had been incurred against the contracts. The balance of \$1,776,589 remaining at June 30, 2006 will be paid as work on the project progresses.

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Required Supplementary Information

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances –
 Budget and Actual (Cash Basis) – All Governmental Funds
 and Proprietary Fund
 Required Supplementary Information
 Year Ended June 30, 2006

	Governmental Funds - Actual	Proprietary Fund - Actual	Total Actual	Budgeted Amounts Original and Final	Final to Actual Variance
RECEIPTS:					
Local sources	\$ 11,162,672	\$ 594,063	\$ 11,756,735	\$ 11,014,919	\$ 741,816
State sources	7,327,352	7,799	7,335,151	7,412,115	(76,964)
Federal sources	542,209	236,615	778,824	1,185,000	(406,176)
Total receipts	19,032,233	838,477	19,870,710	19,612,034	258,676
DISBURSEMENTS:					
Instruction	9,428,315	-	9,428,315	10,096,000	667,685
Support services	4,494,254	-	4,494,254	4,654,000	159,746
Non-instructional programs	-	857,300	857,300	894,000	36,700
Other expenditures	7,858,224	-	7,858,224	9,956,992	2,098,768
Total disbursements	21,780,793	857,300	22,638,093	25,600,992	2,962,899
Excess (deficiency) of receipts over (under) disbursements	(2,748,560)	(18,823)	(2,767,383)	(5,988,958)	3,221,575
Other financing sources, net	-	-	-	5,303	(5,303)
Excess (deficiency) of receipts and other financing sources over (under) disbursements	(2,748,560)	(18,823)	(2,767,383)	(5,983,655)	3,216,272
Balance beginning of year	10,974,430	84,791	11,059,221	9,463,107	1,596,114
Balance end of year	\$ <u>8,225,870</u>	\$ <u>65,968</u>	\$ <u>8,291,838</u>	\$ <u>3,479,452</u>	\$ <u>4,812,386</u>

See accompanying independent auditor's report.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule – Budget to GAAP Reconciliation
 Required Supplementary Information
 Year Ended June 30, 2006

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 19,032,233	\$ (191,433)	\$ 18,840,800
Expenditures	21,780,793	(410,345)	21,370,448
Net	(2,748,560)	218,912	(2,529,648)
Other financing sources (uses)	-	-	-
Beginning fund balances	10,974,430	(1,092,770)	9,881,660
Ending fund balances	<u>\$ 8,225,870</u>	<u>\$ (873,858)</u>	<u>\$ 7,352,012</u>

	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 838,477	\$ (4,449)	\$ 834,028
Expenses	857,300	(24,073)	833,227
Net	(18,823)	19,624	801
Beginning net assets	84,791	(20,991)	63,800
Ending net assets	<u>\$ 65,968</u>	<u>\$ (1,367)</u>	<u>\$ 64,601</u>

See accompanying independent auditor's report.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
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 comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except internal service, private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

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

During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted in any of the four functions.

Other Supplementary Information

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2006

	Special Revenue			
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Total
Assets				
Cash and pooled investments	\$ 167,766	\$ 240,984	\$ 797,889	\$ 1,206,639
Receivables:				
Property tax:				
Current year	6,076	-	1,750	7,826
Succeeding year	471,000	-	231,000	702,000
Income surtax	-	-	154,236	154,236
Accrued interest	382	700	1,678	2,760
Total assets	<u>\$ 645,224</u>	<u>\$ 241,684</u>	<u>\$ 1,186,553</u>	<u>\$ 2,073,461</u>
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	\$ 727	\$ -	\$ 4,605	\$ 5,332
Deferred revenue:				
Succeeding year property tax	471,000	-	231,000	702,000
Other	-	-	154,236	154,236
Total liabilities	<u>471,727</u>	<u>-</u>	<u>389,841</u>	<u>861,568</u>
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	<u>173,497</u>	<u>241,684</u>	<u>796,712</u>	<u>1,211,893</u>
Total liabilities and fund equity	<u>\$ 645,224</u>	<u>\$ 241,684</u>	<u>\$ 1,186,553</u>	<u>\$ 2,073,461</u>

See accompanying independent auditor's report.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 Year Ended June 30, 2006

	Special Revenue			Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	
Revenues:				
Local sources:				
Local tax	\$ 529,393	\$ -	\$ 310,745	\$ 840,138
Other	9,773	589,321	13,809	612,903
State sources	397	-	108	505
Total revenues	539,563	589,321	324,662	1,453,546
Expenditures:				
Current:				
Instruction	248,423	543,405	-	791,828
Support services:				
Student services	2,415	-	-	2,415
Administration services	159,524	-	-	159,524
Operation and maintenance of plant services	84,578	-	-	84,578
Transportation services	19,835	-	-	19,835
Other expenditures:				
Facilities acquisition	-	-	50,821	50,821
Total expenditures	514,775	543,405	50,821	1,109,001
Excess (deficiency) of revenues over (under) expenditures	24,788	45,916	273,841	344,545
Fund balances beginning of year	148,709	195,768	522,871	867,348
Fund balances end of year	\$ 173,497	\$ 241,684	\$ 796,712	\$ 1,211,893

See accompanying independent auditor's report.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
District-Wide:				
Choir Robes	\$ 1,332	\$ 920	\$ 1,179	\$ 1,073
Gifts and Donations	5,000	-	-	5,000
Student Activities	6,573	7,018	1,316	12,275
Pop Machine	(375)	261	583	(697)
Fine Arts	2,836	21,145	16,129	7,852
High School:				
Plays and Productions	(684)	11,757	12,330	(1,257)
Curtain Club	2,942	7,307	9,976	273
Speech	(750)	1,800	1,378	(328)
Vocal Music	2,722	3,944	5,300	1,366
Music Trip	3	-	-	3
Band	940	5,031	5,791	180
Band Trip	121	57,571	15,874	41,818
Band Uniforms	500	1,060	1,047	513
Coaches Club	(121)	1,300	838	341
Wellness Equip Fund	15,980	1,380	7,310	10,050
Track Club	1,309	3,687	3,172	1,824
Cross Country	102	1,281	1,092	291
Weightlifting Club	5,105	20,654	22,889	2,870
Boys Basketball	4,294	6,586	6,145	4,735
Boys Soccer	3,796	1,285	3,266	1,815
Boys Golf	3,026	4,933	5,440	2,519
Boys Swimming	-	-	55	(55)
Girls Basketball	2,423	3,838	3,174	3,087
Girls Soccer	2,629	3,406	2,872	3,163
Softball	5,942	2,233	3,413	4,762
Girls Swimming	600	4,243	4,432	411
Special Ed	104	151	151	104
Partners	6,776	8,683	10,984	4,475
Art Club	1,501	2,312	2,799	1,014
Chess Club	(42)	-	-	(42)
Cheerleaders	1,751	6,618	7,354	1,015
Graduates	1,359	-	-	1,359
Freshman Class	-	800	-	800
Sophomore Class	500	-	-	500
Junior Class	500	3,407	3,961	(54)
Senior Class	231	-	-	231
Debate	(341)	750	401	8
FFA	1,081	9,988	9,132	1,937
Tiger Paws	180	8,128	7,273	1,035

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
High School (continued):				
Social Studies Trip	\$ (321)	\$ -	\$ -	(321)
A.I.A.S.A.	290	-	-	290
International Club	353	10	62	301
Model U.N.	376	516	817	75
National Honor Society	24	810	702	132
Pep Club	(1,469)	-	-	(1,469)
Science Club	128	-	-	128
Spanish Club	3,803	3,175	4,155	2,823
Student Council	2,525	3,719	3,588	2,656
S.A.D.D.	650	163	338	475
Diversity Alliance	(22)	207	47	138
Mock Trial	307	-	-	307
Snack Bar	4,057	12,974	7,586	9,445
Locker Pop Machine	74	-	-	74
Yearbook	(50,131)	24,561	26,604	(52,174)
Library	971	19	729	261
Baseball Club	2,215	4,232	1,329	5,118
Boys Tennis Club	84	394	453	25
Wrestling Club	504	10,073	7,463	3,114
Volleyball Club	2,875	10,370	9,251	3,994
Girls Tennis Club	246	1,092	1,077	261
Girls Golf Club	(62)	500	-	438
Student Activities	1,936	6,150	4,396	3,690
Landscaping Fund	1,000	-	-	1,000
Building Fund - Bricks	14,000	4,150	18,263	(113)
Building Fund - Aud Seat	22,504	6,500	4,424	24,580
High School Athletics	50,811	149,272	138,932	61,151
Middle School:				
Plays and Productions	1,100	752	748	1,104
Vocal Music	889	-	56	833
Band	2,886	5,626	6,907	1,605
Video Club	31	-	-	31
Chess Club	778	-	-	778
Campout	(73)	380	260	47
Camp Grinnell	1,690	300	-	1,990
Science Club	418	525	207	736
Prairie Project	107	-	-	107
Student Council	14,503	46,324	42,248	18,579
S.A.D.D.	200	-	-	200
D.A.R.E.	4,573	-	661	3,912

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Middle School (continued):				
Just Say No	\$ (126)	\$ 1,769	\$ 1,729	\$ (86)
Emergency Fund	172	-	-	172
Student Publication	304	-	-	304
Library	3,877	9,611	9,488	4,000
Student Activities	2,153	4,956	4,271	2,838
Principal's Account	7,574	3,478	6,046	5,006
PTO	1,078	924	490	1,512
Middle School Athletics	3,738	27,391	30,821	308
Bailey Park Elementary:				
Elementary IBI	65	-	-	65
Youth Garden	1,036	-	267	769
Library	1,575	4,097	3,516	2,156
Student Activities	1,219	1,045	1,118	1,146
Principal's Account	(141)	511	362	8
Gifts and Donations	376	2,299	1,354	1,321
Davis Elementary:				
Just Say No	250	-	-	250
Emergency Fund	255	-	-	255
Adopt-A-Grandparent	1,103	-	-	1,103
Davis School Store	47	1,284	2,336	(1,005)
Library	1,887	7,080	6,881	2,086
Student Activities	1,765	4,678	3,924	2,519
Fairview Elementary:				
Library	981	6,341	5,129	2,193
Student Activities	1,300	2,786	2,727	1,359
Principal's Account	(112)	-	50	(162)
Gifts and Donations	717	4,800	4,537	980
Total	\$ 195,768	\$ 589,321	\$ 543,405	\$ 241,684

See accompanying independent auditor's report.

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

ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	Modified Accrual Basis Years Ended June 30,			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 7,318,522	\$ 7,390,222	\$ 6,208,776	\$ 5,967,082
Tuition	464,648	325,740	373,674	290,609
Other	3,122,680	961,617	1,350,233	926,377
Intermediate sources	-	-	9,000	19,986
State sources	7,332,526	7,284,851	6,982,825	7,993,539
Federal sources	602,424	847,351	1,159,702	1,187,926
Total revenues	\$ 18,840,800	\$ 16,809,781	\$ 16,084,210	\$ 16,385,519
Expenditures:				
Instruction	\$ 9,201,079	\$ 8,831,816	\$ 9,241,648	\$ 9,742,642
Support services:				
Student services	382,760	393,872	427,579	461,110
Instructional staff services	421,309	332,472	364,838	397,889
Administration services	1,829,346	1,498,438	1,434,235	1,333,321
Operation and maintenance of plant services	1,446,013	1,268,503	1,182,495	1,195,535
Transportation services	525,710	489,462	432,459	364,561
Non-instructional programs	-	-	66,468	-
Other expenditures:				
Facilities acquisition	5,621,478	3,885,846	1,664,984	1,645,511
Long-term debt:				
Principal	895,000	795,000	435,000	5,345,000
Interest and fiscal charges	532,077	455,785	262,353	695,103
AEA flowthrough	515,676	513,154	511,812	533,451
Total expenditures	\$ 21,370,448	\$ 18,464,348	\$ 16,023,871	\$ 21,714,123

See accompanying independent auditor's report.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2006

Grantor / Program	CFDA Number	Grant Number	Expenditures
Direct:			
U. S. Department of Education:			
Fund for the Improvement of Education	84.215	FY 06	\$ <u>162,748</u>
Safe and Drug-Free Schools and Communities - National Programs	84.184	FY 06	<u>67,888</u>
Total direct			<u>230,636</u>
Indirect:			
U. S. Department of Agriculture:			
Iowa Department of Education:			
Food Donation (non-cash)	10.550	FY 06	<u>27,626</u>
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY 06	34,176
National School Lunch Program	10.555	FY 06	168,016
Summer Food Service Program for Children	10.559	FY 06	2,655
			<u>204,847</u>
			<u>232,473</u>
U. S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	2709-G-06	<u>163,134</u>
State Grants for Innovative Programs	84.298	FY 06	<u>4,140</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 06	<u>15,701</u>
Improving Teacher Quality State Grants	84.367	FY 06	<u>62,045</u>
Grants for State Assessments and Related Activities	84.369	FY 06	<u>10,374</u>
			<u>255,394</u>
Area Education Agency #267:			
Special Education - Grants to States	84.027	FY 06	<u>90,813</u>
Vocational Education - Basic Grants to States	84.048	FY 06	<u>19,495</u>
			<u>110,308</u>
Total indirect			<u>598,175</u>
Total			<u>\$ <u>828,811</u></u>

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2006

Basis of Presentation –

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

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

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

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

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

Compliance and Other Matters

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

Comments involving statutory and other legal matters about Grinnell-Newburg Community School District's operations for the year ended June 30, 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 Grinnell-Newburg Community School District and other parties to whom Grinnell-Newburg Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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

Oskaloosa, Iowa
October 10, 2006

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

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

Compliance

We have audited the compliance of Grinnell-Newburg Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Grinnell-Newburg Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Grinnell-Newburg Community School District's management. Our responsibility is to express an opinion on Grinnell-Newburg Community School District's compliance based on our audit.

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

In our opinion, Grinnell-Newburg Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

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

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

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-A-06 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Grinnell-Newburg Community School District and other parties to whom Grinnell-Newburg Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Oskaloosa, Iowa
October 10, 2006

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.010 – Title I Grants to Local Educational Agencies
 - CFDA Number 84.367 – Improving Teacher Quality State Grants
 - Clustered programs:
 - CFDA Number 10.553 – School Breakfast Program
 - CFDA Number 10.555 – National School Lunch Program
 - CFDA Number 10.559 – Summer Food Service Program for Children
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Grinnell-Newburg Community School District did not qualify a low-risk auditee.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

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

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

II-A-06 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person. In addition, processing vouchers, recording disbursements, and preparing checks are all done by the same person.

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

Response – We will consider this. The reconciliation is now prepared by a person only marginally involved in cash receipting and disbursing. Additionally, the District secretary reviews reconciliations and warrants paid, and compares actual receipts to expected receipts.

Conclusion – Response accepted.

II-B-06 Activity Gate Admissions - Football and other activity gate admissions and the change box were not reconciled with prenumbered tickets. In addition, we noted that the District requires no reconciliations for fundraising activities in relation to the Special Revenue, Student Activity Fund.

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

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

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

II-C-06 Disbursement Approval – We noted that the Board does not approve any disbursements made from the Special Revenue, Student Activity Fund and all Enterprise Funds.

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

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

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

Reportable Conditions (continued):

II-C-06 Disbursement Approval (continued)

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

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

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

Conclusion – Response accepted.

II-D-06 Authorized Check Signers – We noted in our confirmations of personnel approved to sign District checks that two former Board Presidents were still authorized as check signers and the current Board President signs checks but is not an authorized signer with the bank.

Recommendation – The District should update the authorized signature records on all accounts and maintain these records in the future.

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

Conclusion – Response accepted.

II-E-06 Disbursement Support – We noted two disbursements out of 41 tested that had no supporting invoice or other documentation indicating the purpose for the disbursement. We obtained invoices for those disbursements upon request of the vendor at the time of the audit. We also noted an employee reimbursement that had no support documentation for airfare paid or meals, and an employee was reimbursed twice for the same purchase.

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

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

Conclusion – Response accepted.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

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

Reportable Conditions (continued):

II-F-06 Revenues Netted to Expenditures – We noted three receipts out of 24 tested that were coded to an expenditure account when recorded by the District.

Recommendation – This practice bypasses the budgeting process by understating expenditures. All receipts in the future should be properly recorded as revenues.

Response – We will avoid this practice in the future and properly record all receipts as revenue.

Conclusion – Response accepted.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

Part III: Findings and Questioned Costs for Federal Awards

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

CFDA Number 10.553: School Breakfast Program and
CFDA Number 10.555: National School Lunch Program
CFDA Number 10.559: Summer Food Service Program for Children
Federal Award Year: 2006
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Educational Agencies
Agency Numbers: 9996 and 9997
Federal Award Year: 2006
U.S. Department of Education
Passed through the Iowa Department of Education

CFDA Number 84.367: Improving Teacher Quality State Grants
Federal Award Year: 2006
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-06 Segregation of Duties – One important aspect of the internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

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

Conclusion – Response accepted.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

Part IV: Other Findings Related to Statutory Reporting:

IV-A-06 Certified Budget – Disbursements for the year ended June 30, 2006, did not exceed the amount budgeted in any of the four functional areas.

IV-B-06 Questionable Expenditures – No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

IV-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.

IV-D-06 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>
Kevin Kolbe, Board Vice President	Officiating	\$ 270

In accordance with an Attorney General’s opinion dated November 9, 1976, the transaction with the Board Vice President does not appear to represent a conflict of interest.

IV-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.

IV-F-06 Board Minutes – Except as noted in comment II-C-06, no transactions requiring Board approval which had not been approved by the Board were noted.

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

IV-H-06 Deposits and Investments – Except as previously noted, no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa were noted. However, the District had investments in a money market mutual fund which is unallowed by the District’s investment policy.

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

Response – We are in the process of adopting a new policy for fiscal year 2007.

Conclusion – Response accepted.

IV-I-06 Certified Annual Report – The Certified Annual Report was certified to the Iowa Department of Education timely and we noted no significant deficiencies in the amounts reported.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

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

IV-J-06 Deficit Balances – Several student activity accounts within the Special Revenue, Student Activity Fund had deficit balances at June 30, 2006. In addition, the Enterprise, Daycare Fund had a deficit balance of \$27,928.

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

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

Conclusion – Response accepted.

IV-K-06 Special Revenue, Student Activity Fund – The Special Revenue, Student Activity Fund should account only for the cocurricular activities of students not directly related to instructional programs or related expenditures. We noted several non-cocurricular accounts being accounted for in this fund, including accounts for library, wellness, building fund donations, special education instruction and landscaping expenditures. We also noted that parent-teacher organizations funds are accounted for, which should be independent of the District's records.

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

Response – We will consider this recommendation.

Conclusion – Response accepted.

IV-L-06 School Meal Program – We noted in our testing of meal reimbursement claims for the District's free and reduced price meal programs that the claim for one month was overstated by 560 meals, for a total monetary overclaim of \$588 federal monies and \$21 state monies.

Recommendation – The District should have procedures in place to insure that all meal claims are accurate. The District should contact the Iowa Department of Education to resolve this matter.

Response – We will insure the accuracy of all meal reimbursement claims in the future, and we will contact the Department of Education as required.

Conclusion – Response accepted.

GRINNELL-NEWBURG COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

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

- IV-M-06 District Policies – We noted in our testing of capital assets and other disbursements that the District has no policies controlling capital assets or credit cards. In addition, the District’s disbursement policy does not include a requirement for Board approval of Special Revenue, Student Activity Fund or Enterprise Fund disbursements, as previously noted.

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

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

Conclusion – Response accepted.

- IV-N-06 Public Funds Custodial Agreement – Chapter 12B.10C of the Code of Iowa requires that the District have a custody agreement for all accounts with a “sweep” type arrangement whereby all funds in the account are swept out at night for investment in higher interest rate securities by the bank holding the account, then swept back into the District’s account at the beginning of the next business day. The District has one bank account with this type of arrangement but does not have the required custodial agreement.

Recommendation – The District should obtain the proper custodial agreement to comply with the Code of Iowa and to protect the underlying asset.

Response – We will obtain the proper custodial agreement as required.

Conclusion – Response accepted.