

GLAVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT

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

June 30, 2007

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Independent Auditor's Report

To the Board of Education of  
Galva-Holstein 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 Galva-Holstein Community School District, Holstein, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Galva-Holstein Community School District at June 30, 2007, 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 March 24, 2008 on our consideration of Galva-Holstein Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 33 through 34 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. 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 Galva-Holstein Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

March 24, 2008

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Galva-Holstein Community Schools Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2007 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$3,836,755 in fiscal 2006 to \$3,831,527 in fiscal 2007, while General Fund expenditures increased from \$3,796,526 in fiscal 2006 to \$3,891,593 in fiscal 2007. The District's General Fund balance decreased from \$1,370,590 in fiscal 2006 to \$1,310,919 in fiscal 2007.
- The decrease in General Fund revenues was attributable to a decrease in tuition paid by private sources (open enrollment and special education). The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and the purchase of one school bus funded by the General Fund.

### USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

### REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

#### *Government-wide Financial Statements*

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

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

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

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

### *Fund Financial Statements*

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

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

The District has three kinds of funds:

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

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

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

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

- 3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2006-2007
	Governmental Activities		Business-type Activities		Total School District		
	2007	2006	2007	2006	2007	2006	
	\$	\$	\$	\$	\$	\$	
Current and other assets	3,447,922	6,726,274	27,820	33,422	3,475,742	6,759,696	-49%
Capital assets	5,746,375	5,564,410	52,406	62,146	5,798,781	5,626,556	3%
<b>Total assets</b>	<b>9,194,297</b>	<b>12,290,684</b>	<b>80,226</b>	<b>95,568</b>	<b>9,274,523</b>	<b>12,386,252</b>	<b>-25%</b>
Long-term liabilities	3,419,708	6,740,015	-	-	3,419,708	6,740,015	-49%
Other liabilities	1,929,688	2,120,160	1,781	2,265	1,931,469	2,122,425	-9%
<b>Total liabilities</b>	<b>5,349,396</b>	<b>8,860,175</b>	<b>1,781</b>	<b>2,265</b>	<b>5,351,177</b>	<b>8,862,440</b>	<b>-40%</b>
Net Assets:							
Invested in capital assets,							
net of related debt	2,481,375	2,204,410	52,406	62,146	2,533,781	2,266,556	12%
Restricted	176,448	197,663	-	-	176,448	197,663	-11%
Unrestricted	1,187,078	1,028,436	26,039	31,157	1,213,117	1,059,593	14%
<b>TOTAL NET ASSETS</b>	<b>3,844,901</b>	<b>3,430,509</b>	<b>78,445</b>	<b>93,303</b>	<b>3,923,346</b>	<b>3,523,812</b>	<b>11%</b>

The District's combined net assets remained equal to or slightly above (\$399,534) the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$21,215 or 11% over the prior year. The decrease was primarily a result of reduction of debt within the Debt Service Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$153,524, or 14%.

Figure A-4

	Change in Net Assets						Percentage Change 2006-2007
	Governmental Activities		Business-type Activities		Total School District		
	2007 \$	2006 \$	2007 \$	2006 \$	2007 \$	2006 \$	
Revenues							
Program Revenues:							
Charges for services	415,641	484,252	105,563	114,547	521,204	598,799	-13%
Operating grants, contributions & restricted interest	549,083	509,026	84,424	95,100	633,507	604,126	5%
Capital grants & contributions	-	-	-	-	-	-	
General Revenues:							
Property taxes	1,875,775	1,871,264	-	-	1,875,775	1,871,264	0%
Income Surtax	52,821	63,122	-	-	52,821	63,122	-16%
Local option sales tax	349,922	240,548	-	-	349,922	240,548	46%
Unrestricted state grants	1,689,553	1,774,492	-	-	1,689,553	1,774,492	-5%
Unrestricted investment earnings	159,607	60,653	809	389	160,416	61,042	163%
Other revenue	30,753	29,384	-	-	30,753	29,384	5%
<b>Total Revenues</b>	<b>5,123,155</b>	<b>5,032,741</b>	<b>190,796</b>	<b>210,036</b>	<b>5,313,951</b>	<b>5,242,777</b>	<b>1%</b>
Expenses:							
Instruction	2,724,481	2,604,503	-	-	2,724,481	2,604,503	5%
Support services	1,378,214	1,269,550	-	-	1,378,214	1,269,550	9%
Non-instructional programs	-	-	205,654	199,797	205,654	199,797	3%
Other expenditures	606,068	786,562	-	-	606,068	786,562	-23%
<b>Total expenses</b>	<b>4,708,763</b>	<b>4,660,615</b>	<b>205,654</b>	<b>199,797</b>	<b>4,914,417</b>	<b>4,860,412</b>	<b>1%</b>
<b>Change in net assets before transfers</b>	<b>414,392</b>	<b>372,126</b>	<b>-14,858</b>	<b>10,239</b>	<b>399,534</b>	<b>382,365</b>	<b>5%</b>
Transfers	-	-	-	-	-	-	
<b>CHANGE IN NET ASSETS</b>	<b>414,392</b>	<b>372,126</b>	<b>-14,858</b>	<b>10,239</b>	<b>399,534</b>	<b>382,365</b>	<b>5%</b>
Net assets beginning of year	3,430,509	3,058,383	93,303	83,064	3,523,812	3,141,447	12%
Net assets end of year	3,844,901	3,430,509	78,445	93,303	3,923,346	3,523,812	11%

Property tax and unrestricted state grants account for 67% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 83% of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$5,123,155 and expenses were \$4,708,763. Revenues increased \$90,414 and are due primarily to increase in investment earnings due to higher interest rate and longer investment term and the increase in local option sales tax revenues. Expenditures increased by \$48,148 with reduction seen in area of other expenditures. Expenditure increase of \$48,148 is very acceptable to the District and can be attributed to the reduction of expenditures in the Physical Plant and Equipment Fund created by a commitment from the Board of Directors to begin saving for the Fine Arts Center that will be built in the near future.

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

Figure A-5

**Total and Net Cost of Governmental Activities**

	<b>Total Cost of Services 2007</b>	<b>Total Cost of Services 2006</b>	<b>Net Cost of Services 2007</b>	<b>Net Cost of Services 2006</b>
	\$	\$	\$	\$
Instruction	2,724,481	2,604,503	1,983,455	1,945,429
Support Services	1,378,214	1,269,550	1,316,846	1,179,377
Non-instructional Programs	-	-	-	-
Other Expenses	606,068	786,562	443,738	542,531
<b>TOTAL</b>	<b>4,708,763</b>	<b>4,660,615</b>	<b>3,744,039</b>	<b>3,667,337</b>

- The cost financed by users of the District’s programs was \$415,641.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$549,083.
- The net cost of governmental activities was financed with \$1,875,775 in property taxes, \$349,922 in local option sales tax and \$1,689,553 in unrestricted state grants.

**Business Type Activities**

Revenues for business type activities were \$190,796 and expenses were \$205,654. The District’s business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

**INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$1,481,925, a decrease of \$3,112,571 from last year’s ending fund balances of \$4,594,496. The primary reason for the decrease is the payoff of previously issued General Obligation School Refunding Bonds, Series 2004 in the amount of \$3,375,000 for the purpose of affecting a crossover refunding the Optional Series 1996 Bonds as of May 1, 2007.

**Governmental Fund Highlights**

- The District’s General Fund showed a decrease in fund balance of \$59,671. The decrease is a combination of fewer revenues received from tuition (open enrollment and special education) and an increase in expenditures of \$95,067 due to increases in negotiated salaries and benefits and the purchase of a bus out of the General Fund.
- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$60,772 to \$26,072. While revenues remained approximately the same, the District expenditures were less than the previous year. This was due to the expenses incurred as a result of the ending phase of the building project.
- The Capital Projects Fund balance increased from a \$111,035 deficit to a deficit of \$58,017. The District ended fiscal 2007 with a deficit fund balance as a result of the building project.

- The Debt Service Fund balance decreased by \$3,128,449 due to the early payment of bonds in crossover bond refunding.

### Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$93,303 at June 30, 2006 to \$78,445 at June 30, 2007, representing a decrease of approximately 48%. The decrease in net assets is due to reduction in charges for services (meals) of \$9,000 and increase salaries and repairs of \$5,388.

### BUDGETARY HIGHLIGHTS

The District's receipts were \$256,075 more than budgeted receipts, a variance of 6%. The most significant variances resulted from the District receiving more in property tax and revenue from state sources than originally anticipated.

Total expenditures were more than budgeted by \$2,652,730 due primarily to crossover bond refunding payment. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

At June 30, 2007, the District had invested \$5.8 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 3% from last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$299,484.

During fiscal year 2007, the District completed a \$900,000 remodeling project and purchased a \$65,000 bus.

Figure A-6

Capital Assets (net of depreciation)

	Governmental Activities		Business type Activities		Total School District		Percentage Change 2005-2006
	2007	2006	2007	2006	2007	2006	
	\$	\$	\$	\$	\$	\$	
Land	165,064	109,317	-	-	165,064	109,317	51%
Construction in progress	-	590,615	-	-	-	590,615	-100%
Buildings	4,020,390	4,159,351	-	-	4,020,390	4,159,351	-3%
Improvements	1,039,430	223,278	-	-	1,039,430	223,278	366%
Equipment & Furniture	521,491	481,849	52,406	62,146	573,897	543,995	6%
<b>TOTAL</b>	<b>5,746,375</b>	<b>5,564,410</b>	<b>52,406</b>	<b>62,146</b>	<b>5,798,781</b>	<b>5,626,556</b>	<b>3%</b>

#### Long-Term Debt

At June 30, 2007, the District had \$3,419,708 in general obligation, and other long-term debt outstanding. This represents a decrease of approximately 49% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

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

	<b>Total School District</b>		<b>Percentage Change</b>
	<u>2007</u>	<u>2006</u>	<u>2006-2007</u>
	\$	\$	
General Obligation Bonds	3,265,000	6,625,000,	-51%
Early Retirement	154,708,	115,015	35%
	<u>3,419,708</u>	<u>6,740,015</u>	<u>-49%</u>

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

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

- School financing is highly dependent upon student enrollment. The District's September 2007 enrollment decreased by 8.7 students. This drop in enrollment will decrease the District's funding for fiscal year 2009.
- The District has experienced declining enrollment for the past three years, the District projects continued declining enrollment thru 2008-2009 school year.
- The district has always made safety to our children a top priority. The district purchased one new school bus out of the general fund for a total cost of \$64,750.
- Fiscal 2007 was the second year of a two-year contract with the Galva-Holstein Community Schools Education Teacher Association (GHEA). Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.
- The District is close to completion of the addition/remodeling of locker rooms at the Holstein site. Funding for this project was from One Cent Sales Tax (Capital Projects) and Physical Plant and Equipment Fund (PPEL).
- This District has purchase property adjoining its boundary and property will be used for additional parking.
- The District is entering into a fundraising effort with the Galva-Holstein Foundation for the purpose of constructing a Performing Arts Center at the Holstein site. Cost is estimated to be \$1,800,000 with funding coming from private donations, grants and the Galva-Holstein School District. The District's funding will come from the Capital Project Fund (One Cent Sales Tax) and the Physical Plant and Equipment Fund.

### **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 Cynthia Dittmer, District Secretary/Treasurer and Business Manager, Galva-Holstein Community Schools Community School District, 519 East Maple Street, Holstein IA 51025.

## BASIC FINANCIAL STATEMENTS



## GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2007

<b>Functions/Programs</b>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular	1,828,790	178,083	235,668	-
Special	373,395	8,282	26,021	-
Other	522,296	218,701	74,271	-
	<u>2,724,481</u>	<u>405,066</u>	<u>335,960</u>	<u>-</u>
Support services:				
Student	82,318	-	-	-
Instructional staff	116,769	-	50,793	-
Administration	565,745	10,290	-	-
Operation and maintenance of plant	399,249	285	-	-
Transportation	214,133	-	-	-
	<u>1,378,214</u>	<u>10,575</u>	<u>50,793</u>	<u>-</u>
Other expenditures:				
Long-term debt interest	250,305	-	-	-
AEA flowthrough	162,330	-	162,330	-
Depreciation (unallocated)*	193,433	-	-	-
	<u>606,068</u>	<u>-</u>	<u>162,330</u>	<u>-</u>
Total governmental activities	4,708,763	415,641	549,083	-
Business type activities:				
Non-instructional programs:				
Food service operations	205,654	105,563	84,424	-
Total	<u>4,914,417</u>	<u>521,204</u>	<u>633,507</u>	<u>-</u>
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes				
Debt service				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
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 expenses of the various programs.

## GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2007

Assets		
Governmental Activities	Business Type Activities	Total
\$	\$	\$
(1,415,039)	-	(1,415,039)
(339,092)	-	(339,092)
<u>(229,324)</u>	<u>-</u>	<u>(229,324)</u>
<u>(1,983,455)</u>	<u>-</u>	<u>(1,983,455)</u>
(82,318)	-	(82,318)
(65,976)	-	(65,976)
(555,455)	-	(555,455)
(398,964)	-	(398,964)
(214,133)	-	(214,133)
<u>(1,316,846)</u>	<u>-</u>	<u>(1,316,846)</u>
(250,305)	-	(250,305)
-	-	-
<u>(193,433)</u>	<u>-</u>	<u>(193,433)</u>
<u>(443,738)</u>	<u>-</u>	<u>(443,738)</u>
(3,744,039)	-	(3,744,039)
-	(15,667)	(15,667)
<u>(3,744,039)</u>	<u>(15,667)</u>	<u>(3,759,706)</u>
1,440,946	-	1,440,946
350,215	-	350,215
84,614	-	84,614
52,821	-	52,821
349,922	-	349,922
1,689,553	-	1,689,553
159,607	809	160,416
30,753	-	30,753
<u>4,158,431</u>	<u>809</u>	<u>4,159,240</u>
414,392	(14,858)	399,534
<u>3,430,509</u>	<u>93,303</u>	<u>3,523,812</u>
<u>3,844,901</u>	<u>78,445</u>	<u>3,923,346</u>

## GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2007

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
<b>Assets</b>				
Cash and pooled investments	1,096,668	28,787	192,896	1,318,351
Receivables:				
Property tax:				
Delinquent	17,048	4,598	3,023	24,669
Succeeding year	1,282,192	346,985	283,999	1,913,176
Interfund receivable	153,000	-	-	153,000
Due from other governments	44,203	-	147,523	191,726
<b>Total assets</b>	<u>2,593,111</u>	<u>380,370</u>	<u>627,441</u>	<u>3,600,922</u>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Interfund payable	-	-	153,000	153,000
Deferred revenue:				
Succeeding year property tax	1,282,192	346,985	283,999	1,913,176
Other	-	-	52,821	52,821
Total liabilities	<u>1,282,192</u>	<u>346,985</u>	<u>489,820</u>	<u>2,118,997</u>
Fund balances:				
Reserved for:				
Debt service	-	33,385	-	33,385
Unreserved reported in:				
General fund	1,310,919	-	-	1,310,919
Special revenue funds	-	-	195,638	195,638
Capital projects funds	-	-	(58,017)	(58,017)
Total fund balances	<u>1,310,919</u>	<u>33,385</u>	<u>137,621</u>	<u>1,481,925</u>
<b>Total liabilities and fund balances</b>	<u>2,593,111</u>	<u>380,370</u>	<u>627,441</u>	<u>3,600,922</u>

## GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT

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

June 30, 2007

	\$
<b>Total fund balances of governmental funds (Exhibit C)</b>	1,481,925
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	5,746,375
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	52,821
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.	(16,512)
Long-term liabilities, including bonds payable and termination benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(3,419,708)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>3,844,901</u></u>

## GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	General Fund \$	Debt Service Fund \$	Nonmajor Governmental Funds \$	Total \$
Revenues:				
Local sources:				
Local tax	1,290,803	350,215	642,881	2,283,899
Tuition	144,288	-	-	144,288
Other	158,064	73,580	221,498	453,142
State sources	2,053,123	264	-	2,053,387
Federal sources	185,249	-	-	185,249
Total revenues	<u>3,831,527</u>	<u>424,059</u>	<u>864,379</u>	<u>5,119,965</u>
Expenditures:				
Current:				
Instruction:				
Regular	1,778,986	-	25,751	1,804,737
Special	373,395	-	-	373,395
Other	311,523	-	210,773	522,296
	<u>2,463,904</u>	<u>-</u>	<u>236,524</u>	<u>2,700,428</u>
Support services:				
Student	82,318	-	-	82,318
Instructional staff	116,769	-	-	116,769
Administration	508,622	-	10,286	518,908
Operation and maintenance of plant	331,004	-	72,682	403,686
Transportation	226,646	-	4,200	230,846
	<u>1,265,359</u>	<u>-</u>	<u>87,168</u>	<u>1,352,527</u>
Other expenditures:				
Facilities acquisition	-	-	385,445	385,445
Long-term debt:				
Principal	-	3,360,000	-	3,360,000
Interest and fiscal charges	-	280,376	-	280,376
AEA flowthrough	162,330	-	-	162,330
	<u>162,330</u>	<u>3,640,376</u>	<u>385,445</u>	<u>4,188,151</u>
Total expenditures	<u>3,891,593</u>	<u>3,640,376</u>	<u>709,137</u>	<u>8,241,106</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(60,066)</u>	<u>(3,216,317)</u>	<u>155,242</u>	<u>(3,121,141)</u>
Other financing sources (uses):				
Compensation for loss of fixed assets	395	-	-	395
Sales of materials and equipment	-	-	8,175	8,175
Operating transfers in	-	87,868	63,000	150,868
Operating transfers out	-	-	(150,868)	(150,868)
Total other financing sources (uses)	<u>395</u>	<u>87,868</u>	<u>(79,693)</u>	<u>8,570</u>
Net change in fund balances	(59,671)	(3,128,449)	75,549	(3,112,571)
Fund balances beginning of year	<u>1,370,590</u>	<u>3,161,834</u>	<u>62,072</u>	<u>4,594,496</u>
Fund balances end of year	<u>1,310,919</u>	<u>33,385</u>	<u>137,621</u>	<u>1,481,925</u>

See notes to financial statements.

## GALVA-HOLSTEIN 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, 2007

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		(3,112,571)
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:		
Expenditures for capital assets	481,449	
Depreciation expense	<u>(299,484)</u>	181,965
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.		
		(5,380)
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
		3,360,000
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 interest expense is recognized as the interest accrues, regardless of when it is due.		
		30,071
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Termination benefits		<u>(39,693)</u>
<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>414,392</u></u>

## GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Fund

June 30, 2007

	Nonmajor School Nutrition
	<u>\$</u>
<b>Assets</b>	
Cash and cash equivalents	21,198
Accounts receivable	405
Inventories	6,217
Capital assets, net of accumulated depreciation	<u>52,406</u>
<b>Total assets</b>	<u>80,226</u>
<b>Liabilities</b>	
Deferred revenue	<u>1,781</u>
<b>Net assets</b>	
Invested in capital assets, net of related debt	52,406
Unrestricted	<u>26,039</u>
<b>Total net assets</b>	<u><u>78,445</u></u>

## GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	Nonmajor School Nutrition
	<u>\$</u>
Operating revenues:	
Local sources:	
Charges for service	<u>105,563</u>
Operating expenses:	
Non-instructional programs:	
Salaries	59,459
Benefits	11,969
Purchased services	9,427
Supplies	106,120
Depreciation	11,544
Other	7,135
	<u>205,654</u>
Operating gain (loss)	<u>(100,091)</u>
Non-operating revenues:	
State sources	2,720
Federal sources	81,704
Interest income	809
Total non-operating revenues	<u>85,233</u>
Change in net assets	(14,858)
Net assets beginning of year	<u>93,303</u>
Net assets end of year	<u><u>78,445</u></u>

## GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Fund

Year ended June 30, 2007

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	104,967
Cash payments to employees for services	(71,428)
Cash payments to suppliers for goods or services	(107,160)
Net cash used by operating activities	<u>(73,621)</u>
Cash flows from non-capital financing activities:	
State grants received	2,720
Federal grants received	64,907
Net cash provided by non-capital financing activities	<u>67,627</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(1,804)</u>
Cash flows from investing activities:	
Interest on investments	<u>809</u>
Net increase (decrease) in cash and cash equivalents	(6,989)
Cash and cash equivalents at beginning of year	<u>28,187</u>
Cash and cash equivalents at end of year	<u><u>21,198</u></u>
<b>Reconciliation of operating gain (loss) to net cash used</b>	
<b>operating activities:</b>	
Operating gain (loss)	(100,091)
Adjustments to reconcile operating gain (loss)	
to net cash used by operating activities:	
Commodities used	16,797
Depreciation	11,544
Decrease (increase) in inventories	(1,275)
Decrease (increase) in accounts receivable	(112)
(Decrease) increase in deferred revenue	(484)
Net cash used in operating activities	<u>(73,621)</u>

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

During the year ended June 30, 2007, the District received \$21,370 of federal commodities.

## GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Funds

June 30, 2007

	Private Purpose Trust Scholarship
	<u>\$</u>
<b>Assets</b>	
Cash and pooled investments	22,402
Accrued interest receivable	<u>535</u>
<b>Total Assets</b>	22,937
<b>Liabilities</b>	-
<b>Net Assets</b>	
Reserved for scholarships	<u><u>22,937</u></u>

## GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2007

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Interest	1,592
Deductions:	
Support services:	
Scholarships awarded	<u>500</u>
Change in net assets	1,092
Net assets beginning of year	<u>21,845</u>
Net assets end of year	<u><u>22,937</u></u>

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2007

**1. Summary of Significant Accounting Policies**

Galva-Holstein Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Galva and Holstein, Iowa and the predominately agricultural territory in a portion of Ida, Cherokee, Buena Vista and Sac 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, Galva-Holstein Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The Galva-Holstein Community School District has no component units that 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 County Assessor's Conference Board.

**B. Basis of Presentation**

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

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

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

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

*Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources 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 clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions, and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

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

The District reports the following major governmental funds:

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

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

The District's proprietary fund is the Enterprise, School Nutrition Fund. This 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, which require income earned to be used to benefit individuals through scholarship awards.

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

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

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from 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.

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

The following accounting policies are followed in preparing the financial statements:

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the

District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006, through June 30, 2007, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

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

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

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

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	500
Buildings	5,000
Improvements other than buildings	2,500
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,500

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	5-20 years
Furniture and equipment	5-10 years

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

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

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

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Employees are not paid for unused vacation and sick leave benefits when employment with the District ends.

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

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

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

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures in the other expenditures function exceeded the amount budgeted.

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

The District's deposits in banks at June 30, 2007 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

1.

**Interfund Receivables and Payables**

The detail of interfund receivables and payables at June 30, 2007 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
		\$
Governmental: General Fund	Capital Projects Fund	153,000

**4. Capital Assets**

Capital assets activity for the year ended June 30, 2007 was as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	109,317	55,747	-	165,064
Construction in Progress	590,615	-	590,615	-
Total capital assets not being deprec.	<u>699,932</u>	<u>55,747</u>	<u>590,615</u>	<u>165,064</u>
Capital assets being depreciated:				
Buildings	6,742,752	-	-	6,742,752
Improvements other than buildings	655,664	896,311	30,438	1,521,537
Furniture and equipment	2,433,196	92,882	(178,303)	2,704,381
Total capital assets being deprec.	<u>9,831,612</u>	<u>989,193</u>	<u>(147,865)</u>	<u>10,968,670</u>
Less accumulated depreciation for:				
Buildings	2,583,401	138,961	-	2,722,362
Improvements other than buildings	432,386	50,809	1,088	482,107
Furniture and equipment	1,951,347	109,714	(121,829)	2,182,890
Total accumulated depreciation	<u>4,967,134</u>	<u>299,484</u>	<u>(120,741)</u>	<u>5,387,359</u>
Total capital assets being depreciated, net	<u>4,864,478</u>	<u>689,709</u>	<u>(27,124)</u>	<u>5,581,311</u>
Governmental activities capital assets, net	<u>5,564,410</u>	<u>745,456</u>	<u>563,491</u>	<u>5,746,375</u>
<b>Business type activities:</b>				
Furniture and equipment	139,627	1,804	-	141,431
Less accumulated depreciation	<u>77,481</u>	<u>11,544</u>	<u>-</u>	<u>89,025</u>
Business type activities capital assets, net	<u>62,146</u>	<u>(9,740)</u>	<u>-</u>	<u>52,406</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	35,985
Support services:	
Administration services	14,766
Operation and maintenance of plant services	3,063
Transportation	<u>52,237</u>
	106,051
Unallocated depreciation	<u>193,433</u>
Total depreciation expense – governmental activities	<u><u>299,484</u></u>
Business type activities:	
Food services	<u><u>11,544</u></u>

## 5. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
		\$
Capital Projects Fund	Property Plant and Equipment Fund	63,000
Debt Service Fund	Capital Projects Fund	87,868

This transfer moved revenues from the fund statutorily required to collect the resources to the fund required to spend the resources.

## 6. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2007 are summarized as follows:

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance End of Year</u>	<u>Due Within One Year</u>
	\$	\$	\$	\$	\$
General obligation bonds	6,625,000	-	3,360,000	3,265,000	340,000
Termination Benefits	<u>115,015</u>	<u>75,000</u>	<u>35,307</u>	<u>154,708</u>	<u>40,163</u>
Total	<u><u>6,740,015</u></u>	<u><u>75,000</u></u>	<u><u>3,395,307</u></u>	<u><u>3,419,708</u></u>	<u><u>380,163</u></u>

### Termination Benefits

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least fifteen years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education.

At June 30, 2007, the District has obligations to nine participants with a total liability of \$154,708. Actual early retirement expenditures for the year ended June 30, 2007 totaled \$35,307.

## General Obligation Bonds Payable

Details of the District's June 30, 2007 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of April 29, 2004			
	Interest Rates %	Principal \$	Interest \$	Total \$
2008	2.10	340,000	99,075	439,075
2009	2.40	350,000	91,935	441,935
2010	2.70	355,000	83,534	438,534
2011	2.95	370,000	73,950	443,950
2012	3.15	380,000	63,035	443,035
2013-2016	3.30-3.65	1,470,000	122,973	1,592,973
		<u>3,265,000</u>	<u>534,502</u>	<u>3,799,502</u>

### **7. Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$139,300, \$134,370 and \$127,939 respectively, equal to the required contributions for each year.

### **8. Risk Management**

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

### **9. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$162,330 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

### **10. Deficit Fund Balances**

At June 30, 2007 the District had a deficit fund balance of \$58,017 in the Capital Projects Fund.

REQUIRED SUPPLEMENTARY INFORMATION

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2007

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	2,881,329	106,372	2,987,701	2,733,723	2,733,723	253,978
Intermediate sources	-	-	-	300	300	(300)
State sources	2,053,387	2,720	2,056,107	2,053,540	2,053,540	2,567
Federal sources	185,249	81,704	266,953	267,123	267,123	(170)
Total revenues	<u>5,119,965</u>	<u>190,796</u>	<u>5,310,761</u>	<u>5,054,686</u>	<u>5,054,686</u>	<u>256,075</u>
Expenditures:						
Instruction	2,700,428	-	2,700,428	2,930,500	2,930,500	230,072
Support services	1,352,527	-	1,352,527	1,493,000	1,493,000	140,473
Non-instructional programs	-	205,654	205,654	245,000	245,000	39,346
Other expenditures	4,188,151	-	4,188,151	1,125,530	1,125,530	(3,062,621)
Total expenditures	<u>8,241,106</u>	<u>205,654</u>	<u>8,446,760</u>	<u>5,794,030</u>	<u>5,794,030</u>	<u>(2,652,730)</u>
Excess (deficiency) of revenues over (under) expenditures	(3,121,141)	(14,858)	(3,135,999)	(739,344)	(739,344)	(2,396,655)
Other financing sources (uses) net	<u>8,570</u>	<u>-</u>	<u>8,570</u>	<u>-</u>	<u>-</u>	<u>8,570</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	(3,112,571)	(14,858)	(3,127,429)	(739,344)	(739,344)	(2,388,085)
Balance beginning of year	<u>4,594,496</u>	<u>93,303</u>	<u>4,687,799</u>	<u>4,558,364</u>	<u>4,558,364</u>	<u>129,435</u>
Balance end of year	<u><u>1,481,925</u></u>	<u><u>78,445</u></u>	<u><u>1,560,370</u></u>	<u><u>3,819,020</u></u>	<u><u>3,819,020</u></u>	<u><u>(2,258,650)</u></u>

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2007

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

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

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

During the year ended June 30, 2007, expenditures in the other expenditures function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

## GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2007

Assets	Special Revenue Funds			Capital Projects Fund	Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	Local Option Sales Tax	
	\$	\$	\$	\$	
Cash and pooled investments	86,902	80,682	25,031	281	192,896
Receivables:					
Property tax:					
Delinquent	1,982	-	1,041	-	3,023
Succeeding year	200,000	-	83,999	-	283,999
Due from other governments	-	-	52,821	94,702	147,523
<b>Total assets</b>	<b>288,884</b>	<b>80,682</b>	<b>162,892</b>	<b>94,983</b>	<b>627,441</b>
<b>Liabilities &amp; Fund Balances</b>					
Liabilities:					
Interfund payables	-	-	-	153,000	153,000
Deferred revenue:					
Succeeding year property tax	200,000	-	83,999	-	283,999
Other	-	-	52,821	-	52,821
Total liabilities	<u>200,000</u>	<u>-</u>	<u>136,820</u>	<u>153,000</u>	<u>489,820</u>
Fund balances:					
Unreserved reported in:					
Special revenue funds	88,884	80,682	26,072	-	195,638
Capital projects funds	-	-	-	(58,017)	(58,017)
Total fund balances	<u>88,884</u>	<u>80,682</u>	<u>26,072</u>	<u>(58,017)</u>	<u>137,621</u>
<b>Total liabilities and fund balances</b>	<b>288,884</b>	<b>80,682</b>	<b>162,892</b>	<b>94,983</b>	<b>627,441</b>

## GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	Special Revenue Funds			Capital Projects Fund	Total
	Management	Student	Physical	Local	
	Levy	Activity	Plant and	Option	
		Equipment	Sales Tax		
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	150,144	-	142,815	349,922	642,881
Other	7,478	212,765	835	420	221,498
Total revenues	<u>157,622</u>	<u>212,765</u>	<u>143,650</u>	<u>350,342</u>	<u>864,379</u>
Expenditures:					
Current:					
Instruction:					
Regular	25,751	-	-	-	25,751
Other	-	210,773	-	-	210,773
Support services:					
Administration	3,950	-	-	6,336	10,286
Operation and maintenance of plant	72,682	-	-	-	72,682
Transportation services	-	-	4,200	-	4,200
Other expenditures:					
Facilities acquisition	-	-	119,325	266,120	385,445
Total expenditures	<u>102,383</u>	<u>210,773</u>	<u>123,525</u>	<u>272,456</u>	<u>709,137</u>
Excess (deficiency) of revenues over (under) expenditures	<u>55,239</u>	<u>1,992</u>	<u>20,125</u>	<u>77,886</u>	<u>155,242</u>
Other financing sources (uses):					
Sales of real property	-	-	8,175	-	8,175
Operating transfers in	-	-	-	63,000	63,000
Operating transfers out	-	-	(63,000)	(87,868)	(150,868)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(54,825)</u>	<u>(24,868)</u>	<u>(79,693)</u>
Net change in fund balance	55,239	1,992	(34,700)	53,018	75,549
Fund balances beginning of year	<u>33,645</u>	<u>78,690</u>	<u>60,772</u>	<u>(111,035)</u>	<u>62,072</u>
Fund balances end of year	<u><u>88,884</u></u>	<u><u>80,682</u></u>	<u><u>26,072</u></u>	<u><u>(58,017)</u></u>	<u><u>137,621</u></u>

## GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

Account	Balance Beginning of Year	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
	\$	\$	\$	\$	\$
Pirateer					
Dramatics	2,222	2,286	2,310	1,360	3,558
Speech	413	343	1,206	504	54
Quiz bowl	-	1,601	2,297	879	183
Model UN	61	120	598	479	62
Music - vocal	1,778	1,685	1,217	-	2,246
Music - musical	641	-	-	(641)	-
Drill team	2,212	8,296	7,465	250	3,293
Band instrument rent	612	-	-	1,500	2,112
JH fund raiser	4,456	-	-	(4,456)	-
Fund raiser	10,068	12,881	9,448	(5,019)	8,482
Cheerleaders	4,271	3,319	2,462	-	5,128
Basketball	5,800	17,984	21,168	-	2,616
Volleyball	2,056	5,666	7,194	-	528
Girls basketball camp	-	2,187	1,218	-	969
Football	4,711	17,645	21,656	-	700
Baseball	1,343	3,863	13,728	11,300	2,778
Softball	340	2,212	4,221	4,500	2,831
Track	2,646	12,412	13,126	1,000	2,932
Cross country	3,306	6,258	4,428	-	5,136
Golf	1,002	338	1,862	1,001	479
Wrestling	3,794	10,165	13,147	676	1,488
Freshman	-	-	201	201	-
Sophomores	2,958	7,257	3,177	(2,958)	4,080
Juniors	395	3,048	5,658	3,350	1,135
Seniors	42	1,666	1,542	(166)	-
Yearbook	-	11,203	11,485	561	279
Student council	5,899	11,547	10,422	(231)	6,793
Elementary classes	4,394	1,760	5,621	-	533
RIF	1,814	6,496	6,108	-	2,202
NHS	289	-	-	-	289
Activity participation fee	-	13,105	-	(13,105)	-
Concessions	8,450	-	-	(8,450)	-
Student fundraiser	-	37,368	27,680	6,477	16,165
Music - JH band	-	5,121	7,691	4,456	1,886
Music - HS band	2,235	1,196	2,382	-	1,049
Spanish fundraiser	482	155	55	-	582
Interest	-	3,582	-	(3,468)	114
Total	<u>78,690</u>	<u>212,765</u>	<u>210,773</u>	<u>-</u>	<u>80,682</u>

## GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2007	2006	2005	2004
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,283,899	2,170,027	2,133,755	2,150,547
Tuition	144,288	175,126	130,640	186,058
Other	453,142	457,661	431,884	289,587
Intermediate sources	-	-	499	-
State sources	2,053,387	2,031,122	2,096,409	1,990,202
Federal sources	185,249	165,583	172,245	163,243
Total revenues	<u>5,119,965</u>	<u>4,999,519</u>	<u>4,965,432</u>	<u>4,779,637</u>
Expenditures:				
Instruction:				
Regular	1,804,737	1,767,699	1,829,608	1,779,566
Special	373,395	435,810	462,686	458,896
Other	522,296	405,822	418,649	431,490
Support services:				
Student	82,318	76,115	75,837	75,967
Instructional staff	116,769	105,292	155,357	128,314
Administration	518,908	510,418	466,871	430,690
Operation and maintenance of plant	403,686	374,690	347,033	331,976
Transportation	230,846	272,397	141,171	217,848
Non-instructional programs	-	-	15,338	-
Other expenditures:				
Facilities acquisition	385,445	755,792	165,677	75,222
Long-term debt:				
Principal	3,360,000	245,000	230,000	215,000
Interest and other charges	280,376	292,550	306,840	218,785
AEA flowthrough	162,330	157,218	159,033	161,837
Total expenditures	<u>8,241,106</u>	<u>5,398,803</u>	<u>4,774,100</u>	<u>4,525,591</u>

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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  
Galva-Holstein 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 Galva-Holstein Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 24, 2008. 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 Galva-Holstein Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Galva-Holstein Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Galva-Holstein Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Galva-Holstein Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Galva-Holstein Community School District's financial statements that is more than inconsequential will not be prevented or detected by Galva-Holstein Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Galva-Holstein Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items 07-I-A and 07-I-B are material weaknesses.

#### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 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.

Galva-Holstein Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Galva-Holstein Community School District's responses and, accordingly, we express no opinion on them.

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

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

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

March 24, 2008

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2007

Part I: Findings Related to the Financial Statements:

Significant deficiencies:

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

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

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

Conclusion: Response accepted.

07-I-B Financial Statement Preparation: Financial statement preparation is the responsibility of the District. At the present time District personnel do not have the skills necessary to be able to write the District's financial statements and the related note disclosures. This is not an unusual situation for small governmental entities.

Recommendation: District personnel should attend any governmental accounting and reporting training sessions that may be offered by the Iowa Department of Education, State Auditor's Office or Iowa Association of School Business Officials. The school business office should also have governmental accounting and reporting reference materials.

District Response: As a school we certainly understand the need for continuing education classes for all of our staff. However, we have a limited budget and must continually prioritize needs. At this point in time it is not cost effective to train our staff to the level necessary that would enable them to write the financial statements, nor is it feasible to hire additional employees that already possess the skills.

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2007

Part II: Other Findings Related to Statutory Reporting:

- 07-II-A Certified Budget: Expenditures for the year ended June 30, 2007, exceeded the amount budgeted in the other expenditures functional area.
- Recommendation: The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.
- District Response: We will amend our budget before expenditures exceed the budget in the future.
- Conclusion: Response accepted.
- 07-II-B Questionable Expenditures: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 07-II-C Travel Expenses: No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted. We did note that the travel allowance paid to the Superintendent was not included on his W-2.
- Recommendation: Travel should be documented with detailed records listing date, place, purpose and number of miles driven or dollars spent to avoid having it included in employees W-2 as taxable income.
- District Response: We will obtain more detailed accounting for travel allowances paid to employees.
- Conclusion: Response accepted.
- 07-II-D Business Transactions: We noted no transactions between the District and District officials, or employees.
- 07-II-E Bond Coverage: Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of bond coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 07-II-F Board Minutes: We noted no transactions requiring Board approval that had not been approved by the Board.
- 07-II-G Certified Enrollment: We noted no variances in the basic enrollment data certified to the Department of Education.
- 07-II-H Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- 07-II-I Certified Annual Report (CAR): The Certified Annual Report was certified to the Iowa Department of Education timely.

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2007

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

07-II-J      Deficit Balances: The Capital Projects Fund has a deficit balance at June 30, 2007.

Recommendation: The District should continue to monitor this fund and investigate alternatives to eliminate this deficit.

District Response: We are working on ways to eliminate this deficit.

Conclusion: Response accepted.